

Audit Report No. 36, 2003-2004

The Commonwealth's Administration of the Dairy Industry Adjustment Package

Introduction

Background

- 4.1 The Australian dairy industry was deregulated by all States and Territories on 1 July 2000. This removed price guarantees and restrictions on inter-state sales of drinking milk. In response to requests from the industry, the Commonwealth established the Dairy Industry Adjustment Package (the Package), to assist dairy farmers to make the transition to a deregulated environment.
- 4.2 The Department of Agriculture, Fisheries and Forestry (DAFF) was responsible for advising the Government on the establishment of the Package.
- 4.3 There were two major elements to the Package, established by the *Dairy Industry Adjustment Act 2000*. The first was the Dairy Structural Adjustment Program (DSAP), introduced in May 2000. This provided \$1.63 billion in payments to dairy farmers. The second was the Supplementary Dairy Assistance Program (SDA), introduced in September 2001. This provided \$120 million in payments to dairy farmers.

- 4.4 The Package is funded by a levy of 11 cents per litre on retail sales of milk.
- 4.5 DSAP and SDA are delivered by a new Commonwealth agency, the Dairy Adjustment Authority (DAA). The DAA was established in April 2000. The Australian Dairy Corporation (ADC) provided support to the DAA in making payments. The ADC also undertook development work for the Package prior to the DAA's establishment, at the request of DAFF.
- 4.6 DAA's administrative responsibilities will continue until the last of the Dairy Structural Adjustment Program and Supplementary Dairy Assistance payments are made in 2008.¹
- 4.7 The ADC was initially responsible for the Dairy Structural Adjustment Fund, from which payments were made to farmers. The ADC was privatised on 1 July 2003, and became Dairy Australia Limited (DA).² DA continues to discharge the functions previously undertaken by the ADC, through contractual arrangements with DAFF.

The audit

- 4.8 The objective of the audit undertaken by the ANAO was to assess the Commonwealth's administration of the Dairy Structural Adjustment Program (DSAP) and the Supplementary Dairy Assistance Program (SDA). To this end, the audit addressed:
- planning for implementation of the programs;
 - governance arrangements in the DAA;
 - implementation and delivery of DSAP and SDA; and
 - management of the Dairy Structural Adjustment Fund.

Audit findings

- 4.9 The ANAO findings concluded that the Dairy Industry Adjustment Package was implemented consistent with Government policy. The ANAO commented that the delivery of the Package by the Commonwealth agencies involved was a considerable achievement. It was a substantial task, with a short timeframe for implementation, and was subject to a number of unanticipated challenges.

1 Dairy Adjustment Authority, *Annual Report 2003-2004*, p. 1.

2 Dairy Australia (DA) is a public company limited by guarantee. DA operates within rules and laws set by its Constitution, the *Corporations Act 2001* (Cth) and a Statutory Funding Deed with the Australian Government. DA has a Board of nine Directors.

- 4.10 However, the ANAO report did find that the nature, scale and obstacles to timely and effective implementation were underestimated in planning for the Package. This had an adverse impact on the timeliness of program payments, and on administrative costs.
- 4.11 In terms of governance arrangements, the DAA developed an appropriate business plan, financial management charter, strategic plan and chief executive instructions. However, the arrangements for the audit committee weakened the assurance framework, as they lacked the demonstrable independence necessary for such committees.
- 4.12 The DAA effectively identified, and communicated with, farmers potentially eligible for payments. Program payments were calculated accurately. However, delays in processing of DSAP claims, and higher than expected costs, reflected the implementation planning difficulties that became apparent for DAA.

ANAO recommendations

- 4.13 The ANAO made three recommendations, all of which were agreed to by DAFF.

Table 4.1 ANAO recommendations, Audit Report no. 36, 2003-04

1. The ANAO recommends that the Department of Agriculture, Fisheries and Forestry's planning for future major new initiatives include better identification and analysis of the risks, costs and challenges of implementation, to enable greater assurance of timely and cost effective program delivery.
 2. The ANAO recommends that the Department of Agriculture, Fisheries and Forestry seek to amend its contract with Dairy Australia to enable the department to require performance measures from all agencies able to draw administrative moneys from the Fund. This would assist the department to justify the value for money of the costs of administering the Package for greater accountability for performance.
 3. The ANAO recommends that the Department of Agriculture, Fisheries and Forestry reconsider amending its contract with Dairy Australia to add standard clauses providing for ANAO access to premises, records, information and assets associated with Dairy Australia's responsibilities under the Dairy Industry Adjustment Package.
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The Committee's review

- 4.14 The Committee held a public hearing in Canberra on 14 February 2005 to review the progress made against the audit's recommendations. Witnesses from the following agencies attended the public hearing:
- Australian National Audit Office (ANAO);

- Department of Agriculture, Fisheries and Forestry (DAFF);
 - Dairy Adjustment Authority (DAA); and
 - Dairy Australia Limited (DA).
- 4.15 At the public hearing the main issues addressed by the Committee included: planning and implementation of the Dairy Industry Adjustment Package; the delivery of the program; governance issues; and management issues including performance reporting. The Committee also discussed the progress that had been made on the implementation of the recommendations from the audit report.

