Andrew Metcalfe AO
SECRETARY

11 April 2013

Mr Stephen Palethorpe
Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Palethorpe

Thank you for your email of 22 March 2013 about the inquiry of the Senate Standing Committee on Rural and Regional Affairs and Transport into the findings of the Auditor-General's Performance Audit Report no. 26 of 2007–08, Tasmanian Forest Industry Development and Assistance Programs, and the Auditor-General's Performance Audit Report no. 22 of 2012–13, Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program.

Thank you also for the invitation to make a submission to the inquiry. The Department of Agriculture, Fisheries and Forestry is pleased to provide the enclosed submission.

As previously noted, I will ensure that representatives from the department will be available to appear at the public hearing.

The department looks forward to assisting the committee in its inquiry.

Yours sincerely

[signed]

(Andrew Metcalfe)

Submission by the Department of Agriculture, Fisheries and Forestry to the Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into the Auditor-General's Reports on Tasmanian Forestry Grants Programs

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1. Overview

The Department of Agriculture, Fisheries and Forestry (the department) welcomes the opportunity to provide a submission to the Senate Standing Committee on Rural and Regional Affairs and Transport for the purpose of its inquiry into the Auditor-General's reports on Tasmanian forestry grants programs.

In order to address the terms of reference of the Senate inquiry, this submission focuses on the findings of the Auditor-General's reports of the 2011–12 Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (the IGACEP) and the 2005–06 to 2008–09 Tasmanian Community Forest Agreement Industry Development Programs (the TCFA programs).

The department acknowledges that the 2008 Australian National Audit Office (ANAO) report identified a number of deficiencies in the TCFA programs' administration. Since that time the department has made significant and demonstrable systemic improvements to the framework covering the administration of its grants programs. These assisted in the design of the 2011–12 program, which is the subject of the 2013 audit report.

Therefore, the department has accepted the recommendations from the 2013 ANAO report, while noting the following:

- that there were no findings by the ANAO of corruption or fraud or incompetence
- that no grants were paid to ineligible applicants
- that the objectives of the program were met
- that further opportunities for ongoing improvement have been identified for the administration and management of programs.

The submission covers the recommendations and key findings from the ANAO reports, provides relevant context and the department's responses and also covers systemic improvements the department has made on each occasion to its grants management arrangements.

Section 3 of the submission covers the IGACEP from:

- development of program guidelines (where there were no adverse findings)
- the assessment process (including findings by the ANAO that the department accepts, and other findings where the context at the time is relevant to the decisions of the department)
- program outcomes (where the department is of the view that the intended objectives were achieved)
- compliance management (noting that the department has since put in place a compliance strategy)

Section 4 of the submission covers the TCFA programs from:

- the findings of the ANAO audit report (including the department's responses)
- the Ernst & Young evaluation report of the programs
- the subsequent departmental review of the Ernst & Young findings (including progress made to date).

Section 5 of the submission covers grants administration in the department, including the framework and internal audit procedures.

Section 6 of the submission covers the department's approach to compliance and investigating and responding, where necessary, to risks or allegations of corruption or fraud.

2. Introduction

The department leads the development of policy advice and provides services to improve the productivity, competitiveness and sustainability of agriculture, fisheries, forestry and related industries. Specific to the forestry sector and its industries, the department seeks to foster and enable productive, profitable, internationally competitive and sustainable Australian forest and forest products industries.

The department administers and implements grant programs across its areas of portfolio responsibility, including grants relevant to the forestry industry. Two such programs were the 2011–12 Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (the IGACEP), and the 2005–06 to 2008–09 Tasmanian Community Forest Agreement Industry Development Programs (the TCFA programs).

The IGACEP was part of the audit work program of the Australian National Audit Office (ANAO) in 2012–13; the report was tabled in the Australian Parliament in February 2013.

The TCFA programs were part of the ANAO's audit work program in 2007–08; the report was tabled in the Australian Parliament in February 2008. An additional independent evaluation of the TCFA programs was undertaken by Ernst & Young in 2010–11; this was separate to the ANAO audit process but contributed to the finalisation of the programs. This evaluation was part of a commitment made by the Australian and Tasmanian governments in their response to the second five-year review of the Tasmanian Regional Forest Agreement. Further, at the February 2012 Senate Estimates hearings, the department undertook to review the findings of the Ernst & Young report, initiating its own detailed examination of the department's records of the TCFA programs; this is close to finalisation. The department indicated it would provide further advice to the Senate Committee once the examination was completed.

In each of the ANAO reports, the ANAO made recommendations designed to strengthen and improve the department's grants administration processes. The department agreed with all recommendations in both reports. The department also acknowledged the findings but noted areas where the department's interpretation of issues differed, including how the environments in which the respective program operated had been characterised by the ANAO. In its responses to the ANAO reports, the department also provided information on the steps it would take and had already taken to address the findings.

The department notes that, while acknowledging the ANAO findings relating to some elements of the respective programs' administration, the intended objectives of these two programs were achieved. The department considers that it made significant and demonstrable systemic improvements to processes following the 2008 ANAO audit report of the TCFA programs. These improvements assisted the delivery of the IGACEP, which the department considers was implemented soundly, notwithstanding the identification of areas for further improvement.

The department has made significant progress in responding to the findings of both audit reports. In particular, the department has developed training material for assessment panel members, implemented changes to grants templates, and introduced its grants management framework. The department continues to work towards best practice administration and

implementation of its grant programs, including adherence to Australian Government grants policies, frameworks and guidelines. This highlights the department's continuous improvement processes for grants management.

In addition, the department notes that the ANAO found no evidence, in either audit report, of corruption or fraud or incompetence. It should be noted that the department has established procedures to manage allegations or evidence of fraud or corruption in the activities of staff or external parties.

The department values the opportunity to identify further improvements to its grants administration and welcomes ongoing scrutiny and public accountability of its grants programs and administrative processes, including through reviews and audits, and relevant parliamentary processes.

3. Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program

3.1. Background

The Tasmanian Forests Intergovernmental Agreement (IGA) was signed by the Prime Minister and the Premier of Tasmania on 7 August 2011. Agreement was reached between the governments after extensive consultation with key industry, union and environmental stakeholders. Significantly, the agreement was consistent with the Statement of Principles, signed by these groups in October 2010, which sought to resolve the long-standing conflict over forests in Tasmania.

The IGA provided $277 million under three streams of activity to support forest workers and contractors affected by the downturn in the industry, protect additional areas of native forests, and transform the Tasmanian economy. More than $85 million was provided (under four sub-elements) to support workers and communities:

- up to $45 million in assistance for voluntary exits from public native forest operations by affected harvest, haulage and silvicultural contractors (the IGACEP)
- up to $25.5 million for displaced workers, including employee assistance, retraining and relocation support
- $15 million (from the Tasmanian Government) for ForestWorks Limited to provide transition support payments to workers directly impacted
- $1 million over two years to support Rural Alive and Well Inc. to provide mental health counselling and community wellbeing services for forest workers and contractors, their families and associated businesses.

A further $102 million was jointly announced by the governments to provide additional support for restructuring (including for contractors), for sustainable residue solutions and to encourage innovation in the use of plantation timber, as well as additional funding for the management of additional reserves and funding to support a council to monitor and advise on high level implementation issues.

This department was one of several Australian Government agencies responsible for the implementation of the agreement. The then departments of Innovation, Industry, Science and Research; Regional Australia, Regional Development and Local Government; and Sustainability, Environment, Water, Population and Communities were the other key agencies responsible for the various elements.

The IGA included (at Clause 16) a commitment that the Australian Government would provide and manage, subject to demand, the allocation of $45 million available for voluntary exits from public native forest operations for haulage, harvest and silvicultural contractors. The funding was allocated to contractors to help them to adjust to difficult conditions in the Tasmanian economy, including a downturn in the forestry industry and the exit of Gunns Limited from native forest industry in 2011.

On 21 October 2011, the Australian Government Minister for Agriculture, Fisheries and Forestry and the Tasmanian Deputy Premier announced the IGACEP, a voluntary exit package of up to $45 million to assist Tasmanian forestry contractors wishing to leave the industry. The IGACEP was a competitive, capped program, with a fixed funding amount available for grants.

The department considers that the program was well designed and soundly delivered in the context of the timeframe, limited applicant group and the program's relationship to the broader range of initiatives designed to diversify the Tasmanian economy.

3.1.1. Development of program guidelines

As part of the development of the program guidelines, the department consulted the Tasmanian Forest Contractors Association, the Forest Industries Association of Tasmania and the offices of the Australian and Tasmanian government ministers responsible for implementation, including on the design and nature of the exit assistance.

