Australian Government
Department of Agriculture, Fisheries and Forestry

Andrew Metcalfe AO
SECRETARY

3 May 2013

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

Dear Mr Palethorpe

I refer to my correspondence of 11 April 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.

The department noted in its submission that it would provide to the Senate Committee a supplementary submission in relation to the department's review of the Ernst & Young evaluation report. The draft final report has now been publicly released on the department's website and is attached for your convenience.

Yours sincerely

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Australian Government

Department of Agriculture, Fisheries and Forestry

Tasmanian Community Forestry Agreement

Industry Development Program

Departmental review of the 2010 Ernst and Young audit report findings

May 2013

Contents

1. Introduction and Scope

This report has been prepared by the Department of Agriculture, Fisheries and Forestry ('the department'). The purpose of the report is two-fold: to review the findings of the 2010 Ernst and Young review of the Tasmanian Community Forestry Agreement Industry Development Program ('the program') and, drawing on this review, assess and recommend any further action required by the department to acquit and close the program.

The Ernst and Young review was conducted on behalf of the department as part of the Australian and Tasmanian Governments' response to the second five-year review of the Tasmanian Regional Forest Agreement (TRFA). The Ernst and Young report, *Evaluation of the Tasmanian Community Forestry Agreement Industry Development Program*, was published on the department's website on 9 November 2011] and raised a number of critical findings about the implementation of the program.

Ernst and Young was engaged to:

- Confirm, with reference to existing information, that each project has met its requirements under the grant deed and identify any shortcomings to the department.
- Conduct a high level evaluation of the program to provide advice on how it performed overall now that it has concluded, including its impact on key aspects of the Tasmanian forest industry.

Ernst and Young conducted its review procedures in two parts:

1. Compliance testing against deed requirements.
2. Evaluation of the program outcomes, including whether program objectives were achieved.

This report is limited to commenting on Part One of the Ernst and Young review; that is, the program's implementation and compliance against its underpinning deeds and guidelines. These are identified within Recommendations 4 to 6 of Ernst and Young's report.

This report makes no comment on the policy objectives underpinning the operation of the program, the impact on the Tasmanian forest industry or the overall outcomes of the program. Both the Ernst and Young report and an Australian National Audit Office (ANAO) performance audit[1] identified a range of issues in relation to the outcomes of the program; these are not revisited in this report.

Outcomes From This Report

This report was completed in January 2013 and the department has since completed a number of actions to address the findings and recommendations of this report.

Text boxes outlining the current status of the department's actions to acquit and close the file for each grantee are set out in sections 8 and 9.

[1] ANAO Audit Report No.26 2007–08: *Performance Audit: Tasmanian Forest Industry Development and Assistance Programs*

2. Background

2.1 Program Overview

The program commenced in 2006 and consisted of three grants sub-programs that funded initiatives to assist the Tasmanian forest industry to achieve a sustainable future for Tasmania. The program consisted of the following sub-programs:

Tasmanian Softwood Industry Development Program (TSIDP) $10 million

The TSIDP aimed to assist the continued development of a sustainable, efficient, value-adding and internationally competitive softwood industry in Tasmania.

Tasmanian Forest Industry Development Program (TFIDP) $42 million

The TFIDP aimed to assist the continued development of a sustainable, efficient, value-adding and internationally competitive forest industry in Tasmania, providing long-term employment opportunities, by facilitating retooling and investment in new plant and technology. The program aimed to maximise recovery of forest products from increasing use of regrowth, plantation and other changes in the resource mix arising from the Tasmanian Community Forestry Agreement.

Tasmanian Country Sawmills Assistance Program (TCSAP) $4 million

The TCSAP aimed to assist country sawmills in Tasmania to contribute to the continued development of a sustainable, efficient, value-adding and internationally competitive timber industry in Tasmania, providing long-term employment opportunities, particularly in regional areas.

In October 2007, a further 30 per cent of all grant monies paid was committed to assist grant recipients offset the income tax liabilities resulting from the original grants.

The program concluded in 2009.

2.2 Authority for the Ernst and Young Review

The Ernst and Young review fulfilled a commitment made by the Australian and Tasmanian Governments in their response to the second five-year review of the TRFA.

Recommendation 42 of the TRFA review stated:

> That the parties should identify the major financial commitments established by the Regional Forest Agreement, the Tasmanian Community Forestry Agreement and any related financial commitments, to establish a program of independent financial and performance audits of the discharge of those commitments (which may include separate program evaluation) and the achievement of the outcomes sought as a result of those commitments.
>
> The parties should prioritise the audits as considered appropriate. In particular, the audits should address the effectiveness of the programs for:
>
> - protection of forest communities on private land
> - intensive forest management
> - industry development and restructuring.
>
> Reports produced as a result of audits or evaluations should be published on their completion.