Planning and implementation

- 4.16 The Dairy Structural Adjustment Program (DSAP) was introduced in May 2000. Prior to that, initial policy developments had been carried out by the DAFF in mid-1999 and had focussed on assisting the government to address the dairy industry's request for assistance. This resulted in the development of options for Ministers that had the support of relevant stakeholders, particularly those in the industry.
- 4.17 The ANAO findings revealed that DAFF did not develop a detailed implementation plan nor did it identify key implementation risks for the assistance package. After the basic framework had been agreed by Ministers, DAFF developed legislative proposals and refined its risk and task plans, which focussed on the need for stakeholder management and the development of appropriate legislation.
- 4.18 These plans did not systematically address the challenges and obstacles for effective implementation of the assistance Package. For example, the planning did not set out in any depth the full range of necessary tasks, how these were to be implemented, potential obstacles, nor how these obstacles might be overcome.³
- 4.19 During the public hearing, the Chairman of the DAA reinforced the ANAO's viewpoint in relation to poor planning. He stated:

Certainly, the need for more comprehensive planning that came out of the ANAO report is absolutely vital for this type of thing,

3 ANAO Audit Report no. 36 2003-04, *The Commonwealth's Administration of the Dairy Industry Adjustment Package (Department of Agriculture, Fisheries and Forestry – Australia and Dairy Adjustment Authority)*, Commonwealth of Australia, March 2004, p. 12.

and to identify potential obstacles, because we had a lot of obstacles to overcome to make this thing work.⁴

- 4.20 DAFF considered these matters to be the responsibility of the ADC and DAA. However, the DAA was not formally established until 3 April 2000, only six weeks before application forms needed to be sent to farmers.
- 4.21 At the public hearing DAFF defended its actions by stating that 'there was no real indication that deregulation would actually take place from 1 July 2000 until the state governments agreed to do so at a meeting in March 2000.' Therefore DAFF considered that 'there really was not that much time available to us'.⁵
- 4.22 However DAFF also told the Committee that it accepted the findings of the ANAO report in terms of 'ensuring that we have better planning processes in place so we are able to implement such programs more effectively.'⁶
- 4.23 The Committee was informed that the ADC was expected to provide much of the preparatory work and delivery infrastructure for the Package. However, DAFF did not negotiate a formal agreement with the ADC for the detail of preparatory work to be conducted, nor its cost. Neither did DAFF explicitly identify those tasks that the ADC could not perform, and how these might be performed without unduly hampering the implementation or timing of the Package.⁷
- 4.24 One of the first tasks of the DAA was to complete an information pack and claim form for the program. This was given limited piloting with farmers, because there was insufficient time. ANAO considered that:
- ...earlier and greater emphasis on user friendliness and usability of the form would have assisted in identifying obstacles to timely implementation.⁸
- 4.25 As a result, only 14 per cent of claims could be processed without further investigation because of errors in data entered on the form, or because farmer data did not match that held by DAA. These errors reflected the difficulties farmers had in understanding the form. Between one-third and one-half of the 96 DAA staff were engaged in investigating and resolving these issues. As a result, claims processing also took longer than expected.

4 Dairy Adjustment Authority (DAA), *Transcript of Evidence*, 14 February 2005, p. 18.

5 Department of Agriculture, Fisheries and Forestry Australia (DAFF), *Transcript of Evidence*, 14 February 2005, p. 20.

6 DAFF, *Transcript of Evidence*, 14 February 2005, p. 20.

7 ANAO Audit Report no. 36 2003-04, pp. 12-13.

8 ANAO Audit Report no. 36 2003-04, p. 15.

4.26 The Committee was concerned with the lack of 'road testing' of the application form with farmers. During the public hearing, the Committee was informed that the ADC together with the Dairy Industry Council had put the DSAP application form together and road-tested it before it was passed on to the DAA.⁹ DAA's current Chairman, Mr Patrick Musgrave, told the Committee that the initial DAA Chairman working on the DSAP application form was a lawyer, who changed the document significantly due to potential legal problems. At the public hearing the DAA conceded that:

...the application form became a bit more unwieldy than the one we inherited, and that, I have to accept, was not sufficiently road-tested, because there wasn't time. We had a deadline; we had to get the application form out. But I do not think anybody foresaw that there would be quite so many errors and omissions, and that we would need to get so much information.¹⁰

4.27 Furthermore, the initial Chair of the DAA resigned in late May 2000, stating that:

Whilst it might have been envisaged that the DAA board was to have operated essentially as an overseeing organ of a fully equipped management team, the actual circumstances has made it necessary that the board members undertake executive functions of the most pressing kind.¹¹

4.28 The Committee asked whether it would have been possible to use an existing proforma application form. The DAA responded that:

...there was no precedent. This is quite a new scheme and it is a new operation. The questions we had to ask were not the usual questions you would have to ask – about milk supplies; did you have a shed on your property that you were milking from; the number of partners you have in your enterprise – there was no pre-existing form out there for that. However, we did follow the principles of how you would lay out a form – there was just an awful amount of specific information we actually required to get someone across the line.¹²

9 DAA, *Transcript of Evidence*, 14 February 2005, p. 24.

10 DAA, *Transcript of Evidence*, 14 February 2005, p. 20.

11 ANAO Audit Report no. 36 2003-04, p. 13.

12 DAA, *Transcript of Evidence*, 14 February 2005, p. 24.

Administration costs

- 4.29 The Committee expressed concerns about the significant increases in administration costs for the Package. The expected cost of implementation grew substantially as the DAA determined how it would implement the Package. An initial budget estimate for 2000-01 of some \$3 million, supplied by DAFF to the DAA, was revised upwards several times. The DAA's final budget for 2000-01 was \$13 million; staff numbers peaked at around 100 in the same year. An additional \$2 million was incurred by the other agencies for that year.¹³
- 4.30 The DAA noted in its submission to the Committee that the 'ANAO findings ...serve to illustrate the enhancements in administrative efficiency that should follow from allowing a greater time period to implement a structural adjustment program.'¹⁴
- 4.31 DAFF agreed with ANAO's first recommendation, regarding better planning for future new initiatives, and stated that for future major new initiatives it would seek to better identify and analyse the risks, costs and challenges of implementation, to enable more timely and cost effective program delivery. DAFF also informed the Committee that it now has a robust risk management framework which is linked to planning and reporting at the corporate, business and project level.¹⁵
- 4.32 In addition to DAFF's new procedures in place in response to recommendation one, DAFF told the Committee that:
- Following the establishment of a Cabinet Implementation Unit (CIU) in the Department of Prime Minister and Cabinet, the Department is now incorporating implementation issues into the Cabinet and Budget submission process. The new framework for Cabinet and Budget submissions ensures early consideration of implementation issues and provides a framework for reconciling expectations. Furthermore, the Department's quarterly reporting procedures ensure the Secretary is aware of progress on implementation of policy initiatives.¹⁶
- 4.33 DAFF has also recently released guidelines for policy and program development and implementation to improve timeliness and responsiveness of policy initiatives, with feedback and case studies to be reported in 2004-05. The guidelines include better practice principles
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13 ANAO Audit Report no. 36 2003-04, p. 13.

14 DAA, Submission no. 2, p. 1.

15 DAFF, Submission no. 4, p. 2.

16 DAFF, Submission no. 4, p. 2.

across a range of policy activities related to planning and implementation, including resourcing and capability.¹⁷

SDA payments

- 4.34 DAA undertook a rigorous and resource intensive approach to assessing claims for SDA discretionary payments. However the ANAO concluded that a more risk-based process would have directed resources proportionately to higher risk claims.
- 4.35 The arrangements for achieving value for money for expenses incurred in administering the Package, while consistent with the legislation, provided less oversight and accountability overall than was the case in some other programs. The ANAO concluded that 'better reporting to Parliament and DAFF on these expenses would strengthen accountability and related assurance, in this case.'¹⁸

Committee comment

- 4.36 It is clear that both DAFF and DAA have had to learn some major lessons in relation to project planning and implementation as a result of managing the Dairy Industry Adjustment Package. The Committee considers it important that in future, both entities will be able to demonstrate to Parliament a more efficient and effective program delivery.
- 4.37 The Committee agreed with the ANAO's conclusion that DAFF underestimated the nature and scale of the delivery task. However, the Committee was pleased to note that DAFF has several new initiatives that it believes, in future, will assist in improving the Department's project analysis, risk assessment and cost, prior to its implementation of a new project.
- 4.38 The Committee strongly supports the principle of quarterly reporting to the Secretary of DAFF to ensure that progress of new policy initiatives is transparent and timely. The Committee also believes that the guidelines published by the department which outline better practice for new program and policy development, especially in relation to planning and implementation, will be of great value.