The department undertook considerable consultation on the design of the program, especially with the Tasmanian Government (Department of Infrastructure, Energy and Resources), although ultimately the department was not able to reach agreement on some design aspects of the program with Tasmanian counterparts. Negotiation of elements also occurred between ministerial offices. The final guidelines were approved by the Australian Government Minister for Agriculture, Fisheries and Forestry on 26 October 2011.

To be eligible for the assistance, businesses needed to demonstrate the following:

(a) not received a grant under the Tasmanian Forest Contractors Exit Assistance Program 2010–11

(b) an ongoing contract or arrangement to conduct contracted operations in Tasmanian public native forests at 24 July 2011, and could provide evidence of that contract or arrangement

(c) under an ongoing contract or an ongoing arrangement, undertaken more than fifty percent of the native forest operations in public native forests, in at least one of the following four financial years: 2007–08, 2008–09, 2009–10 or 2010–11

(d) at 24 July 2011, not have been sold, or be under receivership or be in bankruptcy administration

(e) an Australian Business Number (ABN) held at 24 July 2011

(f) provided information requested in the application form, including copies of tax returns, verified financial information and information on business arrangements related to the contracted operations.

The program guidelines were first published on the department's website on 26 October 2011. As a result of further discussions to clarify one of the criteria, approved changes to the guidelines were published on 28 October 2011. As the program was still being advertised on the weekend beginning 29 October 2011 in its existing format (due to publishing deadlines), the department undertook to advise contractors of the amendment where possible. The ANAO found that these changes were well communicated to the potential applicants.

Due to the implementation timeframes, the final guidelines were approved and launched on the same day. While the department had been considering potential compliance and risk issues, its primary focus was completion of the guidelines. The department subsequently finalised evaluation and compliance plans. The ANAO found that the department had not prepared an implementation plan although the department notes this was not a requirement of the Commonwealth Grant Guidelines at the time. The ANAO also stated in its report that the program was delivered in a challenging and condensed timeframe. IT also noted the comments of the Joint Committee of Public Accounts and Audit, in its Report 435[1], that the government should give consideration to the capacity of agencies to comply with administrative requirements when delivering programs in compressed timeframes.

Stakeholders' participation in the IGA process identified the need to move quickly as a way to demonstrate the support of the two governments to the community-led process and as a means to encourage stakeholder groups to continue to resolve outstanding issues between the parties.

The ANAO made no adverse findings on the development of the program's guidelines. Further, the ANAO reported that stakeholders had informed it that the guidelines were generally clear and comprehensive.

3.1.2. Assessment process

An advisory panel assessed the applications against the merit and assessment criteria under the program's guidelines. It made recommendations for funding to a departmental delegate who made the decision on funding on behalf of the Minister for Agriculture, Fisheries and Forestry.

The advisory panel members were the then Assistant Secretary, Forestry Branch, Australian Government Department of Agriculture, Fisheries and Forestry (chair of the advisory panel); Director, Tasmania Forests Taskforce, Australian Government Department of Sustainability, Environment, Water, Population and Communities; and an officer from the Tasmanian Government Department of Infrastructure, Energy and Resources, Tasmania, who had been nominated by the Deputy Premier of Tasmania as the Tasmanian Government's representative official.

Applications for the program opened on 26 October 2011 and closed on 24 November 2011. By the closing date, 98 applications had been received requesting approximately $75.3 million. Under the program's guidelines, to be considered eligible to receive a grant an applicant was required, among other requirements, to provide evidence of an ongoing contract or ongoing arrangements to conduct contracted operations in Tasmanian public native forests at 24 July 2011. Where an applicant could not provide evidence of an activity in the sector at that time, the business was considered ineligible. Following assessment by the advisory panel, 61 applications were assessed as eligible and 36 applications assessed as ineligible. The advisory panel determined that two of the 98 registered applications were

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[1] See *Report 435: Review of Auditor-General's Reports Nos. 33 (2011–12) to 1 (2012–13)*, Joint Committee of Public Accounts and Audit.

from a single business entity and these two applications were combined and assessed as one application.

The department acknowledges that it did not, in every instance, follow the guidelines as approved by the minister. This was necessary because some applicants were not able to distinguish between public and private native forest tonnages as was required under merit criterion 1. As a consequence, the advisory panel made a determination to use a calculation involving verified actual delivered tonnage amounts.

The ANAO stated that 10 applicants had been offered grants without providing the required documentation to demonstrate eligibility and also considered that the program's guidelines did not include flexibility for discretionary decision making on eligibility. The department acknowledges that this should have been explicitly stated in the guidelines. However, the Advisory Panel considered the objective of the program and where there was reasonable evidence from other relevant sources, such as verification of subcontracting relationships in other applications, and considered this information was relevant to assessing the eligibility of the applicant.

The department made conditional offers to grantees that were not able to provide all the required information immediately. Payments were provided only when all appropriate documentation was provided. These conditions in the funding deeds allowed eligible businesses to access the assistance and to make a new start, while ensuring the interests of the Australian Government were protected. All successful grantees subsequently provided the necessary documentation to meet this requirement.

The advisory panel then ranked all eligible applicants according to the relevant merit criteria in the guidelines. As per the guidelines, different criteria were used depending on whether applications were identified as harvest and haulage or silviculture.

In ranking the applications and determining the amount of a grant funding offer, the advisory panel then considered the merit scores to determine the prioritisation of the applications in case there was insufficient funding for all eligible applicants.

On 17 January 2012, Forestry Tasmania advised the department that all applications from Forestry Tasmanian contractors had been given Forestry Tasmania's support without proper authority. The department undertook steps to revalidate the information provided by Forestry Tasmania. The department notes that the actions of Forestry Tasmania are a matter for that organisation.

Two applications received a merit score of zero for all harvest and haulage criteria as a result of the years they did not work in public native forest and an inability to demonstrate full supply chain support.

The fact that the applicants received a zero merit score did not mean that the applications were ineligible, or that 'zero capacity' would be removed from the sector. Rather, merit scoring was a relative assessment that allowed eligible applicants to be ranked. If funding had been exhausted earlier in the ranking of applications, a grant would not have been offered to these two applicants. Applications with a zero score were still able to make a contribution to the objective of the program and were therefore offered exit assistance. The department

understands a zero score has caused some confusion and given a false impression that the grantees were not eligible rather than merely the lowest ranked.

In order to determine grant offers, the advisory panel used a dollar cap per tonne. The ANAO found that the use of a cap should have been advised in the program guidelines. The department acknowledges that a fuller explanation of the Advisory Panel's rationale for its assessment decisions would have provided greater transparency and clarity to applicants.

The use of a cap addressed amounts applied for, that in some cases, were many times over the amount paid per tonne of delivered wood—applicants' claims ranged between $3.64 and $381.15 per tonne of wood actually harvested or hauled. Applicants that nominated an amount lower than $35 per tonne were only funded to their nominated amount. The department considers that the $35 cap per tonne, applied by the advisory panel when calculating offers, is consistent with effective and efficient use of Commonwealth funding and resulted in applicants receiving an amount that was fair in relation to their business operations and provided value for money for the Australian Government. The cap, set at $35 per tonne, offered value for money as it was set between the mean and median value of bids received from the market.

In the absence of advice to applicants, the ANAO has stated that this reduced the transparency and accountability of the assessment process. The department's view is that publication of a cap per tonne prior to assessment would have given a strong signal, in a small market, of the amount of money for which to apply. As this was a competitive grants program, an announced cap per tonne may have encouraged applicants to bid for higher amounts than they actually required to exit the industry, thereby limiting the number of offers that could be made within the funding available.

3.1.3. Program outcomes

Following ranking, all 61 eligible applicants were made offers of grants; these totalled $44.02 million. Three offers totalling $1 500 659 million were not accepted by applicants. The total of standing offers then reduced to $42.52 million for 58 applicants.

Following reviews of 16 applications (four eligible and 12 ineligible), which were requested by the applicants, two eligible applicants were made slightly increased offers, together totalling $33 000. This left total offers accepted and paid at $42.55 million.

The ANAO reported that the program only dealt with 819 888 tonnes of harvested wood and 972 831 tonnes of hauled wood. These were the actual tonnages harvested and hauled by the grantees, under contracts, in 2009–10.

The objective of the program was to reduce capacity and thereby assist the Tasmanian public native forest industry to adjust to the downturn and reduce the scale of native forest harvesting. In the department's discussions with the Tasmanian Government, it was considered that a reduction in the scale of harvesting in the order of 1.5 million tonnes of contracted capacity would assist adjustment in that industry, given the reduction in native forest harvesting flowing from commitments in the Tasmanian Forests Intergovernmental Agreement. While it was clearly the department's intention that this was to be 'contracted'

capacity rather than 'actual' volume, the department acknowledges that the program's guidelines should have made this clearer.

