

Senate Rural and Regional Affairs and Transport References Committee

Questions on Notice – Tuesday, 7 May 2013 CANBERRA ACT

Inquiry into Auditor-General's Reports into Tasmanian Forestry Grant Programs

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**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

**Inquiry into the Auditor General's reports on Tasmanian Forestry Grants
Programs**

Public Hearing Tuesday, 7 May 2013

**Questions Taken on Notice – Advisory Panel for the Tasmanian
Intergovernmental Agreement Contractors Voluntary Exit Grants Program**

1 HANSARD, PG 44

ACTING CHAIR: Okay. Going back to the question I asked earlier about the provision of that missing document: did that come prior to going to the decision-maker? Can you indicate that to me, even if you have to take it on notice? I would be interested to know.

Mr Talbot: I would like to take that on notice, because I am just not sure, sorry.

ACTING CHAIR: I would be interested to know. I suppose that is the final link in the chain in that context.

Mr Tucker: I am not sure what this 'missing document' is. Again, there has been a statement today that there was no record—

ACTING CHAIR: No, it was the audited document. This was Mr Talbot's evidence a minute ago—I am not trying to toss in a grenade in or anything. There were accounts that were available, as I understand it, Mr Talbot.

Mr Talbot: Yes.

ACTING CHAIR: There were no audited accounts available and there was an audited document required to verify the accounts. Was it that audited document that was not available in some of those circumstances, and that is the basis under which they did not qualify? Is that correct?

Mr Talbot: I will go away and check it, Senator, so that I am not giving this committee wrong information; but I think what happened was, when the ANAO looked through our files, one of the verified-audited documents was not there—

ACTING CHAIR: We know that it is there now. I am just trying to get a sense of the timeline for that with respect to your work in finally improving it and the decision process of the decision-maker. I accept the circumstances that you have acknowledged around the stress of the contractor and all that sort of stuff—that is on the record now. I am just trying to get a sense of the timing, that is all—and if you can provide that on notice, that is fine.

Senator MILNE: Okay. So I take you to the Auditor-General's report, at paragraph 5.19, where he says:

To meet Milestone 2 obligations, grant recipients were required to provide a letter from their principal or contractor confirming that their contract or ongoing arrangement had now ceased.

He goes on to say:

Milestone 2 documentation provided by one grant recipient ... advised that there had not been an ongoing contract or arrangement in place as at 24 July 2011—therefore confirming the applicant and the associated subcontractor were ineligible under the program's eligibility criteria—

But:

As the department considered these applicants to be eligible, it did not obtain legal advice, alert the decision maker or recover the Milestone 1 payments that had already been released. Both recipients (contractor and subcontractor) were recommended for payment and Milestone 2 payments were released. Grant funding paid to these two grant recipients totalled \$697 000.

Can you justify to me why you flicked that through?

Mr Talbot: I will take it on notice, but my understanding is these were people with long-term arrangements with Gunns. I think what had happened was that there had been a closure of one part of Gunns and then it reopened—this was a frequent occurrence. At the time that the panel looked at the situation, it was felt that this arrangement would continue; albeit the Audit Office, looking at it a year and a half later, considered that it did not happen. I will take it on notice and give you some information, but my understanding is that it was something that we were looking at in a point in time and we thought it was a fair call.

Senator MILNE: All right, take that on notice.

Senator MILNE: but did you actually get anyone to the principal contractor—as in Forestry Tasmania, Gunns or anyone else—to say that that was right, or did you just accept the accountant's statement for that particular person?

Mr Talbot: There are two links here. In terms of where it was from principal to contractor we were able to verify with the principal, but then there were relationships further on. When I say financial statements, we asked everybody to provide financial statements no matter where in the chain they were.

Senator MILNE: What I am asking is whether the applicants' accountants were the only evidence you had for verification in some cases.

Mr Talbot: I will have to take that on notice. I think that is probably right when you get past the contractor level, but I will take it on notice.

Mr Talbot: I have a clarification. I started giving an answer to the 10-in question from Senator Milne, I had only given the first part of my answer and then we got onto something else. I need either to make a statement now or put something in afterwards.