17 DAFF, Submission no. 4, p. 2.

18 ANAO Audit Report no. 36 2003-04, p. 19.

Management issues

- 4.39 The Dairy Structural Adjustment Fund was administered consistent with the legislation. The ANAO reported that 'cash flows have been managed to ensure the Fund remains solvent and is able to meet claims for payment.'¹⁹
- 4.40 The Committee was concerned, however, about the arrangements in place to achieve value for money for expenses incurred in administering the Package. The Committee learned that while the Dairy Structural Adjustment Fund was vested within Dairy Australia, it did not have the authority to refuse to pay invoices on the grounds that they did not represent value for money.
- 4.41 The ANAO informed the Committee that 'As long as the claimant is one of the eligible agencies, and the expenditure is consistent with the Act, Dairy Australia must pay the claim. There is no overall budget limit or cap for costs of administration.'²⁰
- 4.42 The DAA was acutely aware of the legislation which stated that payments made in error could not be claimed back. Hence this attributed to the DAA being overcautious which resulted in less than efficient management of the program. During the public hearing the DAA informed the Committee that
- ...the whole of the DSAP scheme entailed that if the DAA made a mistake when it made a payment, it could not claim the money back. So we could not claim our money back if the DAA made an error. That was enshrined in the Act...²¹
- 4.43 The risk to be managed in these circumstances is that agencies may make decisions that are more risk averse and less cost effective than might be the case if there were more typical budgetary controls on the costs of administering the Program.

Committee comment

- 4.44 The Committee strongly supports the notion of providing value for money when administering Commonwealth programs.
- 4.45 The Committee agrees with the ANAO that better reporting to Parliament and DAFF on these expenses would assist in strengthening accountability
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19 ANAO Audit Report no. 36 2003-04, p. 19.

20 ANAO Audit Report no. 36 2003-04, p. 18.

21 DAA, *Transcript of Evidence*, 14 February 2005, p. 21.

and related assurances about the management of the program. The Committee was pleased to note that the DAA reported on its expenditure of \$2.3 million in operational costs in its Annual Report for 2003-2004.

Supplementary Dairy Assistance (SDA) Package

- 4.46 The Supplementary Dairy Assistance (SDA) included two types of supplementary assistance for dairy farmers. The largest of these, Market Milk Payments, was targeted at those in the dairy industry who were most severely affected by movements in the price of market milk following deregulation. It provided payments in addition to those already granted under DSAP.
- 4.47 The DAA was able to administer Market Milk Payments using information already collected for DSAP. This enabled it to identify farmers who might be eligible for the payments, and to calculate their likely payment. The ANAO found that the DAA did this accurately and promptly. The DAA despatched virtually all notices of decision within three months of the announcement of the package, meeting its target. Some \$100 million in payments will be made to 7735 farmers.
- 4.48 In contrast, administration of the second type of payment was complex. These Discretionary Payments were targeted at those farmers whose entitlement for DSAP was unintentionally limited. Eligibility for the Discretionary Payments was based on farmers having experienced a significant event, crisis, or other anomalous circumstances that adversely affected DSAP entitlement.
- 4.49 The DAA met its target that 90 per cent of potentially eligible entities would be identified within three months of commencement of the SDA. However, the process was resource intensive. For example, all applications were reviewed by DAA internal audit and its legal review team. All DAA Members participated in decision-making for an application.
- 4.50 The DAA advised that it adopted this approach as it had limited ability to recover payments that it had made in error, and to ensure consistency of decision-making. However, the ANAO noted that a more risk-based process would have focussed for example on internal audit involvement and legal review for those claims assessed as higher risk.