The program guidelines provided an expectation that around 1.5 million tonnes would be removed from the system. Had eligible applications for the program allowed for more than this amount to be retired, it may not have been appropriate to retire excessive capacity only to leave a gap to be filled by new entrants.

The department provided 58 grants to eligible contracting companies and removed an estimated 1.4 million tonnes of contracted harvest capacity and 2 million tonnes of contracted haulage capacity from the native forest sector. The department considers that the objective, to reduce capacity and thereby assist the sector to adjust, has been achieved and the expectation to remove in the order of 1.5 million tonnes of contracted capacity has been met.

The department stresses that the intention of the program was to reduce capacity and thereby help the Tasmanian forestry industry over the long term. As the industry's investment is based on contracting capacity, the program focussed on removing contracted capacity rather than actual volume, which varies significantly from year to year with market forces.

3.1.4. Managing compliance

The department has strategies and processes in place to appropriately investigate and manage allegations and evidence of non-compliance. The department's Fraud and Security Team is responsible for the assessment and investigation (where appropriate) of fraud allegations. Where the assessment of allegations identifies that a receiver of a grant may not be complying with the terms of the funding deed, these matters are referred to the Forestry Branch for consideration as potential compliance matters.

For the IGACEP, the Fraud and Security Team has received 18 allegations of fraud in relation to grant recipients from commencement of the program to 9 April 2013. No fraudulent activity has been detected to date; seven allegations have been assessed as requiring additional assessment by the Fraud and Security Team and the remaining 11 allegations have been referred to the Forestry Branch for consideration as potential compliance matters.

As noted by the ANAO in its 2013 report, a compliance plan for the IGACEP was first drafted in April 2012, after guidelines had been released, and finalised in December 2012. A further update was completed in February 2013. Stage one of the compliance plan for the IGACEP included the provision of information, and its verification, under the Milestone 2 Deed Poll. The ANAO's view is that a plan should have been in place at the beginning of the program. However, tight timeframes for finalising guidelines, advertising and assessing applications meant that the detail for an comprehensive compliance plan could not be finalised until a later time.

As of early April 2013, the department is in the process of procuring a service provider to undertake compliance activities on-the-ground in Tasmania in support of three forestry

programs: the IGACEP, the TCFA programs[2], and the 2010–11 Tasmanian Forest Contractors Exit Assistance Program (TFCEAP), a program which is not covered in this submission. Compliance activities will involve checking whether the grant recipients from the two exit programs (IGACEP and TFCEAP), as well as any grantees under the TCFA programs (where necessary), are complying with any ongoing obligations under their funding deeds.

The department will retain overall responsibility for the compliance activities and will write to grantees at least annually to seek a statement of ongoing compliance with the grant conditions. However, the department believes the annual written checks alone are not adequate to ensure, nor demonstrate externally, that the deed requirements are being met.

As the TFCEAP has a five-year compliance period from early 2011, and the IGACEP has a 10–year compliance period from March 2012, further on-the-ground work will be required throughout the obligation period. The compliance plan will be re-examined and renewed after July 2014 to take into account the results of the completed compliance investigations.

Risk ratings will be provided by the service provider to undertake the on-the-ground compliance activities to inform decisions on further compliance visits for higher risk grant recipients (where identified). Further on-the-ground compliance checks will be undertaken on a random basis to ensure that while grantees will be advised each year of a potential compliance check visit, they will not be provided with a program of visits in the years leading up to 2022 (that is, the end of the 10–year compliance period for the IGACEP).

3.2. ANAO audit report of the IGACEP (No. 22 of 2012–13)

The IGACEP was audited as part of the ANAO's 2012–13 audit work program. The audit commenced in late 2012 and the audit report was presented to the Australian Parliament in February 2013.

The audit was conducted in accordance with ANAO Auditing Standards. The ANAO audit team had full and unfettered access to all departmental records regarding the program and department staff participated cooperatively in all interviews and provided additional information when requested.

The ANAO found that, despite the challenging delivery environment the program presented, the department worked efficiently to distribute the funding to eligible applicants. The report noted the short timeframe for program design and implementation, the diverse and complex nature of the business structures of applicants, and the financial difficulties of potential applicants due to industry circumstances at the time.

As indicated in the department's response to the audit report, the department has agreed to all the ANAO recommendations. The department's responses to the audit report are captured below with additional commentary on the steps the department is taking and has already taken to address these matters.

The department considers that the ANAO findings of the IGACEP were a significant improvement on those of the earlier ANAO report into the TCFA programs.

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[2] In relation to the TCFA programs, there is no record of any fraud complaint being received by the department's then Business Ethics, Security and Investigations Unit.

- ***Recommendation No. 1***

  To improve the quality and transparency of grant and assessment processes for future grant programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry reinforce the:
    - o *obligations to manage programs in accordance with approved program guidelines and the Commonwealth Grants Guidelines; and*
    - o *the importance of retaining documentation to appropriately evidence the assessment of grant applications and decisions made.*

- ***The department's response to Recommendation No. 1***

  Recommendation No. 1: Agreed
  The department acknowledges the important principles of undertaking robust and transparent grant assessment process and that a fuller explanation of the Advisory Panel's rationale for its assessment decisions would have provided greater transparency and clarity to applicants.

  In addition to existing grants management guidance and training, the department is implementing training on the updated Commonwealth Grant Guidelines[3] to be rolled out to all staff and external assessors involved in grants administration from later this month. This training will further reinforce the obligations of staff and assessors to manage programs in accordance with the program guidelines and to document the decisions appropriately.

As indicated, the department has developed training material to be provided to all grant assessment panel members. This training material has been drafted and was released in March 2013[4]. As part of its rollout, throughout March, the department's grants policy section has contacted all areas of the department undertaking grant program assessments to confirm the assessment panel training requirements.

In addition, from mid-February 2013, the department has held information sessions for staff on the updated Commonwealth Grant Guidelines. This includes a focus on assessment processes. As at 9 April 2013, sessions have been delivered to the department's Grant Managers' Network and 30 branches across the department—approximately 550 people.

- ***Recommendation No. 2***

  To enhance the transparency of future grants programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry advise applicants of any significant changes to the:
    - o *method used to determine grant funding offers; and*
    - o *assessment process outlined in the program guidelines*

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[3] Updated Commonwealth Grant Guidelines were released on 24 December 2012. While the guidelines will take effect on 1 June 2013, agencies have been encouraged to implement some or all of the changes earlier. The department is progressively rolling out changes and updating templates and guidance.

[4] This material was created to address ANAO recommendations and take into account the revised Commonwealth Grant Guidelines.

- ***The department's response to Recommendation No. 2***

  Recommendation No. 2: Agreed
  The department acknowledges that applicants would be better informed of decisions relating to their applications if all details of the assessment process are provided earlier. Enhancements to the department's manual and checklist to highlight the importance of transparency and equity in the assessment process (particularly around the process for varying the assessment process) are currently being implemented.

The department has already made changes to various templates used in the grants assessment process. The amended documents, released in March 2013, include the grant program guidelines approval process (now highlighting that changes to the assessment process outlined in the grant program guidelines require ministerial approval), assessment plan template (now including variation processes and the requirement for assessment panel training) and the assessment checklist. The department's Grant Management Manual is also being updated and will reflect all recent changes to the Commonwealth Grant Guidelines.

- ***Recommendation No. 3***

  To enable the Department of Agriculture, Fisheries and Forestry to monitor compliance with the terms and conditions of funding, the ANAO recommends that the department reinforce the importance of:
  - *preparing compliance strategies and determining the basis for funding ongoing compliance activities early in the design phase of grants programs; and*
  - *incorporating compliance obligations into program guidelines and funding agreements.*

- ***The department's response to Recommendation No. 3***

  Recommendation No. 3: Agreed
  The department's guidance already advises that performance (including compliance and audit) monitoring be built into the design of grant programs and detailed in program guidelines. The training currently taking place will reinforce that early development of compliance strategies, including identification of funding for ongoing activities and building these into guidelines, constitutes good practice.

As indicated, the department is providing training to reinforce early consideration of compliance strategies.

In addition to the recommendations of the ANAO audit report of the IGACEP, the department notes that matters raised in the report have been discussed publicly. The department has already responded on its website[5] to many of the general areas on which comment was made. These responses, as at 9 April 2013, are included at Attachment A.

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[5] See www.daff.gov.au/about/media-centre/tasmanian-forests-intergovernmental-contractors-voluntary-exit-grants-program.

4. Tasmanian Community Forest Agreement Industry Development Programs

4.1. Background

The TCFA programs were a key component of the Tasmanian Community Forest Agreement. The agreement was jointly announced by the then Australian and Tasmanian governments in May 2005 and sought to reserve Tasmanian old-growth forests and protect forestry jobs. Under the agreement, more than $250 million was committed to enhance the protection of Tasmania's old-growth forests and help the Tasmanian forestry industry adjust to changes in forest resources.