Ernst and Young's final report was published on the department's website on 9 November 2011.

2.3 Summary of Findings Addressed in this Report

This report covers key recommendations and findings from Ernst and Young's report's themes on:

- exercise of delegations and approvals (section 4.4.1, page 17 of report)
- acquittal of funds and supporting documentation (section 4.4.2, page 17 of report)
- monitoring progress and reporting (section 4.4.3, page 18 of report)
- calculating 30 per cent additional funding (4.4.4, page 18 of report).

3. Departmental Internal Review Methodology

The review undertook a comprehensive audit of the information pertaining to the 96 grants provided to 87 grantees under the program to confirm availability of documents, including: approval under Regulation 9 of the *Financial Management and Accountability Act 1997*; funding deeds; appropriate invoices; progress/milestone reports; and independent audit/final reports. Part of this review focused on verifying the findings of the Ernst and Young report as a necessary step towards ensuring that all such findings were accounted for in any necessary follow-up actions.

The report also details the actions remaining to be taken to close-off / acquit individual grants. These actions may include:

- obtaining outstanding information from recipients to address lack of or deficiencies in documents (where possible and sensible to do so)
- finalising funds recovery processes where needed
- writing-off non-recoverable funds (i.e. debts) where it is neither legally possible nor economic to pursue them.

4. Processes Covered by this Report

4.1 Verification of Ernst and Young Findings

This process focused on the verification of the errors identified in the 2010 Ernst and Young report. The errors assessed during this process included:

- lack of supporting and/or invalid tax invoices
- payments that exceeded the milestone payment amounts in the deed
- purchases/claims that did not match the payment schedule
- claims that could not be linked to the payment schedule (i.e. the department paid for materials that could not be directly linked to the required outcome [e.g. building of a mill])
- lack of, or incomplete, progress reports, final reports and independent audit reports
- independent audit reports that did not include the milestone payments
- milestones or payment amounts listed in the audit report that are inconsistent with the deed and/or the amount claimed for and subsequently paid
- additional 30 per cent payments that were (incorrectly) calculated on the total to be paid and not the actual amount reimbursed (therefore possibly resulting in an overpayment)
- independent audit reports that did not include the additional 30 per cent funding.

4.2 Recommendations on Winding-Up Grantee Activities

An appropriate delegate has formally endorsed this report and the actions to be taken, with the final closure process consisting of:

- a 'no further action required' statement on grantee files where the review team is satisfied that there is enough evidence to justify the expenditure made under the program
- a funds recovery process where the department needs to recover overpayments or recoup funds through assets disposal processes and/or
- a write-off of non-recoverable funds (i.e. debts), where it is neither legally possible nor economic to pursue them, to complete the payment reconciliation process.

5. Response to Ernst and Young Review - Error Incidence Verification

The review conducted a thorough file audit of the 96 grants received by 87 grantees. This number matches the cohort analysed by Ernst and Young, with the remaining files (12) belonging to those who applied for but failed to proceed with the program.

The review identified a number of differences and, in some cases errors, in Ernst and Young's assessment of the program. The verification of the Ernst and Young review's findings on each file was a critical part of this review, not only because these findings were being used to assess what issues need to be addressed to wrap-up the program and close-off individual grantees, but also to ensure that there was an accurate assessment of the administration of the program.

5.1 Consistency in Ernst and Young Data Counts

Ernst and Young provided the department with two sets of information related to its review of the program: its original 'raw data' and the final 'tallies' used in its final report. While this report focuses upon the published Ernst and Young results, it is noted that there are variances between the raw and final Ernst and Young tallies (see Table 6 in Attachment A). It is also noted that the qualitative information contained in the raw data often contradicted the quantitative information or did not accurately reflect this information.

5.2 Comparison of Data Counts

Ernst and Young's raw data analysis was completed using a four category ranking system: yes (found); no (not found); not applicable; and P (inferred to mean 'possible' or 'plausible').

When tabulating its raw data for the report, Ernst and Young considered 'no' and 'P' answers should be added together to record the total number of errors.

In comparison, this review sought to make all error / incidence data unequivocal, using the 'yes' (found), 'no' (not found) and 'not applicable' responses only. In those cases where a 'P' answer had been cited by Ernst and Young, the review team assessed each 'P' answer and assigned it either a 'yes' or 'no' value[2].