4.51 In total, 1361 farmers applied for a Discretionary Payment, of whom 641 were granted a payment, at an average amount of \$27 900.²²

Value of payments made in error

4.52 The Committee was concerned about the value of payments that were made in error as part of the Dairy Industry Adjustment Package. At the public hearing the DAA advised the Committee that the total 'overall payout entitlements is \$1.63 billion...'²³

4.53 In its submission the DAA informed the Committee that the total value of the combined DSAP and SDA overpayment was \$242 625 making the average overpayment \$12 131. The figure of \$242 625 equates to 0.01% of all payment rights granted.²⁴

4.54 The highest overpayment made was to a total of \$38 327 through the DSAP scheme, as a result of incorrect application of eligibility criteria.²⁵

4.55 The table below was submitted to the Committee by the DAA and details the total number of overpayments.

Table 4.2 Overpayments made to farmers by the DSAP and SDA schemes

ENTITIES	AMOUNT OVERPAID	COMMENT
<i>DSAP Scheme – Section 36</i>		
1	\$3,254	Incorrect treatment of sharefarmer ECC
2	\$3,254	Incorrect treatment of sharefarmer ECC
3	\$1,026	Incorrect treatment of annualised lease
4	\$24,321	Incorrect treatment of ownership of partners
5	\$9,997	Incorrect treatment of lessee ECC
6	\$9,997	Incorrect treatment of lessee ECC
7	\$15,504	Incorrect treatment of quota lease
8	\$15,504	Incorrect treatment of quota lease
9	\$17,868	Incorrect treatment of Section 29 adjustment
10	\$17,868	Incorrect treatment of Section 29 adjustment
11	\$17,868	Incorrect treatment of Section 29 adjustment
12	\$38,327	Incorrect application of eligibility criteria
13	\$3,263	Incorrect application of eligibility criteria

22 ANAO Audit Report no. 36 2003-04, pp. 16-17.

23 DAA, *Transcript of Evidence*, 14 February 2005, p. 22.

24 DAA, Submission 2.1, p. 1.

25 DAA, Submission 2.1, p. 1.

14	\$3,022	Incorrect treatment of sharefarmer ECC
	\$181,074	Sub total
<i>SDA scheme – section 22</i>		
1	\$17,269	Incorrect MMP flowing from incorrect DSAP Section 29 adjustment
2	\$17,269	Incorrect MMP flowing from incorrect DSAP Section 29 adjustment
3	\$17,269	Incorrect MMP flowing from incorrect DSAP Section 29 adjustment
4	\$3,249	Incorrect treatment of DSAP milk calculations
5	\$3,248	Incorrect treatment of DSAP milk calculations
6	\$3,248	Incorrect treatment of DSAP milk calculations
	\$61,551	Sub total
20	\$242,625	Total entities & \$value of DSAP & SDA overpayments

ECC = Essential Capital Contribution. MMP = Market Milk Payment Right

Source Dairy Adjustment Authority, Submission no. 2.1, p. 1.

What were the payments used for?

4.56 During the public hearing the Committee was interested to find out how the money from the adjustment package had been spent by farmers. An article in the *Weekend Australian* newspaper suggested that the grants had been used as income 'instead of making their operations more efficient.'²⁶

4.57 When the Committee questioned the DAA whether this point was valid the DAA responded:

Farmers made decisions to take the money in one lot rather than over quarterly instalments over eight years. It does not draw any conclusions as to what they were actually using that money for. There are a range of appropriate decisions that farmers would make in order to assist with the adjustment process.²⁷

²⁶ McKinnon, Michael, "Dairy farm grants used as income", *The Weekend Australian*, 13 February 2005.

²⁷ DAA, *Transcript of Evidence*, 14 February 2005, p. 30.

- 4.58 In addition, the Committee was told that '...the criteria of the program did not actually tell farmers what they had to spend money on. Nor did it say that you, a farmer, were better off paying off your debt, buying more cows, buying more land or upgrading your factory or processing.'²⁸
- 4.59 DAA advised the Committee that the criteria set out for the farmers in terms of using the payments was very broad:

The money was spent by farmers to meet the criteria in broad terms. As was set out, that was related to the amount of milk they produced and the impact of the changes to the state based arrangement. That was the criteria.²⁹

Committee comment

- 4.60 The Committee recommends that future assistance packages should not have a legislative clause which prevents agencies from claiming back payments made in error.
- 4.61 In addition, the Committee recommends that DAFF should place an overall budget limit on the cost of administration when implementing assistance packages. The Committee believes this would force the agency or authority to be more responsible for managing the program more efficiently.