Core to the commitment to the industry's sustainable future were the TCFA programs, made up of three sub-programs, which were announced in 2005 and opened for applications in 2006:

- **Tasmanian Softwood Industry Development Program (TSIDP)—$10 million**
  The TSIPD sought to assist the continued development of a sustainable, efficient, value-adding and internationally competitive softwood industry in Tasmania.

- **Tasmanian Forest Industry Development Program (TFIPD)—$42 million**
  The TFIDP sought to assist the continued development of a sustainable, efficient, value-adding and internationally competitive hardwood forest industry in Tasmania, providing long-term employment opportunities by facilitating retooling and investment in new plant and technology. The program also sought to maximise recovery of forest products from increasing use of regrowth, plantation and other changes in the resource mix arising from the Tasmanian Community Forest Agreement.

- **Tasmanian Country Sawmills Assistance Program (TCSAP)—$4 million**
  The TCSAP sought to assist country sawmills in Tasmania to contribute to the continued development of a sustainable, efficient, value-adding and internationally competitive Tasmanian timber industry providing long-term employment opportunities, particularly in regional areas.

All three programs were administered by the department.

In October 2007, the then Australian Government agreed to provide an additional 30 per cent of all grant monies to grantees to assist grant recipients to offset the income tax liabilities resulting from the original grants. This increased the total program commitment available from $56 million to $72.8 million.

The program concluded in June 2009. However, considerable resources are still being invested by the department in its review and finalisation of program files.

4.2. ANAO audit report of the TCFA programs (No. 26 of 2007–08)

The TCFA programs were audited as part of the ANAO's 2007–08 audit work program. The audit commenced in late 2007 and the audit report was presented to the Australian Parliament in February 2008. Due to the program being extended for 12 months, the performance audit was conducted prior to the end of the program.

The ANAO report included adverse findings on issues ranging from undeveloped program implementation plans and unclear timeframes for payments, through to not undertaking formal risk assessments and not following formal administrative processes and procedures. The ANAO also made findings including that the department had effectively promoted the programs to stakeholders and that it had undertaken extensive consultation with the Tasmanian Government in the development of the program guidelines.

As indicated in the department's response to the audit report, the department agreed to all three recommendations of the ANAO. The recommendations and the department's responses to the audit report are captured below with additional commentary on progress made since the report's tabling in February 2008.

- *Recommendation No. 1*

  To effectively report against the outcome performance indicators for the Tasmanian forest industry assistance programs in the Portfolio Budget Statements and the department's project plan, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:
    - *collect, and where necessary, validate relevant performance data; and*
    - *record, analyse and report this data on an ongoing basis.*

- *The department's response to Recommendation No. 1*

  Agreed. The department notes the ANAO's findings that current reporting arrangements provide limited information on the administration of the programs. The department agrees that collection and analysis of performance data will assist in reporting against the programs' performance indicators. This finding also highlights the need to better select meaningful performance indicators to better monitor the success of such programs.

The department's grants management framework was introduced in 2009. It includes mandatory processes for developing and approving grant program guidelines and reinforces the need for program evaluation and performance monitoring strategies to be developed during program design.

- *Recommendation No. 2*

  To better protect the Commonwealth's interests, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry use the current standard funding deed for future projects tailored to incorporate the:
    - *method by which payments are made; and*
    - *financial arrangements in place to acquire the assets, other than through outright purchase or leasing.*

- *The department's response to Recommendation No. 2*

  Agreed. The department notes the ANAO's findings that the current standard funding deed does not account for assets acquired through finance arrangements other than direct ownership or leasing. The department agrees to tailor the standard funding deed to reflect the methods by which payments are made and the applicants' financial arrangement for acquiring the assets.

The Commonwealth Grant Guidelines and the department's grants management framework require agreements to be proportional to the risks of the granting activity and the individual grantees. As a result, the department now requires legal advice to be obtained before any tailored grant agreements or changes to standard funding deeds are made. For example, as part of the IGACEP, all funding deeds were referred for relevant legal advice.

- *Recommendation No. 3*

  To effectively monitor compliance with the funding deeds, for the Tasmanian forest industry assistance programs, the ANAO recommends that Department of Agriculture, Fisheries and Forestry:
  - (a) *develop operational guidelines for the payment of claims, compliance reporting and the acquittal of grants; and*
  - (b) *clarify reporting requirements and provide guidance to grant recipients.*

- *The department's response to Recommendation No. 3*

  Agreed. The department notes the ANAO's findings that the department has been focussed on implementing the programs and having proposals assessed and funded. The department accepts that the development of operational guidelines for the payment of claims, compliance reporting and acquittal of grants will improve the administration of the programs. The department also accepts that clarifying the reporting requirements and providing guidance on the format and content of final reports will assist recipients in accurately acquitting their proposals.

The department's grants management framework now includes the grants management manual, templates and checklists (including guidance on monitoring, reporting, payment and acquittals). These documents are currently being updated to reflect changes to the Commonwealth Grant Guidelines due to come into effect on 1 June 2013. The ANAO's references to the department's grants management manual demonstrate the department's framework is consistent with the Commonwealth Grant Guidelines and better practice guidance. These references are at Appendix 2.

Since the time of the program, a department-wide grants management system—the Clarity Grants Management System—has been introduced. The system was based on the department's specific business requirements and the then ANAO Better Practice Guide for Administration of Grants. Rollout of the system occurred in the department during 2007–08 and 2008–09. The system embeds processes and controls for administration of grants, particularly for payments, reporting and acquittals.

The TCFA programs were close to completion when Clarity was rolled out. However, the department did mandate its use and it was used at the final stages of these programs.

The department recognises that in 2008 there were deficiencies in and improvements to be made to its grant program administration processes. The progress made from this period to now, including recently implemented improvements, is documented in Section 5 of this submission.

4.3. Ernst & Young evaluation report of the TCFA programs

In February 2010, the Australian and Tasmanian governments' joint response to the second five-year review of the Tasmanian Regional Forest Agreement was tabled in the Australian Parliament. This response included a commitment (Recommendation 42) to establish a program of independent financial and performance audits related to the major financial commitments established by the Regional Forest Agreement, the Tasmanian Community Forest Agreement and any related financial commitments.

The department engaged Ernst & Young to conduct the independent audit of the TCFA programs. The objectives of the Ernst & Young evaluation report were:

- to confirm, with reference to existing information, that each project has met its requirements under the grant deed and identify any shortcoming to the department
- to conduct a high level evaluation of the Tasmanian Community Forest Agreement Industry Development Programs to provide advice on how the program performed overall now that it has concluded, including its impact on key aspects of the Tasmanian forestry industry.

The Ernst & Young evaluation report was finalised in mid-2011 and was published on the department's website in November 2011. The report contained the following recommendations:

- *Recommendation 1*
  To promote an outcomes and value for money driven grant program, key performance indicators, clearly linked to the program and sub-program objectives should be set to facilitate measurement of achieving of objectives.
  The performance management regime for the program should include indicators of effectiveness and efficiency.

- *Recommendation 2*
  For future programs, an evaluation framework for the program (sub-programs) should be developed and agreed as part of the planning stage, prior to implementation of the grant program. Evaluation objectives should be clearly defined and aligned to the program outcome and objective and data collection requirement defined to support outcome evaluation of the program.

- *Recommendation 3*
  For future programs, final report templates should be developed prior to commencement of the program which cover all relevant objectives and performance indicators of the program and sub-program to enable evaluation. The template should be developed and agreed prior to commencement of the grants program and consistently mandated for all grant recipients.

- ***Recommendation 4***
  The potential breach of FMA Regulation 9 should be investigated and disclosed in the department Certificate of Compliance Schedule report to Finance.

- ***Recommendation 5***
  For future programs DAFF should implement procedures to ensure that grant payments are in line with terms of the deed, and validated by appropriate documentation. DAFF should require appropriate tax invoices to be rendered by grantees per the ATO requirement to ensure appropriate treatment of GST.

- ***Recommendation 6***
  For future programs, payment should not be made by DAFF until the department is satisfied that the grantee has met the requirements of the deed including obtaining an adequate audit report which has been prepared and audited as per deed requirements.

The department accepted all of the report's recommendations.

Given that the Ernst & Young report was completed after the conclusion of the TCFA program, with the exception of Recommendation 4, its recommendations relate to advice for future programs. The department also notes that the Ernst & Young recommendations were made in reference to the same program audited by the ANAO in 2007–08. It is therefore not surprising that these recommendations reiterate some of the previous ANAO findings. For example, the ANAO recommended that the department collect better performance data and, in 2010, the Ernst & Young report subsequently made the same recommendation.

