



Tasmanian
Audit Office



**Report of the Auditor-General
No. 9 of 2016-17**

Funding the forest agreements

March 2017

THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008 (Audit Act)*.

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

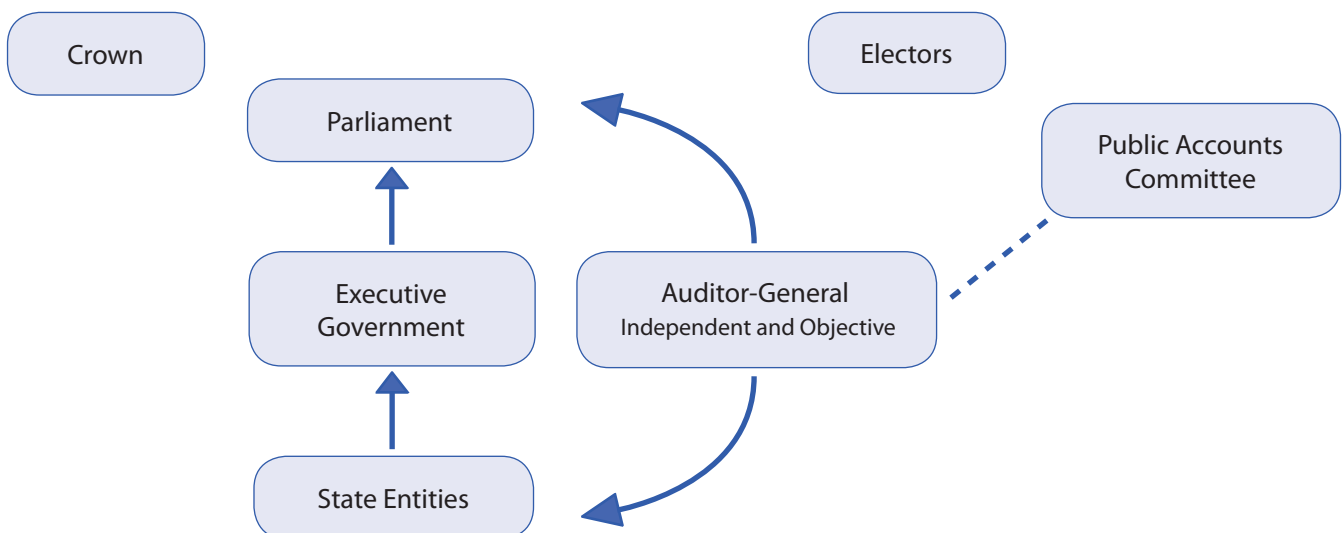
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.





2017

PARLIAMENT OF TASMANIA

**REPORT OF THE
AUDITOR-GENERAL
No. 9 of 2016–17**

Funding the forest agreements

March 2017

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This report, and other Auditor-General reports, can be accessed via our home page (<http://www.audit.tas.gov.au>).

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14 March 2017

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Speaker
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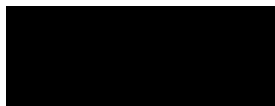
Dear Mr President
Dear Madam Speaker

REPORT OF THE AUDITOR-GENERAL

No. 9 of 2016–17: Funding the forest agreements

This report has been prepared consequent to examinations conducted under section 23 of *the Audit Act 2008*. The objective of the audit was to assess the effectiveness of the State's administration of projects listed for implementation by the Tasmanian Government, under the *Tasmanian Forests Intergovernmental Agreement 2011* and *2013*.

Yours sincerely



Rod Whitehead
AUDITOR-GENERAL

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List of acronyms and abbreviations

ANAO	Australian National Audit Office
Contractor Assistance	Native Forest Harvest Contractors Assistance Program
CPI	Consumer Price Index
Department (the)	The Department of State Growth, formerly Department of Infrastructure, Energy and Resources (DIER), was the department responsible for TFIGA programs.
DIER	Department of Infrastructure, Energy and Resources, now part of the Department of State Growth
DPIPWE	Department of Primary Industries, Parks, Water and Environment
FSC	Forest Stewardship Council
FT	Forestry Tasmania
Gunns	Gunns Limited
State Growth	Department of State Growth
TAO	Tasmanian Audit Office
TFA	Tasmanian Forest Agreement
TFA Act 2013	<i>Tasmanian Forests Agreement Act 2013</i>
TFIGA	Tasmanian Forests Intergovernmental Agreement
TI 709	<i>Treasurer’s Instruction 709, Grant Management Framework</i>
Treasury	Department of Treasury and Finance
Transition Support-1	Transition Support Payments
Transition Support-2	Transitional Support and Training Program

Executive summary

Executive summary

Background

In 2008, Tasmania's forest industry supported 6963 workers¹. However, a downturn in available markets and the economy saw employment fall by 33 per cent to 4650 people in 2010².