In addition, this review found that the Ernst and Young data were not always correct, with a number of invoices and other documents being found on grantees' files that were not recorded by Ernst and Young. These are discussed further in section 6 on issue-specific findings.

Table 7 in Attachment A provides a comparison of the Ernst and Young findings with those of this review.

[2] When interpreting these data, it should be noted that they reflect the presence or absence of a result and do not imply a positive or negative assessment in respect to a particular finding.

6. Response to Ernst and Young Review – Issue-specific Findings

This section addresses the specific findings and relevant recommendations of the Ernst and Young review as the basis for completing the program wind-up process.

Relevant findings/recommendations from the report have been summarised below, while the response sections have been designed to report the review's findings, address the issues raised by Ernst and Young and provide some supportive commentary to the statistics cited within Attachment A. Comparative tables for the Ernst and Young information and this review's findings are also provided for each category of identified issues.

The following analyses cover two issues; first, a quantitative comparison between the Ernst and Young findings and those of this review and second, commentary on the applicability of these findings to decisions about whether or not any additional action is required. This commentary then forms the basis of section 7 (actions that have already been taken) and section 8 (proposed further actions).

6.1 Exercise of Delegations and Approvals (section 4.4.1, page 17)

Ernst and Young Report

Ernst and Young identified one potential breach of the *Financial Management and Accountability Regulations 1997* (Regulation 9) and recommended its investigation and disclosure in the department's Certificate of Compliance.

Review Response

The review **agrees** with the finding.

The relevant grantee's file contains evidence of the approval of the grant but not to the required standard. There is email advice from the then minister's office that the minister had approved the project. This email advice was accepted by the department's then first assistant secretary responsible for the program as the delegate exercising the Regulation 9 authority.

In relation to actioning Ernst and Young's recommendation, the department sought to update the Certificate of Compliance; however breaches cannot be disclosed retrospectively.

Following the comprehensive file audit, the review team has sighted the recorded breach and, in light of the department's follow-up actions, considers this issue requires no further action.

The action taken by the department with respect to this issue is a matter of public record, including through senate estimates hearings and questions on notice.

Table 1 4.4.1 – Delegations and approvals

Category	A. No Reg 9 Approval	B. No Signed Copy of the Deed	C. No KPIs, Milestone, Objectives
Ernst and Young	1	0	0
Departmental Review	1	0	0

6.2 Acquittal of Funds and Supporting Documentation (4.4.2, page 17)

Ernst and Young Report

Ernst and Young cites 26 instances where payments were:

- made without tax invoices to support expenditure
- not in accordance with the deed (they either exceeded the amounts, or were not used for the equipment specified in the deed)
- unable to be confirmed as having been spent on the approved purchase.

Ernst and Young also cites 14 instances, which are a subset of the 26 instances cited above, where supporting documentation provided with claims were not valid tax invoices per Australian Taxation Office (ATO) requirements.

Review Response

The review **partially agrees** with these findings, in that there are examples of payments made where:

- there are no tax invoices to support expenditure
- the amounts paid exceeded those listed in the deed
- the equipment purchased was different to that specified in the deed
- the money was not confirmed as being spent on the approved purchase.

However, the review **disagrees** with the number of these findings. During its investigations, the review team sighted a number of invoices and other documents that were not recorded by Ernst and Young.

For example, in one specific case Ernst and Young states that 'no invoices were available to support the purchase of four items by one grantee'; however the review team found these on the grantee's file.

In addition, a number of files contained supporting documents explaining where changes to purchases were discussed with departmental officials; for example, in one case there is a file note noting that one type of excavator had to be changed by a grantee due to operational reasons. In another example, the department has reimbursed a grantee for the cost of an excavator rather than for a skid steer as listed in the deed, implying that the department agreed to the change. While these processes are sufficient to permit the changes to purchasing schedules, these should have been reflected in a formal deed variation with grantees.

Ernst and Young found that a number of claims for payment were not supported by valid tax invoices in accordance with the ATO's requirements. However, the ATO website advises that documents can still be treated as valid tax invoices for payment if any missing information can be clearly identified from other documents provided by the supplier/grantee. For example, a missing Australian Business Number (ABN) or supplier name could have been evidenced in the deeds signed by the grantees and the Australian Government.

Table 2 4.4.2 – Acquittals and supporting documents

Category	Expenditure Not as Per Deed Milestones	Absence of Appropriate or Valid Invoices	Invoices Not as Per Milestones
Ernst and Young	26	14	23
Departmental Review	13	9	18

6.3 Monitoring Progress and Reporting (section 4.4.3, page 18)

Ernst and Young Report

Ernst and Young cite 29 instances where deed requirements for reporting were not fulfilled prior to reimbursement of claims, including the receipt of progress and final reports.