With respect to the Ernst & Young advice for future programs, the actions taken by the department are discussed in more detail in section five of this submission.

In regard to Recommendation 4, relating to a potential breach of the *Financial Management and Accountability Act 1997*, Ernst & Young noted that when grants were tested for proper delegate approval, one exception was found where the relevant delegate approval to spend public money was not evidenced on file. The report recommended investigation and relevant disclosure. The department investigated this matter and agreed with Ernst & Young's finding, noting that the grantee file contained evidence of approval but not to the required standard. Subsequently, the department sought to implement Ernst & Young's recommendation that the breach be recorded in the Certificate of Compliance; however, advice provided by the department's financial management area indicated that this could not be implemented as Certificate of Compliance arrangements do not provide for breaches to be disclosed retrospectively.

The department has now developed grant Regulation 9 approval minute templates for the minister and internal delegates to ensure approvals are correctly documented. These include standard advice to approvers of their obligations under the *Financial Management and Accountability Act 1997* and Regulations, including Regulation 9.

4.4. The department's review of the Ernst & Young evaluation report findings

At the February 2012 Senate Estimates Committee hearings, the department undertook to review the findings of the Ernst & Young evaluation report and provide advice to the Senate

Committee once the examination was completed. The department is close to finalising this review.

The departmental review is based on:

- a comprehensive investigation of departmental records held on each of the 87 grantees assessed by Ernst & Young
- a detailed analysis of the Ernst and Young findings, including noting where departmental review findings differ
- identification of remedial actions the department has already taken in response to both the Ernst & Young report findings and the 2008 ANAO report into the same program
- the status of actions taken by the department to acquit and close-off each grantee file from the TCFA programs.

Although yet to be finalised, overall, the departmental review has confirmed Ernst & Young's findings that there were deficiencies in the design and administration of the TCFA programs. It notes that these were representative of the processes in place at that time and not of the department's current grants management processes. The draft departmental review report sets out remedial actions already undertaken since the Ernst & Young evaluation report as well as further actions required to acquit and close-off the program.

The department is close to finalising a report on the review. An interim report will be provided to the Senate Committee in the near future as a supplementary submission from the department to this inquiry. The final review report will also be provided to the department's Audit Committee for its consideration.

5. Grants administration in the department

The department recognises that the recommendations and findings of the ANAO audit reports and the other reviews discussed have contributed to guiding enhancements to the department's grants management framework and administrative processes. Separately, the department has continued to implement changes to update and ensure the quality and rigour of its grant administration processes across all program areas.

5.1. Current grants framework

Various elements of the department's grants framework support the development and implementation of grant programs:

- **Chief Executive's Instructions (CEIs)**
  The CEIs are the primary source of information on the internal financial management practices of the department and provide practical and useable information of departmental policies and rules. In particular, *CEI 4—Grants* provides instruction to department officers on the administration of grants. This particular CEI is based on the Department of Finance and Deregulation's model CEI for grants administration.

  The CEIs also provide guidance around the clearance of grant program guidelines, including legal review, and guidance on consultation with the department's corporate support area (Grants Policy Section), the Department of Finance and Deregulation and the Department of the Prime Minister and Cabinet. Separately, there is guidance on the clearance of grant approval minutes to the minister.

- **Grants Management Manual**
  The manual aims to assist staff involved in the administration of the department's grants by providing a single reference point that explains the Australian Government's legislative and policy framework for grants administration.

- **Toolkit of procedures, templates, checklists, examples, 'how to' guides**
  This includes a grant program guidelines template and approval procedures (these are based on memoranda prepared by the Department of Finance and Deregulation), assessment plan and reporting templates, and approval minute templates.

- **Standard funding deed templates**
  Later this year, the department expects to replace its funding deed with the Commonwealth's Low Risk Grant Agreement Template developed and issued by the Department of Finance and Deregulation.

All grants programs and grants must operate under this framework. Individuals are responsible and accountable for adhering to the framework.

The framework reflects the Commonwealth Grant Guidelines and the ANAO's guide to '*Implementing Better Practice Grants Administration*', published in June 2010. The framework is continuously improved, including incorporating recommendations arising from audits and changes in the Australian Government's grants policy and financial frameworks, and experiences of programs.

The framework also includes controls to reduce the risk of fraud and corruption. This includes use of the department's risk management framework for all grant program guidelines, and mandatory clearances for approval of grant program guidelines and grants approval minutes to the minister to ensure consistency with the Commonwealth Grant Guidelines. Appropriate delegations and the Clarity Grants Management System are used to ensure a separation of duties in processing and approving payments.

5.2. Internal audit procedures

The role of the department's Internal Audit is to monitor, assess and analyse organisational risks and controls and review and confirm compliance with policies, procedures and laws. Internal Audit applies a systematic approach to undertaking audits. Internal Audit bases its work activities on an annual work plan which is reviewed and updated every six months. The annual work plan is developed following a review of the department's risks, previous audit findings, ANAO and Interim Inspector General of Biosecurity activity and through discussions with senior executive, the secretary and the department's Audit Committee. The current work program consists of performance, cyclical and progress audits, with resources allocated evenly across these three types.

Internal Audit reports to the department's Audit Committee. The Audit Committee meets five times a year, with one meeting devoted to reviewing the department's audited financial statements. The Audit Committee reports directly to the secretary. The responsibilities of the Audit Committee are outlined in the Audit Committee Charter. This explains that the committee's objective is to provide independent assurance and assistance to the secretary on the department's risk, control, and compliance framework, and its external accountability responsibilities.

Internal Audit has been periodically undertaking audits and reviews of grants management within the department. Since 2007–08, there have been eight internal audits and reviews undertaken related to grants in the department. The relevant internal audits to the submission are included at Appendix 2 and demonstrate that the progress made and measures implemented, including introduction of the Clarity Grants Management System, were effective in supporting grants administration processes in the department.

6. Matters relating to corruption and fraud

The ANAO reports made no findings of corruption or fraud. However, the department is aware of reported allegations that there are elements of corruption and fraud associated with the administration of these grant programs. The department takes any such suggestion, or allegation, seriously.

The department notes the distinction between issues of fraud and corruption:

- Corruption refers to dishonest activity that has taken place in which a person acts contrary to the interests of the organisation and abuses the position of trust in order to achieve some personal gain or advantage for themselves or another person.
- Fraud refers to dishonestly obtaining a benefit, or causing a loss, by deception or other means, which may include deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for normal business use or the improper use of information or position.

No evidence has been provided that suggests that the actions of the department or its officers involved in or related to the two programs constitute fraud or corruption. However, the department encourages anyone with evidence to present this to the relevant authorities.

In relation to the TCFA programs, there is no record of any fraud complaint being received by the department's then Business Ethics, Security and Investigations Unit.

In relation to the IGACEP, the department's Fraud & Security Team has received 18 allegations of fraud in relation to grant recipients from commencement of the program to 9 April 2013.

No fraudulent activity has been detected to date; seven allegations have been assessed as requiring additional assessment by the Fraud and Security Team and the remaining 11 have been referred to the Forestry Branch for consideration as potential compliance matters.

The department has procedures and policies to record and investigate these matters, including comprehensive procedures which encourage staff to report inappropriate behaviour and which are applied in investigating potential breaches of the Australian Public Service Code of Conduct.

6.1. Fraud management capability

The department is committed to the effective management of fraud within the department in accordance with the Commonwealth Fraud Control Guidelines 2011 (the guidelines). The guidelines define fraud as 'dishonestly obtaining a benefit, or causing a loss, by deception or other means' and requires evidence of fault element.

The Fraud and Security Team is a dedicated team that has responsibility for fraud management, policy development and the receipt, assessment and investigation of agency-related fraud matters. The team supports the secretary in meeting his obligations as specified in the Guidelines.

The department has implemented measures that enable allegations of fraud to be reported by telephone, on-line, email, facsimile or in writing. The team has documented procedures associated with the reporting, administration and investigation of fraud allegations. All investigations into fraudulent activity are carried out in accordance with the Guidelines and the Australian Government Investigations Standards (AGIS). Investigation resources within the team meet the qualifications as specified in AGIS. Fraud investigations are undertaken where there is evidence that a grant applicant has knowingly provided false information which has led to obtaining a benefit under either program. Where assessment of allegations identify that a receiver of a grant may not be complying with the terms of the funding deed, these matters are referred to the relevant area for consideration as potential compliance matters.