The downturn was compounded by Gunns Limited (Gunns)'s decision to withdraw from native forest harvesting, announced in September 2010. By November 2013, employment in the forestry industry had declined to 2715 people³.

On 7 August 2011, the Tasmanian and Commonwealth governments signed the *Tasmanian Forests Intergovernmental Agreement (2011 TFIGA)*, which was renewed in May 2013 (2013 TFIGA). The objective of both TFIGAs was to enable restructuring of the forestry industry, resolve conflict between environmentalists and forest workers, protect additional native forests and develop a sustainable timber industry.

The TFIGAs listed 21 projects to be funded over a number of years. The Commonwealth committed \$338m and the Tasmanian Government \$56.40m, providing a total of \$394.40m to support the agreements⁴.

The *Tasmanian Forests Agreement Act 2013 (TFA Act 2013)* was enacted to give legislative force to the *Tasmanian Forest Agreement (TFA)*, including the transfer of identified land into reserves. Following the State election in March 2014, the newly elected Tasmanian Government repealed the *TFA Act 2013* and introduced the *Forestry (Rebuilding the Forest Industry) Act 2014 (Forestry Act 2014)*. The new legislation reclassified land previously identified as future reserves to future potential production forest.

¹ Dr. Jacki Schirmer, Cooperative Research Centre for Forestry, *Tasmania's forest industry, Trends in forest industry employment and turnover 2006 to 2010*, Canberra, (Schirmer 2010).

² Ibid, p.3, the 6963 people equated to 6460 Full-Time Equivalent (FTE), and the 4650 people equated to 4340 FTE.

³ Jacki Schirmer, Caroline Dunn, Edwina Loxton, University of Canberra, *Socio-economic impacts of forest industry change Tasmanian forest industry employment and production, 2012-13*, (Schirmer 2014), p.7.

⁴ Council of Australian Governments, *Tasmanian Forests Intergovernmental Agreement*, Canberra, July 2013, p.13.

Audit objective

The objective of this audit was to assess the effectiveness of the State's administration of projects listed for implementation by the Tasmanian Government, under the *Tasmanian Forests Intergovernmental Agreement 2011* and *2013*.

Audit scope

The audit examined the administration of a selection of TFIGA projects, listed for implementation by the Tasmanian Government in either version of TFIGA (2011 and 2013), each of which involved at least one of the following:

- Department of State Growth (State Growth or the department) or its predecessor agencies
- Department of Treasury and Finance (Treasury)
- Department of Primary Industries, Parks, Water and Environment (DPIPWE)
- Forestry Tasmania (FT).

Audit criteria

We developed a number of audit criteria, namely:

- Was governance adequately outlined in project guidelines? (Section 2.2)
- Did assessment processes comply with relevant guidelines? (Section 2.3)
- Was performance monitored and reported? (Section 2.4)
- Was funding accounted for? (Section 2.5).

We selected eight of the 21 programs listed in the TFIGAs for the audit on the basis they were funded by the Tasmanian Government or allocated the largest portions of TFIGA funds.

One of the selected programs (*\$20m Support for Affected Workers and Contractors*) was administered as five separate projects. Consequently, the audit included 12 projects rather than eight.

Table 1: The 12 projects selected for this audit

Processes that required applications		No applications, just payments	
1.1	Sawlog Contract Buyback Program (Sawlog Buyback) - \$15m	1.7	Contractor Accreditation - \$2m
1.2	Contractor Hardship Program (Contractor Hardship) - \$4m	1.8	Rescheduled Harvesting - \$14.4m
1.3	Native Forest Harvest Contractor Assistance Program (Contractor Assistance) - \$4m	1.9	Plantation Management - \$8m
1.4	Previous Native Forest Contractor Hardship Program (Past-contractor Hardship) - \$1m	1.10	Transitional Harvesting - \$15m
1.5	Transition Support Payments (Transition Support-1) - \$15m	1.11	Implement the 2011 TFIGA (TFIGA Implementation) - \$34.5m
1.6	Transitional Support and Training Program (Transition Support-2) - \$7m	1.12	Reserve Management - \$7.5m

*Detailed audit conclusions**Was governance adequately outlined in project guidelines?*

Governance processes were adequately outlined in project guidelines, other than the Sawlog Buyback, for which monitoring and reporting requirements were not defined.

Did assessment processes comply with relevant guidelines?