Ernst and Young also cite 60 instances where a complete audit report was not evidenced on the grantee's file. Instances were noted where:

- a complete audit report was not on file
- milestone payments were not included in the audit report
- milestone or payment amounts detailed in the audit report were inconsistent with the deed
- milestone or payment amounts detailed in the audit report were inconsistent with the amount claimed and paid.

Review Response

The review **agrees** that in 29 instances grants payments should not have been made by the department until it was satisfied that the grantee had met the requirements of their deed.

The review also **agrees** with the finding that there are examples of missing or deficient audit reports, milestone reports and final reports.

The review **disagrees** with some of the metrics used by Ernst and Young in its assessment of grantee files. Ernst and Young assessed all grantees against a requirement to have income and expense data in their audit reports; however, under the deeds this was a requirement of the final reports, not the audit reports.

The grantees' deeds required them to provide independent audit reports to verify that "the Funding and Other Contributions were spent in accordance with the Budget and [the] Deed". The requirement to provide "financial statements of the receipt, holding, expenditure and commitment of the Grant during the Term, including a full reconciliation against the Budget and a statement of the balance of the Grant Bank Account in which the Grant moneys were held" was a requirement of the final reports.

On this basis, the review does not consider that this reporting requirement should be factored into assessments of grantees' performance.

The comparative table below shows a significant reduction in the number of findings from those cited by Ernst and Young, which can be attributed to the review team locating relevant supportive information such as individual milestone reports on grantee files.

Table 3 4.4.3 – Monitoring and reporting

Category	Absence of Appropriate Milestone Reports	Milestone Reports Not Found	Reports Not Received Prior to Invoice Payment	Milestones Payments Not Included in Audit Report
Ernst and Young	24	27	29	49
Departmental Review	18	10	29	36

6.4 Calculating 30 per cent Additional Funding (section 4.4.4, page 18)

Ernst and Young Report

Ernst and Young notes that in October 2007 an additional 30 per cent of the original grant monies paid was committed to assist grant applicants offset the income tax liability resulting from their original grant.

Ernst and Young note that the 30 per cent was to be calculated based on the amount reimbursed to a grantee. However, it cites 15 instances where this additional funding did not equate to 30 per cent of the amount reimbursed; instead, the 30 per cent was calculated on the amount identified in the deed.

Further, Ernst and Young considered that while the treatment and administration of the additional 30 per cent was not included in the program guidelines or the internal departmental operating guidelines due to the commitment being made subsequent to commencement of the three grants sub-programs, the 30 per cent still formed part of the grant payments and therefore should have been included in grantees' audit reports. Ernst and Young cite 64 instances where audit reports did not include the 30 per cent additional funding received.

Review Response

The review **disagrees** with Ernst and Young's view that grantees should have reported the additional 30 per cent funding in their audit reports. The basis for the review response is that the additional 30 per cent payment did not form part of the grantees' deeds.

The 30 per cent additional funding amount was provided to all grantees to assist them offset the income tax liability resulting from their original grant. This payment was not included in grantees' deeds; rather they were notified via separate departmental correspondence (dated 18 February 2008). The additional 30 per cent payment was also not reflected in any deeds amended or signed after this date. This reinforces that it was not to be treated as a grant amount and did not form a milestone payment under grantees' deeds.

Most grantees did adhere to the requirements of their deed by supplying both final and audit reports which required them to report on the grant amount specified in their deed (which did not include the 30 per cent).

The department at the time did not specify any reporting requirements for the additional 30 per cent component. On this basis, grantees cannot be held accountable for not reporting this amount in their audit reports. That grantees interpreted their obligations in this way is shown by the fact that 75 out of the 87 grantees did not account for the 30 per cent in their audit reports (Ernst and Young identified only 64 instances).

The review **agrees** with the Ernst and Young review finding there are examples of the 30 per cent payments being calculated on the amount committed to the grantee rather than on the actual amount reimbursed to the grantee. The review found a greater number of overpayments on the additional 30 per cent payment on individual grantee files when compared to Ernst and Young's findings; any overpayments on milestones had flow-on effects to the amount paid under the 30 per cent payment and the applicable GST on this payment.

The remedial actions for addressing these overpayments are discussed below; some of which have already been completed, while others require additional steps to be finalised.