Recommendation 6

- 4.62 **The Committee recommends that the Department of Agriculture, Fisheries and Forestry ensure that future assistance packages have a clause in relevant legislation which allows for incorrect payments made in error to be reclaimed by the appropriate agency or authority.**

Recommendation 7

- 4.63 **The Committee recommends that the Government place an overall budget limit on the cost of implementing new assistance packages to encourage administrative cost efficiencies and effectiveness.**

28 DAA, *Transcript of Evidence*, 14 February 2005, p. 30.

29 DAA, *Transcript of Evidence*, 14 February 2005, p. 31.

Data matching and checking for fraudulent claims

- 4.64 During the public hearing the Committee questioned the witnesses in relation to fraudulent claims. The Committee asked DAA whether there had been any detection of fraudulent claims during the administration of the Package.
- 4.65 The DAA informed the Committee that:
- ...there has been no fraud perpetrated... it is my responsibility to report to the board any fraud matters, and I report that we have not had any fraud matters.³⁰
- 4.66 The Committee further pursued this point asking whether DAA was aware of any potential fraud. The DAA commented:
- Yes, we had a couple of queries brought to us that some people were indicating might look like fraud. We investigated those cases and concluded that there was no fraud or error whatsoever. For example, it might be one farmer reporting on another farmer saying, 'Why did this farmer get a payment? I do not believe they ought, in those circumstances' and we would check that application and file and follow through, and they all turned out to be okay.³¹
- 4.67 In addition, the DAA informed the Committee that:
- both schemes had very strong powers to cancel where there was a false statement made to the authority. The statement did not have to be intentional – just when incorrect information was provided by the applicant, there were powers to cancel. So in terms of the ability to recover moneys in the case of fraud, a deliberate misstatement, the powers are very strong.³²
- 4.68 The DAA provided the Committee with evidence stating that a total of 205 cancellation decisions were undertaken.³³ The Committee asked DAA how accurate its data checking processes were to check that claims were accurate. DAA responded that:
- There is an enormous amount of data across the whole spectrum. The key piece of the data is the milk production, and milk production is brought in from the companies to the Australian
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30 DAA, *Transcript of Evidence*, 14 February 2005, p. 24.

31 DAA, *Transcript of Evidence*, 14 February 2005, pp. 24-25.

32 DAA, *Transcript of Evidence*, 14 February 2005, p. 25.

33 DAA, Submission 2.1, p. 2.

Dairy Corporation who prepared a database of milk. That was then passed on to us as the authority, and that was a key piece of the production—

...No entity got out of the system unless they matched with the milk database, and that was a great control process we had. The board also had the auditors audit that milk production.³⁴

Committee comment

- 4.69 The Committee was pleased to hear that DAA had strong measures in place in order to prevent fraudulent claims. The Committee was satisfied that both schemes' powers to cancel claims at any time were effective in preventing fraudulent behaviour.

Governance issues

- 4.70 Audit committees have an important role in scrutinising agency operations, and providing independent assurance to agency management about the overall control environment in the agency. In July 2000, DAA approved an audit strategy, including an audit charter, and established an audit committee. The ANAO found that the arrangements for the audit committee did not sufficiently support its intended independent role. The audit committee's membership comprised all DAA members and it was chaired by the Chair of the DAA. It did not have an external independent member.
- 4.71 The role of the audit committee was also different to that usually assigned to audit committees in public sector governance arrangements. For example, the committee had oversight of quality assurance in DAA, made some operational decisions, and guided and monitored the implementation of key systems. These functions are not usually the responsibility of an independent audit committee.
- 4.72 The DAA acknowledged that the audit committee arrangements were not better practice. However, it advised that alternative arrangements, whereby the audit committee included members from outside the DAA, would have necessitated time consuming communication to the other DAA members and would not have been efficient given the short timeframe to implement the Package.

34 DAA, *Transcript of Evidence*, 14 February 2005, p. 25.

- 4.73 During the public hearing the Chairman of DAA defended the actions of the audit committee, commenting that:

Instead of being a situation where a board is completely independent of management and the management reports to the board, I had no alternative but to assign different board members different executive responsibilities to make sure that we could do things within the time frame. So you did not have a situation of management doing things, reporting to a board; there was no time to do that, so the members had to take on individual responsibilities, which is not the best in terms of governance, but when you have a job to do, you have to do it.³⁵

I decided that we would have an audit committee and it would meet concurrently with the board. We had board meetings once every week, sometimes twice a week. So, instead of an audit committee which was meeting four times a year, this was going to be an audit committee which would have to meet every time the board met.³⁶

- 4.74 The DAA submission commented that the ANAO findings and observations in relation to governance issues have lead to improvements in the '...role and composition of the Authority's audit committee...'³⁷