ACTING CHAIR: There are people sitting around this table who are under severe aeroplane pressure, particularly the secretary.

Mr Talbot: I will put something in writing.

ACTING CHAIR: Yes, if you could take the rest of that question as a question on notice and finalise it for the committee we would appreciate that.

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Intergovernmental Agreement Contractors Voluntary Exit Grants Program**

Question: 1

Division/Agency: Advisory Panel

Topic: Provision of audited financial statements

Proof Hansard page: 44

Senator Colbeck asked:

ACTING CHAIR: Okay. Going back to the question I asked earlier about the provision of that missing document: did that come prior to going to the decision-maker? Can you indicate that to me, even if you have to take it on notice? I would be interested to know.

Mr Talbot: I would like to take that on notice, because I am just not sure, sorry.

ACTING CHAIR: I would be interested to know. I suppose that is the final link in the chain in that context.

Mr Tucker: I am not sure what this 'missing document' is. Again, there has been a statement today that there was no record—

ACTING CHAIR: No, it was the audited document. This was Mr Talbot's evidence a minute ago—I am not trying to toss in a grenade in or anything. There were accounts that were available, as I understand it, Mr Talbot.

Mr Talbot: Yes.

ACTING CHAIR: There were no audited accounts available and there was an audited document required to verify the accounts. Was it that audited document that was not available in some of those circumstances, and that is the basis under which they did not qualify? Is that correct?

Mr Talbot: I will go away and check it, Senator, so that I am not giving this committee wrong information; but I think what happened was, when the ANAO looked through our files, one of the verified-audited documents was not there—

ACTING CHAIR: We know that it is there now. I am just trying to get a sense of the timeline for that with respect to your work in finally improving it and the decision process of the decision-maker. I accept the circumstances that you have acknowledged around the stress of the contractor and all that sort of stuff—that is on the record now. I am just trying to get a sense of the timing, that is all—and if you can provide that on notice, that is fine.

Answer:

The department made conditional offers to grantees that were not able to provide all the required information immediately. These conditions in the funding deeds allowed eligible businesses to access the assistance and to make a new start, while protecting the interests of the Australian Government. In all cases where there was conditional approval for a grant, those documents were provided prior to payments being made.

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There was one case that the ANAO refers to (paragraph 3.28) where no conditions were placed in the funding deed despite the absence of verified financial statements. Departmental records indicate that some of the financial information provided was still in draft form when the advisory panel met on 19-20 December 2011. On that date, the Advisory Panel referred the application for independent financial assessment by McGrathNicol.

The financial report received suggested that the applicant was in relatively poor financial position and noted that only draft financial statements were available. McGrathNicol also stated that, based on the results of an ASIC company search, that there was nothing to indicate the applicant was subject to an insolvency appointment at 24 July 2011.

On 12 February 2012, the Advisory Panel then assessed the company as eligible for a grant with no pre-conditions suggested. This was approved by the decision-maker on 16 February 2012. The Grant deed was executed, and the first milestone payment was approved on 11 April 2013. The second and final milestone payment was made on 13 June 2013.

The department had asked for the finalised financial statements several times prior to the Advisory Panel meeting but they had not been provided and this was picked up by the ANAO. These documents were eventually provided in December 2012.

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**Questions Taken on Notice – Advisory Panel for the Tasmanian Forests
Intergovernmental Agreement Contractors Voluntary Exit Grants Program**

Question: 2

Division/Agency: Advisory Panel

Topic: Milestone 2 payment

Proof Hansard page: 45

Senator Milne asked:

Senator MILNE: Okay. So I take you to the Auditor-General's report, at paragraph 5.19, where he says:

To meet Milestone 2 obligations, grant recipients were required to provide a letter from their principal or contractor confirming that their contract or ongoing arrangement had now ceased.

He goes on to say:

Milestone 2 documentation provided by one grant recipient ... advised that there had not been an ongoing contract or arrangement in place as at 24 July 2011—therefore confirming the applicant and the associated subcontractor were ineligible under the program's eligibility criteria—

But: As the department considered these applicants to be eligible, it did not obtain legal advice, alert the decision maker or recover the Milestone 1 payments that had already been released. Both recipients (contractor and subcontractor) were recommended for payment and Milestone 2 payments were released. Grant funding paid to these two grant recipients totalled \$697 000.