Table 4 4.4.4 – Audit reporting/Additional funding

Category	Absence of Complete Audit Report	Income and Expense Data Not in Audit Report	30% Increase Not Included in Audit Report	30% Increase in Funds Not Paid Correctly
Ernst and Young	60	60	64	18
Departmental Review	36	42	75	22

7. Remedial Actions Already Completed

The Ernst and Young report reflects the program's status at the time that report was written. The department has undertaken some remedial actions specific to the program, as well as making significant improvements to its grants management processes and systems since that time. These are discussed in greater detail below.

7.1 Departmental Site Visits

In 2008 and 2009, the department undertook a series of site visits with grantees to examine equipment purchased and/or upgraded under the program and to assess their benefits. The review found that over 80 per cent of grantees were subject to these visits.

This process, which was not considered in Ernst and Young's review, represents a significant effort by the department to assess each grantee's compliance with their deeds and ensure that the grant funds were expended in an accountable manner.

The results of the site visits were recorded on a report template that was placed on each grantee's file. The reports include information on the benefits of the items purchased with the grant, employment and adaptation to the changing nature of the timber supply. Photographs of the purchased equipment were provided as part of the site visit record in some cases.

The review has used the site visit information for individual grantees in its overall assessment of whether there is sufficient evidence of grantees' appropriate use of funds and to demonstrate that funds were used for the purpose they were intended.

7.2 Asset Disposal Processes

Asset disposal provisions are standard inclusions in most Australian Government deeds and specify that, in certain circumstances, any sale or disposal of assets must result in a proportion of the funds received from the sale, insurance or disposal being returned to the government.

While the deeds used for the program contain provisions about the sale/disposal of assets purchased with the assistance of Australian Government grants funds, two different asset disposal provisions were used over the life of the program.

The most notable differences between the deeds relate to the apparent nominated time periods within which grantees must:

a. seek the department's approval to dispose of an asset purchased using program funds
b. refund Australian Government funds when they sell assets purchased with government money.

Typically, grants approved within the first two years of the program contain a specified time frame covering the sale/disposal of assets (generally three years) while grants approved in later years do not appear to contain a provision that limits the department's ability to enforce any of the asset disposal provisions to a specified time period.

The department developed and published on its website procedures for the return of funds to explain different scenarios to grantees. This helped ensure that the process remained transparent and all grantees remained aware of their obligations under the program.

At the time of writing this report, asset disposal provisions had been triggered for 14 different grants, which had been provided to 12 recipients. From these, $139 232.65 has been recovered (since June 2011). A number of grantees have not had any funds recovered from them; although these grantees triggered their deed's asset disposal provisions, it was found that the assets sold continued to be used according to the intent of the program. This meant these grantees could retain the proceeds of the sale.

The review understands the department remains committed to ensuring that any further return of funds will be pursued where practical, noting the time limitations posed in some deeds and the requirements of the Chief Executive's Instructions (CEI 8 'Managing Debt') which instruct officers on the management of debts owed to the Australian Government.

7.3 Recovery of Overpayments

The review has found that a number of grantees received overpayments during the course of the program.

Overpayments typically fall into three categories:

- Milestone overpayments: grantees were paid the amount listed in the deed, rather than the proportional amount for what was expended, or claimed amounts higher than listed in the deed.
- 30 per cent top-up funding overpayments: grantees were either overpaid the 30 per cent because they were overpaid on milestones, or the amount was based on the amount committed under the deed, rather than the actual amount paid.
- GST overpayments: some grantees were paid GST on items purchased overseas and imported into Australia; other GST payments were incorrectly calculated, coded or paid on amounts that already included the GST.

In response, the department has assessed a range of options for recouping funds, with $3480.78 recovered to date.

The department will need to consider further action to pursue or write-off debts in line with the Chief Executive's Instructions (CEI 8 'Managing Debt'); this is addressed in further detail in Section 8.2.

7.4 Grant Management Framework

The review notes that the Ernst and Young report is a 'point in time' assessment of a program that was implemented in an environment significantly different to the one in which the department operates today.

The department has established a grants management framework under which all grants programs and individual grants must operate. The framework reflects the Commonwealth Grant Guidelines (2009, updated 2012) and the ANAO's guide 'Implementing Better Practice Grants Administration'. It includes policies and procedures for:

- planning a grants program, developing an evaluation strategy and establishing key performance indicators
- developing funding deeds which include appropriate reporting requirements and clear payment schedules
- monitoring performance and financial management of funding agreements, and acquittal and release of grant funds
- developing templates for correct documentation of grant approvals
- using control systems that require confirmation of Regulation 9 approval before payments can be processed.