Committee comment

- 4.75 The Committee was concerned that DAA's audit committee did not follow better practice principles, which stress the importance of audit committees providing independent advice, and being seen to do so. The audit committee also made some operational decisions, which reflected its membership composition but not better practice to assist with sound governance.
- 4.76 The Committee strongly advocates the importance of demonstrating good governance practices. The Committee believes that all government entities should adhere to the *Better Practice Guides on Corporate Governance and Audit Committees* published by the ANAO.³⁸ The Committee agrees with the ANAO findings that the challenges facing the DAA did not prevent it

35 DAA, *Transcript of Evidence*, 14 February 2005, pp. 20-21.

36 DAA, *Transcript of Evidence*, 14 February 2005, p. 26.

37 DAA, Submission no. 2, p. 1.

38 ANAO, *Better Practice Guides (Governance and Accountability)*, available at: <http://www.anao.gov.au/WebSite.nsf/ViewPubs!ReadForm&View=BetterPracticeGuidesByTheme&Title=Better+Practice+Guides+by+Theme&Cat=Accountability+and+governance&Start=1&Count=10>; accessed August 2005.

from following better practice principles more closely. The DAA audit committee should have included an independent member. It may also have been appropriate for a person other than the Chairman of the DAA Board, to chair the audit committee.

- 4.77 The Committee is pleased to note that DAA has made improvements to the role and composition of its audit committee.

Performance measures and reporting

- 4.78 The Committee was concerned about the lack of transparency of funding arrangements for Australian Government agencies able to draw administrative costs from the Dairy Structural Adjustment Fund. In relation to this the ANAO recommended that DAFF seek to amend its contract with Dairy Australia to enable the department to require performance measures from all agencies able to draw administrative moneys from the fund (recommendation 2).

- 4.79 During the public hearing the Committee asked DAFF about the status of implementation for this recommendation. DAFF responded that:

...the department has taken legal advice and has consulted with ANAO in order to determine the most appropriate course of action to implement this recommendation. Whilst the recommendation refers only to amending the statutory funding agreement between the Commonwealth and Dairy Australia, the department has determined it necessary to also amend its program protocol with Centrelink, which administers other parts of the program, and to establish a memorandum of understanding with the Dairy Adjustment Authority.³⁹

- 4.80 Taking into account this legal structure, the Department is currently working with Dairy Australia to amend the Statutory Funding Agreement (SFA), and with other agencies (Centrelink and the Dairy Adjustment Authority) to develop appropriate protocols for the reporting of claims on the Fund against agreed performance benchmarks.

- 4.81 At the hearing [February 2005], DAFF told the Committee that 'The department expects that all matters in regard to implementing the recommendations will be resolved within the next month.'⁴⁰

39 DAFF, *Transcript of Evidence*, 14 February 2005, p. 19.

40 DAFF, *Transcript of Evidence*, 14 February 2005, p. 19.

- 4.82 DAFF, as the identified lead agency in the ANAO report, is responsible for developing the performance benchmarks, along with assessing financial outcomes against these benchmarks. It is envisaged that both these benchmarks and performance outcomes, along with a description and explanation of any variances, will be reported in the Dairy Australia Annual Report which is required under the Act to be tabled in Federal Parliament.⁴¹
- 4.83 It is also important to note that DAFF, in implementing this approach, is seeking to establish clear lines of accountability for reporting and performance assessment. Specifically, DAFF is seeking to establish appropriate benchmarks, and will require reports to be provided by Dairy Australia to the department on administrative claims made on the Fund, in order for the department to objectively assess performance outcomes on an aggregate and individual agency/company basis. It is envisaged that these reports will be provided quarterly for internal monitoring purposes and the results published annually as indicated.⁴²
- 4.84 DAA has liaised with DAFF and the industry services body – Dairy Australia Limited – regarding the implementation of Recommendation 2. Recommendation 2 stated that DAFF amend its contract with Dairy Australia to enable the department to require performance measures from all agencies able to draw administrative moneys from the Fund. DAA supports DAFF in taking steps to require performance measures of the DAA and other agencies able to draw administrative monies from the Dairy Structural Adjustment Fund. DAA commented in its submission that it had exchanged information with the department regarding the development of performance measures.⁴³
- 4.85 In its submission, DA told the Committee that ‘DA and DAFF have had several discussions relating to changes to the Statutory Funding Agreement in order to report on performance measures from all agencies able to draw administrative moneys from the Fund.’⁴⁴
- 4.86 Additionally, the DAA informed the Committee that the ANAO findings and observations ‘have led to improvements ... in the formulation of and reporting against Key Performance Indicators.’⁴⁵

41 DAA, Submission no. 2, p. 2.

42 DAA, Submission no. 2, p. 2.

43 DAA, Submission no. 2, p. 1.

44 Dairy Australia (DA), Submission no. 3, p. 1.

45 DAA, Submission no. 2, p. 1.

Committee comment

- 4.87 The Committee is pleased with the action that DAFF has taken in relation to improving performance measures and reporting for itself and the relevant agencies able to draw administrative moneys from the Dairy Structural Adjustment Fund.