7. Timeline of events covered in this submission

IGACEP timeline

Date	*Event*
24 July 2011	Heads of Agreement signed by the Australian and Tasmanian governments
7 August 2011	Tasmanian Forests Intergovernmental Agreement signed
21 October 2011	IGACEP announced
25 October 2011	Minister approved program guidelines
26 October 2011	Program guidelines published on the department's website
31 October 2011	Minister approved changes to guidelines
31 October 2011	Revised guidelines published on the department's website
24 November 2011	IGACEP applications closed
30 June 2012	IGACEP closed
21 February 2013	ANAO audit report of IGACEP tabled in the Australian Parliament
19 March 2013	Senate agrees to inquiry
9 April 2013	Submissions to Senate inquiry due
6 May 2013	Senate committee due to report findings of inquiry

TCFA programs timeline

Date	*Event*
13 May 2005	TCFA signed by the Australian and Tasmanian governments
19 October 2005	Applications for the TCFA programs opened
30 June 2007	Applications for the TCFA programs closed
6 October 2007	Additional 30 per cent funding approved
28 February 2008	ANAO report of TCFA programs tabled in the Australian Parliament
30 June 2009	TCFA programs closed
May 2011	Ernst & Young evaluation rerport of the TCFA programs finalised

8. Appendix 1: ANAO comments on the department's grants framework

The ANAO audit report on the IGACEP made the following references to the department's grants management manual, which show that the department's framework is consistent with the Commonwealth Grant Guidelines and better practice guidance:

- *Summary* (page 17)

  [Paragraph 23] The ANAO has previously examined DAFF's administration of grants programs, including those assisting the Tasmanian forest industry, and has made recommendations designed to strengthen the department's administration practices. In response to the ANAO's previous audits and better practice guidance and the 2009 release of the Commonwealth Grant Guidelines: Policies and Principles for Grants Administration *(the CGGs), DAFF developed a Grants Management Manual to support departmental program managers.*

  [Footnote 16] DAFF's Grants Guidance Manual advises program managers that, for the assessment process to be fully documented, the decisions and rationale leading to each decision and the basis of approval for each recommended grant are to be clearly recorded.

- *Grants administration framework and guidance* (page 37)

  [Paragraph 1.22] To support compliance with applicable financial legislation and the CGGs, DAFF's Chief Executive Instruction 3.3: Grants Management *requires officers to develop, manage and report on grant programs in accordance with the CGGs and to manage grant programs in accordance with its own Grants Management Manual. The Grants Management Manual has regard to the CGG requirements and guidance as well as the ANAO's previous audit work and better practice guidance.*

- *Appropriateness of the program guidelines* (page 47)

  [Paragraph 2.14] Clear, comprehensive guidelines that incorporate key information into a single source document help potential funding recipients to understand the program and submit high quality, complete, applications; and discourage ineligible applications. The CGGs outline that a single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms helps to ensure consistent and efficient grants administration.[58]

  [Footnote 58] Refer to: Australian Government Department of Finance and Deregulation, op.cit., p.22. Similar advice is outlined in ANAO, Better Practice Guide— Implementing Better Practice Grants Administration, *June 2010, Canberra, p.52 and included in the department's Grants Management Manual.*

- *Program planning* (page 52)

  [Paragraph 2.25] In line with grants administration better practice approaches to program planning, DAFF's Grants Management Manual encourages officers to plan for implementation in parallel with developing the program's design and guidelines.

- *Grant Application Assessment Plan* (page 54)

  [Paragraph 2.29] *DAFF's Grants Management Manual encourages program staff to plan the application assessment process at the same time as developing the criteria and to endorse the assessment plan prior to seeking any applications. Further, the manual advises that all involved in the assessment process should follow the approved assessment plan to ensure that the process is carried out in a systematic way and that all applicants are considered in a fair, timely, transparent and ethical manner.*

- *Assessing and Managing Risk* (page 57)

  [Paragraph 2.40] *DAFF's Grants Management Manual provides program managers with a risk assessment checklist and instructions on how to incorporate risk management into grant administration processes at the planning and design phase, and as an ongoing activity during the life of the program.*

9. Appendix 2: Relevant internal audits undertaken by the department

Grants management (Part 1)—April 2008

The objective of this audit was to assess the adequacy of grants management including progress in meeting the objectives of the department's Executive Management Team and Grants Management Steering Committee; adequacy of the control environment and underlying administrative process, procedures and systems; and checking alignment to departmental policy and compliance obligations. Eight recommendations were made for improvement, all of which were accepted by the relevant areas of the department.

No	Recommendation	Comment	Summary of actions arising
1	Establish an appropriate level of centralised control over corporate grants management as a strategic function, and mandate and adequately resource the function.	Accepted.	The need for greater centralised control in the strategic management of grants has been recognised and action is underway to ensure this function is adequately resourced. Future governance arrangements and controls will emphasise the need for organisational commitment to deliver on the strategy and ensure adherence to existing departmental policy and procedures. Future arrangements also will need to reflect the changing focus of grants within the portfolio with a number of programs having ceased or intended to cease at the end of this financial year. Of the 34 grants managed by the department at the start of the fiscal year, 17 have finished, seven are to be wound up at the end of June 2008, four have transferred outside the portfolio, leaving five ongoing or new programs.
2	Ensure the manual includes or refers to more definitive risk management guidance. Do not repeat the risk management framework; practical and relevant risk guidance is required. For example, funding agreements, legal and accountability matters.	Accepted.	The department will identify what further guidance is needed for assessment and mitigation of the risk throughout the grant management process, and update the manual accordingly.
3	Identify roles and responsibilities for each stage of the grants management process and highlight resources available to assist grants managers through the process.	Accepted	The department will update the manual to provide further clarity to staff on specific roles and responsibilities. A strategy for increasing awareness of the resources available to support the grants management process will also be developed.
4	Develop guidance, with examples, for assessing grant applications, including: • financial viability assessments	Accepted.	The department will identify what further guidance is needed and update the manual accordingly. This includes a need for greater emphasis on supervision and ongoing

	and the use of service providers • how application ratings are determined and recorded • how to manage conflicts of interest.		management reporting of such programs, in addition to changes to procedural guidance, prompting the move for greater strategic control over corporate grants management.
5	Update the manual to include guidelines on how to monitor the performance of grantee organisations, including the acquittal and release of grant funds and consideration of associated performance indicators.	Accepted.	The department will develop further guidance on monitoring performance, including practical examples of acquittal activity, and update the manual accordingly.
6	Include guidance in the manual of record keeping requirements, including documents to be kept on file through all stages of the grants management process.	Accepted.	While details of the types of documentation required to support grant processing and decisions are currently provided in the manual, the department will identify what further guidance is needed and update the manual accordingly.
7	Develop performance measurement reporting requirements, including definition of program outcome performance indicators that are specific, measurable, realistic and time-based for each outcome, and centrally monitor and record all performance reports.	Accepted.	The department will develop hypothetical examples of performance indicators and update the manual accordingly. The need for Corporate Policy to take on a greater directive and oversight role has been acknowledged and action is underway to ensure this function is adequately resourced.
8	Develop and maintain a centrally controlled grants management training capability at the implementation of the grants management system.	Accepted.	A training manual is to be developed to coincide with release of Phase 1 of the GMIS. Other training options will be developed as soon as practicable as part of Phase 2 and 3 of the GMIS.

Grants administration (Part 2)—June 2008

The objective of this audit was to verify that the functional and business requirements as documented had been adequately implemented and tested in the grants management system. No recommendations were made.

Grants follow-up review—September 2009

The primary objective of this audit was to review implementation of the Clarity Grants Management System, including identifying any barriers to the implementation and take-up of Clarity across program areas; determining whether the implementation of the grants management system has achieved its business objectives (as identified in original business needs / business case documents); identifying the extent to which the grants management system recognises and addresses shortcomings in the department's grants management governance arrangements (as identified in previous internal and external reviews) and identifying the extent to which the grants management system recognises and supports better practice grants administration (as identified in ANAO better practice guidance).

A secondary objective was to identify lessons learned during implementation of Clarity, which may be recognised and adopted for implementation of Clarity as a project management system. Four recommendations were made and were agreed by the relevant areas of the department.