The grants management framework has been developed and is administered by a specialist area, the Grants Policy Section, which provides advice and support to all line areas responsible for the development and delivery of grants programs. The Grants Policy Section has developed a suite of supporting documentation for line areas to use during grants administration, including a Grants Management Manual; standardised funding deeds (including short funding deeds for 'low risk' grants), and additional templates and checklists to support grants processes.

This information is based upon the ANAO Better Practice Guide and other Australian Government policies and legislation, including the *Financial Management and Accountability Act 1997*.

All grants payments are now managed and delivered via the Clarity Grants Management System, which interfaces with the departmental financial system, providing an additional management tool to assist in the timely and correct payment of grant funds.

7.5 2007-08 Australian National Audit Office (ANAO) Audit

The ANAO audited the program at its half-way point in 2007-08. The department accepted the ANAO's three recommendations:

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:
    a. collect and, where necessary, validate relevant performance data
    b. record, analyse and report this data on an ongoing basis
2. To better protect the Commonwealth's interests, the ANAO recommends that the department use the current standard funding deed for future projects tailored to incorporate the:
    a. method by which payments are made
    b. financial arrangements in place to acquire the assets, other than through outright purchase or leasing
3. To effectively monitor compliance with the funding deeds, for the Tasmanian forest industry assistance programs, the ANAO recommends the department:
    a. develop operational guidelines for the payment of claims, compliance reporting and the acquittal of grants
    b. clarify reporting requirements and provide guidance to grant recipients.

These findings represented the department's first opportunity to identify and address the program's shortcomings, with the department formally responding to the report and working to incorporate the recommendations into the administration of the program.

8. Further Actions Required

After a comprehensive audit of the 87 grantees against the Ernst and Young findings, the review has assessed that 28 grantees require no further investigation or action. The remaining grants are recommended for further follow-up action.

8.1 Recommended for Closure

When assessing each individual grantee file against the Ernst and Young findings, the review team used a range of information to determine whether the issues identified in Ernst and Young's assessment of the grantee were sufficiently addressed or mitigated. In other words, a grantee was rated as compliant against a given performance metric if the review team was able to sight enough supportive information to verify the grantee's performance.

Using available information also ensures that the grantees are not pursued for information that the department reasonably has access to and avoids the unreasonable use of government resources. For example, where a grantee may have missed submitting a milestone report, a completed final report coupled with a departmental site visit report may be considered as sufficient proof that the grantee expended their funds in line with the agreed milestones.

The review has prepared individual assessments of each of the 87 grantees. Each assessment details:

- the grantee's compliance against the Ernst and Young and internal review findings
- references for the source of the information used to assess compliance
- outstanding issues identified
- detail of funding expenditure against the grantee's deed
- any remaining issues
- any follow-up action required.

Based on these assessments, of the 87 grantee files the review considers that there is sufficient information for 28 grantees to immediately acquit all their activities and expenditure related to the program. The review recommends that no follow-up action is required and that these files be closed.

An appropriate delegate will make the final determination in each of these cases and the grantee's case file will set out the rationale and evidence for the decision.

Current Status

The department immediately closed files relating to 28 grantees (which received a total of 30 grants) as recommended by the review team. These grantees were found to have supplied sufficient information to confirm that their obligations under their deeds were fulfilled and to allow the full acquittal of the funds they received.

Following further investigations, files relating to another two grantees (receiving two grants) were subsequently closed as they were found to have supplied sufficient information to confirm that their obligations under their deeds were fulfilled and to allow the full acquittal of the funds they received.

Files relating to a further five grantees (receiving a total of five grants) have been subsequently closed by the department as they had gone into receivership or exited the forest industry. While these grantees had minor administrative issues, they had provided sufficient information to confirm that their obligations under their deeds were fulfilled and to allow the full acquittal of the funds they received.

8.2 Recommended for Further Action

The review team considers that the remaining grantees require further investigation into:

- overpayment recoveries/debt write-offs
- asset disposal recoveries
- justification of expenditure under Deeds.

Relatively minor formal actions are required to finalise a significant number of the outstanding issues in relation to these files; for example, a number require the formal completion of debt write-offs by the appropriate departmental delegate. There are a number of files that will require more substantive consideration and/or follow-up action. A breakdown of these issues is provided below.