Evaluation of the Package

- 4.88 At the public hearing the Committee was interested to find out what, if any, evaluations had been carried out thus far, to assess the success of the Package.
- 4.89 DAFF informed the Committee that an independent evaluation of the Dairy Structural Adjustment Program and supplementary dairy assistance measures had been finalised in late December 2003. DAFF told the Committee that the evaluation looked at how efficiently the DAA made payments, generally what payments were being used for and how the industry appeared to be adjusting to deregulation, specifically referring to the DSAP and SDA payments. DAFF made the following comment in relation to the findings of this evaluation:

That evaluation found that the package has been highly successful so far in assisting farmers adjust to deregulation. However, the process of adjustment to deregulation is quite a long process, so we will have to continue to monitor how well the industry does adjust.⁴⁶

- 4.90 When pressed further about whether DAFF was aware of any positive indicators for the dairy industry, the department commented that 'There is data available to show that it is growing, that it is increasing its exports. It is going through an adjustment period which is entirely to be expected.'⁴⁷

Committee comment

- 4.91 The Committee is keen to follow the progress of the Package as payments continue to be made up until 2008. The Committee recommends that DAFF provide feedback to the Committee on further evaluations undertaken to monitor the success of both DSAP and SAP.

46 DAFF, *Transcript of Evidence*, 14 February 2005, p. 28.

47 DAFF, *Transcript of Evidence*, 14 February 2005, p. 29.

Recommendation 8

- 4.92 The Committee recommends that the Department of Agriculture, Fisheries and Forestry report back to the Committee on the progress and evaluation of the Dairy Structural Adjustment Package and the Supplementary Assistance Program by 30 June 2006. The report should outline progress against each program's original objectives and measurement indicators such as Key Performance Indicators. The report should also outline the Dairy Industry's progress in adjusting to the new economic environment, including exits from the industry.

ANAO access to premises

- 4.93 The Committee whole-heartedly endorses the *Commonwealth Procurement Guidelines* which state that all Commonwealth contracts must allow for ANAO access. At the public hearing the Committee was interested to find out why there was no contractual allowance for ANAO officers to access DA's premises and records.
- 4.94 DAFF noted in its submission to the Committee that 'Dairy Australia provided the ANAO with unlimited access during the course of its performance audit, along with all assistance required of it.'⁴⁸ Whilst the Committee commends DA for providing unlimited access to ANAO auditors during the course of the audit, the Committee was concerned that this access was not explicitly spelt out in the contract.
- 4.95 DAFF made the following comment at the public hearing:
- ...the statutory funding agreement is based on a long-term relationship with a body that undertakes marketing and R&D services on behalf of dairy farmers and on behalf of the government. Further, in relation to its management of the dairy structural adjustment fund, it is really an agent of the Commonwealth for that purpose. For that reason, we did not see that it related strictly to the procurement guidelines. It was not just a vague consultancy that a lot of government departments have with individual companies. So we actually examined that and thought it was different. However, the ANAO's recommendation

48 DAFF, Submission no. 4, p. 3.

is that, despite that, there should be a separate clause for the ANAO, and we accept that.⁴⁹

- 4.96 In relation to Recommendation 3, providing for ANAO access to premises and records, DAFF informed the Committee at the public hearing that 'the wording of this amendment has been agreed between the department and Dairy Australia, and will be finalised in conjunction with the other changes to the statutory funding agreement.'⁵⁰

Committee comment

- 4.97 The Committee is pleased that changes will be made to the Statutory Funding Agreement that DAFF has with DA, adding a clause in the contract allowing for ANAO access to DA's premises and records for auditing purposes. The Committee believes that ANAO access should be standard clause in such contracts.

Recommendation 9

- 4.98 **The Committee recommends that the Department of Agriculture, Fisheries and Forestry ensure that all future agreements with Statutory Authorities include a clause allowing the ANAO access to premises and records, for auditing purposes.**

49 DAFF, *Transcript of Evidence*, 14 February 2005, p. 24.

50 DAFF, *Transcript of Evidence*, 14 February 2005, p. 19.