Can you justify to me why you flicked that through?

Mr Talbot: I will take it on notice, but my understanding is these were people with long-term arrangements with Gunns. I think what had happened was that there had been a closure of one part of Gunns and then it reopened—this was a frequent occurrence. At the time that the panel looked at the situation, it was felt that this arrangement would continue; albeit the Audit Office, looking at it a year and a half later, considered that it did not happen. I will take it on notice and give you some information, but my understanding is that it was something that we were looking at in a point in time and we thought it was a fair call.

Senator MILNE: All right, take that on notice.

Answer:

Under the program, a business was eligible where it had a contract or arrangement that was considered to be ongoing, even if contracted activity had temporarily ceased due to a

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directive of a principal. In such cases, the principal had set the harvest or delivery quota, for a period, to zero.

The ANAO identified that one grantee received a second milestone payment when the documentation it supplied for the Milestone 2 claim suggested that the ongoing arrangement (which made it eligible under the program) had ceased prior to the date provided in their application.

The conditions for the Milestone 2 payment were deemed to have been met and the payment was made, however, as stated in our submission to the inquiry, the department is investigating what information was available at the time the initial application was lodged.

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**Questions Taken on Notice – Advisory Panel for the Tasmanian Forests
Intergovernmental Agreement Contractors Voluntary Exit Grants Program**

Question: 3

Division/Agency: Advisory Panel
Topic: Verification of financial statements
Proof Hansard page: 49

Senator Milne asked:

Senator MILNE: but did you actually get anyone to the principal contractor—as in Forestry Tasmania, Gunns or anyone else—to say that that was right, or did you just accept the accountant's statement for that particular person?

Mr Talbot: There are two links here. In terms of where it was from principal to contractor we were able to verify with the principal, but then there were relationships further on. When I say financial statements, we asked everybody to provide financial statements no matter where in the chain they were.

Senator MILNE: What I am asking is whether the applicants' accountants were the only evidence you had for verification in some cases.

Mr Talbot: I will have to take that on notice. I think that is probably right when you get past the contractor level, but I will take it on notice.

Answer:

No. While accountants did provide a statement verifying information on activity (tonnages harvested or hauled), the department as part of the application process (question 3 on page 8 of the application form) required a statement from principals, or from those contractors which subcontracted part of their operations:

- setting out the contract number (if numbered), period of each contract, quota or delivery or other arrangement including start and end dates;
- the agreed volume of public native forest logs of the ongoing contracts or ongoing arrangements for the periods, 1 July 2009 to 30 June 2010 and 1 July 2010 to 30 June 2011 as well as the actual volume of public native forest logs for the ongoing contracts or ongoing arrangements for the periods 1 July 2009 to 30 June 2010 and 1 July 2010 to 30 June 2011. Where ongoing contracts or ongoing arrangements include the harvest and/or haulage of public native forest logs and private native forest logs, the statement should set out, for each ongoing contract or ongoing arrangement, the percentage of the total amount delivered that was for public native forest logs and the percentage of the total amount delivered that was for private native forest logs and how this was derived.

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**Questions Taken on Notice – Advisory Panel for the Tasmanian Forests
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Question: 4

Division/Agency: Advisory Panel

Topic: Eligibility of 10 applicants as mentioned in the ANAO report No. 22, 2012-13

Proof Hansard page: 53

Senator Milne asked:

Mr Talbot: I have a clarification. I started giving an answer to the 10-in question from Senator Milne, I had only given the first part of my answer and then we got onto something else. I need either to make a statement now or put something in afterwards.

ACTING CHAIR: There are people sitting around this table who are under severe aeroplane pressure, particularly the secretary.

Mr Talbot: I will put something in writing.

ACTING CHAIR: Yes, if you could take the rest of that question as a question on notice and finalise it for the committee we would appreciate that.

Answer:

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. 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 and payments were made only when all appropriate documentation was provided.