8.2.1 Overpayments

Of the grantees requiring further action:

- 32 grantees have evidence of overpayments:
  - 14 incidences were each under $200 ($608.84 in total) and included invoicing/financial system rounding overpayments
  - four were under $1000 ($2468.24 in total)
  - three were under $3000 ($6242.16 in total)
  - the remainder (11) were above $3000
- of these overpayment incidences:
  - the review recommends that seven overpayments under $200 be formally written off by the department as it is uneconomical to pursue them
  - the remaining seven incidences under $200 relate to financial system/invoice rounding (totalling $5.36) and should also be formally written off
  - two overpayment incidences have already been recovered through invoicing of grantees (totalling $3480.78)
  - the review recommends that the remaining 16 overpayments be investigated further, either due to the debt value or the need to assess what value is not legally or economically possible to pursue.

The 16 overpayments that need to be investigated may require legal advice to be sought and considered by the Chief Financial Officer.

Current Status

The department has completed a number of formal debt write-off processes by a *Financial Management and Accountability Act 1997* delegate to address overpayments made to grantees.

To date the following debts have been written-off on the basis that they were uneconomical to pursue:

- 12 grantees (which received a total of 13 grants) that had received overpayments under $200
  - the total value of these debts equated to $543.62
- three grantees (which received a total of five grants) that had received overpayments between $200 and under $1000
  - the total value of these debts equated to $1328.41
- one grantee (receiving one grant) that received an overpayment between $1000 and under $3000 ($2118.00)

Current Status (cont)

- two grantees (which received a total of two grants) that had received overpayments over $3000
  - These amounts were written off on the basis that the grantees had exited the industry or gone into receivership/liquidation.
  - The total value of these debts equated to $116 833.43 (of which $94 717.25 was held by a grantee that had gone into liquidation)

The department has subsequently closed the files relating to these 16 grantees as they have otherwise fulfilled their obligations under their deeds and fully acquitted the rest of the funds they received.

8.2.2 Asset Disposals

The department has already recouped some funds from grantees that triggered their asset disposal processes and some grantees known to have triggered their asset disposal clauses were already being monitored before this review was started.

Further investigation of these grantees is required to address the issue where grantee's asset disposal clauses may have ceased before disposed assets could be pursued.

A separate issue identified in the review is that of deeds containing asset disposal clauses that have no apparent termination date; legal advice may be required to address this issue.

Current Status

The department has applied a three-year asset disposal clause to all TCFA IDP grantees to ensure their equitable and consistent treatment. This has resulted in:

- 14 grantees (which received 17 grants) having ceased their three year asset clause in 2012
- two grantees (which received 2 grants) having ceased their three year asset clause on 31 March 2013
- one grantee (holding one grant) ceasing their year asset disposal clause on 31 December 2013
  - this grantee has already sold their assets and exited the industry.

The department has subsequently closed the files relating to 10 of the above grantees (which received 10 grants) as they have otherwise fulfilled their obligations under their deeds and fully acquitted the funds they received.

The department has sought legal advice on a number of financial and other matters associated with the administration of the TCFA IDP grants. This legal advice has allowed the subsequent closure of files relating to 15 grantees (which received 18 grants).

8.2.3 Justification of Expenditure

For some of the remaining grantees requiring additional consideration, there may be insufficient information available to assess whether a grantee has properly acquitted their funding as per their deed. The type of information missing from individual grantee files includes amended milestone schedules, updated purchase lists, supporting invoice documentation, complete milestone reports, and final reports.

While many grantee files indicate that some remedial action has been taken to address these issues, follow-up action may be required to collect outstanding information and ensure that all departmental funds were expended correctly and ensure that the file can be closed. A decision on any such action will need to be taken on a case-by-case basis.

9. Conclusions

The comparison of the Ernst and Young findings and those of the review shows differences in both the error rates found and the interpretation of the deed requirements. The review considers that these differences meant that the level of risk the program's administration presented to the department (both financially and otherwise) was not accurately reflected in the Ernst and Young report. Nevertheless, the review has confirmed that deficiencies in the design and administration of the program did exist and has recommended actions to address any outstanding issues relating to individual grantees under the program.

Further, the Ernst and Young report represents a snap shot of program administration processes that are quite different to the department's current operations. The department's commitment to continual improvement processes means the findings from this review can also be used to guide further enhancements to the department's more robust grants management framework and administrative processes.

The review recommends that 28 of the 87 grantees who received funding under the program can be immediately closed. Of the remaining grantees, the review recommends that further remedial action is required by relevant areas of the department before these can be acquitted; such actions range from minor administrative steps to more comprehensive investigations and potential follow-up with individual grantees.

Current Status

As of 29 April 2013, the department has acquitted and closed files relating to 78 of the total 87 grantees. These grantees held 86 of the total 96 grants provided under the program.