No	Recommendation	Comment	Summary of actions arising
1	The department should ensure that, for future phases and enhancements to the Clarity Grants Management System, an appropriate business owner is identified and signs off / endorses system requirements.	Agreed.	The General Manager, Governance Levies and Services Branch, agrees that the branch is now the logical business owner for grants management activities and future enhancements to Clarity.
2	The Department should undertake a business case assessment on whether there is merit in enhancing the risk management capability within Clarity and its capability to efficiently receive and record grantees' performance and financial reports and generate reports on grantees' performance and financial achievements.	Agreed.	Information Services Branch will assist the system owner in undertaking a business case assessment with respect to enhancing Clarity's current capability, however this will need to be assessed against the ICT Strategic Plan and organisational priorities (when approved) given current funding constraints.
3	The department should recognise feedback from program area users on the time and effort required to input information into Clarity and look for opportunities to improve the efficiency of these processes.	Agreed.	Information Services Branch takes on board the user feedback and will work with end-users to further adopt a continuous improvement regime for operating the system.
4	The department should: • articulate a set of minimum requirements for the use of Clarity • undertake monitoring and assurance activities to review program area use and implementation of Clarity. This will assist in promoting more effective use of Clarity's current functionality.	Agreed.	The Governance, Levies and Services Branch has articulated minimum requirements for use of Clarity to record information on grant programs, grant approvals, and funding deeds, and to process commitments and payment requests. The branch will continue to undertake monitoring activities, to review program areas' ongoing use of Clarity and to promote more effective use of Clarity's full functionality. The Business Improvement Committee will continue to oversee the use of Clarity.

Grants management—August 2010
The objective of this audit was to examine the systems, processes and controls associated with the management of a selection of grant programs to identify whether the programs were being managed in accordance with the Commonwealth Grant Guidelines and the ANAO Better Practice Guide on Grants Administration. Six recommendations were made which were agreed or noted, as relevant, by areas of the department.

No	Recommendation	Comment	Summary of actions arising
	As part of ongoing improvements to the *DAFF Grants Management Manual*, consider enhancing the manual to clearly identify the minimum steps and record keeping requirements in accordance with the Commonwealth Grant Guidelines.	Agreed.	The *DAFF Grants Management Manual* has been updated to show minimum steps and record keeping requirements consistent with 'must' and 'should' obligations in the Commonwealth Grant Guidelines. Note: Under the Chief Executive's Instructions, *CEI 3.3—Grant Management*, issued December 2009, grants must be managed in accordance with the *DAFF Grants Management Manual*.
2	When developing and implementing future grant programs, the department should ensure that assessment and analysis of potential for program overlap and duplication are fully identified, documented and addressed. This should occur during program planning, as well as on an ongoing basis throughout the life of the program.	Agreed.	The *DAFF Grants Management Manual* has been updated to include checklist items for consideration of duplication throughout the life of the program and documentation of this consideration.
3	When developing and implementing future grant programs and funding rounds, the department should ensure that programs have clearly defined and articulated operational objectives. Operational objectives should include quantitative and qualitative milestone information or be phrased in such a way that it is clear when these objectives are met.	Agreed.	Requirements of the Commonwealth Grant Guidelines have been incorporated into the *DAFF Grants Management Manual*. The Grants Policy Section has updated guidance material, and provided a grant program template, to provide clear instructions to program managers, including consideration of setting program objectives. The Grants Policy Section also offers a quality assurance role by reviewing draft program guidelines and providing advice during program development.
4	When developing and implementing future grant programs, program managers should follow the *DAFF Grants Management Manual* and ensure that the Corporate Legal Unit is directly consulted on eligibility criteria and this consultation is documented appropriately.	Noted.	
5	When designing and implementing future grant programs and funding rounds, program managers should ensure that the *DAFF Grants Management Manual* conflict of interest process is followed so that all persons associated with the program (particularly with respect to the selection and assessment	Noted.	

No	Recommendation	Comment	Summary of actions arising
6	When designing and implementing future grant programs and funding rounds, program managers should ensure that a comprehensive risk management approach is developed and implemented, consistent with the department's broader risk management framework (and associated templates and tools). This should include: • the identification of ongoing management and administration risks, as well as grant-specific risks • the identification and implementation of appropriate risk management actions and strategies in response to the identified risks • the ongoing monitoring of risks and validating the operation of mitigation strategies over the life of the grant program.	Agreed.	Additional checklists of risk consideration throughout the management of grants have been provided in the *DAFF Grants Management Manual.*

Management of terminated programs—November 2012

This internal audit assessed the effectiveness of the processes in place to ensure process objectives were met. These included: effectively assessing and reporting to stakeholders on achieving program objectives; determining lessons learned and their applicability to other programs; ensuring, where necessary, appropriate transfer to other areas of the department for any ongoing management, including resource re-allocation and contractual arrangements; communication with stakeholders on program termination and any likely impacts; and ensuring record keeping and approval processes are in place to account for program termination, including final payments and grants acquittals. Five recommendations were made. All were agreed by the relevant areas of the department.

No	Recommendation	Comment	Summary of actions arising
1	Develop and promote guidance which addresses the processes to be followed for the termination of terminating programs. This guidance should: • Consider the program evaluation processes provided in the *DAFF Grants Management Manual,* which provides a basis for non-grant program termination and evaluation (managers of	Agreed.	The *DAFF Program and Project Management Framework* (PPMF) was launched on 31 August 2012. It incorporates processes for initiating, planning (including evaluation and program closure), delivering and closing non-grant programs. It includes guidance and standardised templates for program/project plans and program/project closure. The framework addresses governance/approvals for

	grants programs could be referred directly to the manual for guidance regarding elements of their termination processes) • Require that a program termination strategy be developed during the planning and design stage which includes timeframes for key processes and updated accordingly if the program changes or is extended. This evaluation strategy could also include processes for continuous monitoring throughout the life of the program and should be approved by the relevant First Assistant Secretary/Assistant Secretary Include standardised templates which can assist all program managers, while also noting that tailoring may be required to suit individual programs. Templates could be provided for program evaluation reports against objectives, lessons learned registers and assessments, communication plans, resource reallocation plans etc., where applicable.		documents in each stage. The Portfolio, Program and Project Office (P3O), responsible for the PPMF, is promoting the new framework and guidance throughout DAFF. The Grants Policy Section is responsible for the *DAFF Grants Management Manual*. The manual provides guidance to grant program areas on the planning/design stage through to the program review/evaluation stage. It includes standardised templates and processes for development and approval of grant program guidelines, planning documents, termination/ evaluation strategies, and wind-up/program closure activities, as required by the Commonwealth Grant Guidelines. External Budget and Strategy Branch supports program areas through New Policy Proposal (NPP) processes, where planning for terminating programs begins. Any future guidance required will be developed in collaboration with P3O, Grants Policy Section and External Budget and Strategy Branch to ensure linkages between the department's Program and Project Management Framework, the *DAFF Grants Management Manual* and New Policy Proposal processes are clear.
2	Establish a role within the department to: • Communicate with programs when they have been identified as terminating and notify program managers of the need to follow termination guidance • Offer support in relation to these processes where necessary. This support could focus on reviewing the adequacy of the termination strategy as a key control in the overall process • Maintain a repository of lessons learned and promote these amongst other programs managers within the department. This role could be performed by, for example, the Program and Project Management Branch or the Commercial Business Branch (which is responsible for maintaining grants management processes), as	Agreed.	The New Policy Proposal process requires program areas to determine if the program is ongoing or terminating and this is agreed by Cabinet. The department's framework is aimed at improving the department's capability by supporting staff to effectively and efficiently deliver on program and project outputs and outcomes. The department's Program and Project Management Framework focuses on the core, fundamental management activities required for all programs regardless of their size, nature or characteristics. The Portfolio, Program and Project Management Office (P3O) will provide ongoing support to the business throughout the program lifecycle, and will provide advice to business areas that a closure template must be completed prior to the program being officially closed/terminated. As a result of the closure template, a log will be maintained

5	disciplines similar to project and grants management disciplines could be applied in the management of terminating programs.		by the P3O of all lessons learned so that information can be used to build capability in the department. The Grants Policy Section's role is to build the department's grants management capability and to support grant program areas to adopt the better practice principles of the Commonwealth Grant Guidelines throughout all stages of the grants process. This role includes communicating with terminating grant programs, offering support, reviewing planning, termination and evaluation strategies, and promoting lessons learned amongst funding program staff (including the department's Grant Managers' Network). The role of communicating with and supporting terminating programs is undertaken by the P3O in collaboration with Grants Policy Section for grant programs.
3	The final assessment of the achievement of program objectives and identification of lessons learned should be completed in a timely manner and approved by the Assistant Secretary, Farm Support and Adaptability Branch for the Drought Re-establishment Assistance Program, Pilot of Drought Reform Measures in Western Australia and the Climate Change Adjustment Program. Confirmation of the completion and approval of the final assessment should be provided to the Director, Internal Audit, for reporting to the Audit Committee.	Agreed.	Final assessments of these programs are underway and will include lessons learnt.
4	The final assessment of the achievement of program objectives and identification of lessons learned should be completed in a timely manner and approved by the Assistant Secretary, Food Branch for the Regional Food Producers Innovation and Productivity Program. Confirmation of the completion and approval of the final assessment should be provided to the Director, Internal Audit, for reporting to the Audit Committee.	Agreed.	Not applicable.
5	The final assessment of the	Agreed.	Final report scheduled for completion and

	achievement of program objectives and identification of lessons learned should be completed in a timely manner and approved by the Assistant Secretary, Landcare Branch for the National Weeds and Productivity Research Program. Confirmation of the completion and approval of the final assessment should be provided to the Director, Internal Audit, for reporting to the Audit Committee.		will go to the Assistant Secretary for approval by 31 October 2012 and then to the First Assistant Secretary

10. Attachment A: 'On the record'

The department has published on its website responses to some of the claims and allegations made in relation to the Tasmanian Forests Intergovernmental Contractors Voluntary Exit Grants Program (IGACEP). These are included here, as at 9 April 2013, for the benefit of the inquiry. The general areas on which commented has been made include:

- **The actions of the department were corrupt or incompetent**
  The ANAO report included no findings of corruption or incompetence.