Closure of the files for the remaining 9 grantees (holding 10 grants) is pending receipt of further legal advice on the administration of these grants, including whether there are any debts remaining to the Commonwealth and which of these debts (if any) are legally or economically recoverable. This legal advice will then be considered by the appropriate *Financial Management and Accountability Act 1997* delegate.

Table 5 Files closed to date (by issue)

Counts	**Grants**	**Grantees**
Immediate closure based on report recommendations (sufficient information)	30	28
Subsequent closure based on sufficient information	2	2
Debts written-off (uneconomical to pursue)	21	18
Closure based on grantee exiting industry/going into receivership	5	5
Closure based on application of consistent three year asset disposal clause	10	10
Closure based on legal advice (financial and administrative) matters	18	15
Total	**86** **(out of a total of 96)**	**78** **(out of a total of 87)**

Next Steps

Concurrent with taking the actions necessary to close the files associated with the remaining grantees, the department is examining whether further improvements could be made to its grants management processes and systems. These potential improvements, as well as the internal review report and follow-up actions taken, will be considered by the department's Audit Committee and the outcomes actioned within the department through appropriate channels, such as the Grants Management Network.

Attachment A

Table 6 – Differences in Recorded Data (All Grantees)

- When tabulating its raw data for the report, Ernst and Young considered 'no' and 'P' (standing for possible or plausible) answers should be added together to record the total number of errors.
- There are some differences in numbers used in the report and the raw data provided to the department.

	4.4.1 - Delegations and approvals			4.4.2 – Acquittals and supporting docs			4.4.3 – Monitoring and reporting				4.4.4 – Audit reporting/Additional funding			
Category	**A:** No Reg 9 Approval	**B:** No Signed Copy of Deed	**C:** No KPIs Mile-stones Objective s	**D:** Expenditure Not as Per Deed Milestones	**E:** In-appropriate /Invalid Invoices	**F:** Invoices Not as Per Mile-stones	**G:** In-appropriate Milestone Reports	**H:** Mile-stone Reports Not Found	**I:** Reports Not Received Prior to Invoice Payment	**J:** Mile-stones Not Included in Audit Report	**K:** In-complete Audit Report	**L:** Income & Expense Data Not in Audit Report	**M:** 30% Increase Not Included in Audit Report	**N:** 30% Increase In-correctly Paid
Ernst & Young Report	1	0	0	26	14				29			60	64	15
Ernst & Young raw data	1	0	0	26	14	23	27	24	29	49	59	60	64	17
DAFF's calculations from Ernst & Young raw data	1	0	0	26	14	23	26	24	29	49	59	60	64	18

Table 7 – Comparison of Findings for All 87 Grantees

- All results (Yes, No, NA)

	4.4.1 - Delegations and approvals			4.4.2 – Acquittals and supporting docs			4.4.3 – Monitoring and reporting				4.4.4 – Audit reporting/Additional funding			
Category	**A:** **Reg 9 Approval**	**B:** **Signed Copy of Deed**	**C:** **KPIs** **Milestones Objectives**	**D:** **Expenditure as per Deed Milestones**	**E:** **Appropriate or valid Invoices**	**F:** **Invoices as per Milestones**	**G:** **Appropriate Milestone Reports**	**H:** **Milestone reports found**	**I:** **Reports Received Prior to Invoice Payment**	**J:** **Milestones Included in Audit Report**	**K:** **Complete Audit Report**	**L:** **Income & Expense Data in Audit Report**	**M:** **30% Increase Included in Audit Report**	**N:** **30% Increase Funds Paid Correctly**
Yes(Ernst & Young)	86	87	87	57	67	58	59	56	52	33	23	22	12	64
Yes (the department)	86	87	87	70	74	65	65	73	54	47	47	41	7	81
Variance	**0**	**0**	**0**	**+20**	**+7**	**+7**	**+6**	**+23**	**+2**	**+14**	**+24**	**+19**	**-5**	**+17**
No (Ernst & Young)	1	0	0	26	14	23	24	27	29	49	60	60	64	18
No (the department)	1	0	0	13	9	18	18	10	29	36	36	42	75	2
Variance	**0**	**0**	**0**	**-13**	**-5**	**-5**	**-6**	**-17**	**0**	**-13**	**-24**	**-22**	**+11**	**-16**
NA (Ernst & Young)	0	0	0	4	6	6	4	4	6	5	4	5	11	5
NA (the department)	0	0	0	4	4	4	4	4	4	4	4	4	5	4
Variance	**0**	**0**	**0**	**0**	**-2**	**+2**	**0**	**0**	**-2**	**-1**	**0**	**-1**	**-6**	**-1**