  The department emphasises that where any corruption claims can be justified, the relevant information should be made available to the relevant authorities, including to the department's Fraud and Security Team. The department understands that if the ANAO had found any potentially criminal matters it would have provided that information to the Australian Federal Police. The department further understands that this has not occurred.

  Staff of the department must comply with the *Public Service Act 1999*, which includes that they behave honestly and with integrity in the course of their employment. The department is fully committed to upholding the Public Service Values and Code of Conduct.

  The department has robust arrangements in place to investigate and resolve these matters, through its Fraud and Security Team and/or the Integrity and Conduct Team. Where appropriate, external investigators are engaged and legal advice is sought to assist with individual investigations.

  Separately, Senator Christine Milne has informed the department that she has referred her concerns in relation to the IGACEP to the Australian Federal Police. As is normal practice, the department has contacted the Australian Federal Police and offered any assistance with its investigations.

- **Some contractors obtained financial advantage by deception**
  This claim included the suggestion that contractors, with the assistance of Forestry Tasmania, defrauded the Commonwealth. As stated previously, the ANAO report did not find any instances of fraud.

  On 17 January 2012, Forestry Tasmania advised the department that all applications from Forestry Tasmanian contractors had been given Forestry Tasmania's support without proper authority. The department undertook steps to revalidate the information provided by Forestry Tasmania. The department notes that the actions of Forestry Tasmania are a matter for that organisation.

  The department's Fraud and Security Team has received 18 allegations of fraud in relation to grant recipients to date. No fraudulent activity has been detected to date; seven allegations have been assessed as requiring additional assessment by the F&ST and the remaining 11 allegations have been referred to the department's Forestry Branch for consideration as potential compliance matters.

The department's Forestry Branch is implementing its compliance framework, including letters to grant recipients reminding them of their obligations and a program of on-ground compliance visits to verify that grant recipients are complying with grant conditions. Incidents of non-compliance will be investigated. If any instances of fraud are identified, they will be immediately referred to the department's Fraud and Security Team.

- **There were breaches of the *Financial Management and Accountability Act 1997***
  The ANAO report did not find any breaches of the *Financial Management and Accountability Act 1997* by the department in delivering this program, including in relation to the proper use of Commonwealth resources and proper records.

  The ANAO found that the department established detailed administrative arrangements to process applications and grant payments to support program delivery, but that there was room for improvement. As noted above, the recommendations from the ANAO included that the department improve the quality and transparency of grant assessment processes for future grant programs.

  The department has agreed with all the recommendations and has already taken steps to address the issues raised to ensure all departmental programs are administered effectively.

- **The program did not achieve its objectives**
  This claim includes suggestions that the exit of businesses from the program reduced wood being harvested and hauled by 819 888 tonnes and 972 831 tonnes respectively. These were the actual tonnages harvested and hauled by the grantees, under contracts, in 2009–10.

  The department stresses that the intention of the program was to help the Tasmanian forestry industry over the long term. Adjustment over the long term requires the removal of contracted capacity, rather than actual volume, which varies significantly from year to year in response to market forces. Given the downturn in the industry in recent years, many contractors were working at substantially less than full capacity, which was a significant driver for the adjustment program and rational for assessing capacity.

  The department sought to assist the Tasmanian public native forest industry to adjust to the downturn and the reduced scale of native forest harvesting. In discussions with the Tasmanian Government it was considered that a reduction in the scale of harvesting in the order of 1.5 million tonnes of contracted capacity would assist adjustment in that industry, given the reduction in native forest harvesting flowing from commitments in the Tasmanian Forests Intergovernmental Agreement. While it was clearly the department's intention that this was to be 'contracted' capacity rather than 'actual' volume, the department acknowledges that the program's guidelines should have made this clearer.

  The department provided 58 grants to eligible contracting companies and removed an estimated 1.4 million tonnes of contracted harvest capacity and 2 million tonnes of contracted haulage capacity from the native forest sector. The department considers that the objective, to reduce capacity and thereby assist the sector to adjust, has been achieved

and the expectation to remove in the order of 1.5 million tonnes of contracted capacity has been met.

- **There were grants to ineligible applicants**
  The ANAO stated that 10 applicants had been offered grants without providing the required documentation to demonstrate eligibility.

  The department made conditional offers to grantees that were not able to provide all the required information immediately. Payments were provided only when all appropriate documentation was provided. These conditions in the funding deeds allowed eligible businesses to access the assistance and to make a new start, while ensuring the interests of the Australian Government. All successful grantees subsequently provided the necessary documentation to meet this requirement.

- **That some grantees with high merit scores received less than others with lower scores**
  The IGACEP was a competitive grants program, with a fixed amount of funding available. It was not an entitlement-based program. Under the program, applicants could nominate an amount (up to $3 million) to exit the industry. As stated in the program guidelines, the advisory panel was able to recommend an amount lower than the amount nominated by the applicant to achieve the objectives of the program and value for money for the Commonwealth.

- **That some grantees had zero merit yet still received grants**
  Two grantees that had a merit score of zero, out of a possible 100, received grants.

  Two applications received a merit score of zero for all harvest and haulage criteria as a result of the years they did not work in public native forest and an inability to demonstrate full supply chain support.

  The fact that the applicants received a zero merit score did not mean that the applications were ineligible, or that 'zero capacity' would be removed from the sector. Rather, merit scoring was a relative assessment that allowed eligible applicants to be ranked. If funding had been exhausted earlier in the ranking of applications, a grant would not have been offered to these two applicants. Applications with a zero score were still able to make a contribution to the objective of the program and were therefore offered exit assistance. The department understands a zero score has caused some confusion and given a false impression that the grantees were not eligible rather than merely the lowest ranked.

- **That a grant was provided to an applicant without a forestry contract**
  The ANAO identified that one grantee received a second milestone payment when Milestone 2 documentation identified that the ongoing arrangement, for which the grantee had provided documentation with their application, had ceased prior to the date provided in their application.

  The department is of the view that the advisory panel made the correct decision of eligibility when they met in February 2012, given the information available to them at that time.

The conditions for the Milestone 2 payment were met and the department is subsequently investigating what information was available at the time the application was lodged.

- **That grantees transferred equipment to family members and remained in the industry**
  The program placed no restrictions on the sale of business machinery by grantees. However, grantees were required to terminate any existing public native forest contracts, or ongoing arrangements, and were not permitted to seek or take on new forestry contracting arrangements nationally for 10 years in either public or private, native forests or plantations.

  The purpose of this program was to reduce the amount of contracted capacity in the Tasmanian public native forests contracting sector. Once contracts were terminated, grantees were able to work in the sector as employees of contractors remaining in the industry (that is, those that did not receive a grant). This helps ensure maintenance of critical skills in the sector.

  There were no restrictions placed on who grantees sold their businesses to. Any new entrants to the industry would compete for contracts in an environment of greater uncertainty regarding the availability of contracting work.

- **That the department's record keeping is substandard**
  The 2008 ANAO report into the Tasmanian Community Forest Agreement Industry Development programs found substantial deficiencies in the administration of grants. The department has acted upon recommendations 2 and 3 of this report relating to tailoring the department's standard funding deed and developing operational guidelines for program management.

  The first recommendation of this report related to collecting performance data and record keeping. At the time the department agreed that collection and analysis of performance data would assist in reporting against the programs' performance indicators. Since then it has implemented a grants management framework that reinforces the need for program evaluation and performance monitoring strategies to be developed during program design. The department seeks to do this but notes that in some cases programs are required urgently and the development of these documents sometimes lags the approval of guidelines.

  In the 2012–13 report, the ANAO states that the transparency of decision making could be improved through more rigorous record keeping and recommends that the department reinforce the importance of retaining documentation to appropriately evidence the assessment of grant applications and decisions made.

  The department has already agreed to implement the ANAO's recommendations regarding record keeping and action has already been taken to improve the quality and transparency of grant assessment processes.