Assessment processes complied with relevant guidelines, except for:

- some Treasurer's Instruction 709 requirements for project management documentation, including risk management plans
- shortfalls documenting conclusions for four programs.

Was performance monitored and reported?

Performance, including both progress and compliance with objectives, was monitored and reported. The only exception was that State Growth had not ensured all recipients of the

Contractor Assistance program had confirmed the relevant business debts had been paid within the specified time.

Was funding accounted for?

Funding had been accounted for. Evidence was verified before making payments, which were made on the basis of legally enforceable agreements. Changes to programs were documented.

Overall conclusion

Overall, we were satisfied with the effectiveness of the State's administration of the TFIGA programs. We found no errors in the disbursement of the grants.

We recommend additional project management documentation be prepared to plan, assess, review and record details for all grant programs.

Nevertheless, we were satisfied that the funding had been accounted for and any changes to the programs had been documented.

Recommendations made

The Report contains the following recommendations:

Rec	Section	We recommend that ...
1	2.2	... the guidelines developed to manage grant programs define a process to monitor and report progress toward achievement of the objectives.
2	2.3	... regardless of how grant programs are initiated, the requirements of Treasurer's Instruction 709 be followed.
3	2.3	... all grant payments should explicitly include a documented assessment of applications and decisions.
4	2.4	... processes to monitor compliance with program objectives, commensurate with program risks, should be defined in project management documentation for all grant programs.

Audit Act 2008 section 30 — Submissions and comments received

Audit Act 2008 section 30 — Submissions and comments received

Introduction

In accordance with section 30(2) of the *Audit Act 2008*, a copy of this Report was provided to the state entities indicated in the Introduction to this Report.

A summary of findings, with a request for submissions or comments, was also provided to the relevant portfolio Ministers and the Treasurer.

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the responses. However, views expressed by agencies were considered in reaching review conclusions.

Section 30(3) of the Act requires that this Report include any submissions or comments made under section 30(2) or a fair summary of them. Submissions received are included in full below.

Minister for Resources

It was pleasing to note your satisfaction with the effectiveness of the State's administration of the Tasmanian Forests Intergovernmental Agreement programs.

The Report identifies a number of areas in which further improvements can be made to project management and administration and I will seek advice from the Department of State Growth as to how these recommendations are to be progressed.

The Hon Guy Barnett MP
Minister for Resources

Department of Primary Industries, Parks, Water and Environment

Thank you for your letter 8 February 2017 inviting comment on the Performance Audit: *Funding the forest agreements*. The Department is supportive of the recommendations, noting that the Department received funding for reserve management under the forest agreements, and processes were found to be compliant.

John Whittington
Secretary

Department of State Growth

The Department of State Growth welcomes the opportunity to provide comments for inclusion in the Report.

The delivery of programs under the Tasmanian Forests Intergovernmental Agreement (TFIGA) was a substantial resourcing and administrative task for the Department of Infrastructure, Energy and Resources and, from July 2014, for the Department of State Growth.

I am pleased, therefore, to note the overall conclusion of the Report that you were satisfied with the effectiveness of the State's administration of the TFIGA programs. There are, however, a number of recommendations contained in the Report that identify where program management could be further improved. I will ensure these recommendations are given appropriate consideration by officers in the Department involved in grants administration.

Thank you for the opportunity to provide comment. I would also like to acknowledge the positive and professional manner in which your staff have engaged with officers from the Department of State Growth throughout the audit process.

Kim Evans
Secretary

Department of Treasury and Finance

Thank you for providing the Department of Treasury and Finance with a copy of the draft Report for the *Funding the forest agreements* performance audit.

I note the findings contained in the draft Report and while I do not have any specific comment to make, I do however, note the draft Report's overall conclusion recommending that additional project management documentation be prepared to plan, assess, review and record details for all grant programs.

Thank you once again for the opportunity to comment on the draft Report.

Tony Ferrall
Secretary

Forestry Tasmania

Thank you for providing a copy of the draft *Funding the forest agreements* Report to Parliament for comment.

The audit findings are noted.

There are no matters of fact I wish to raise about the findings and recommendations.

Steve Whiteley
Chief Executive Officer

Introduction

Introduction

Background

Employment in Tasmania's forest industry grew by seven per cent between 2006 and 2008. At its peak in 2008, the forest industry supported 6963 workers⁵. However, a downturn in available markets and the economy saw employment fall by 33 per cent to 4650 people in 2010⁶.

The downturn was compounded by Gunns Limited (Gunns)'s decision to withdraw from native forest harvesting, announced in September 2010. More than half of the State's 4650 forest workers relied on the native forest industry⁷ for employment.

By November 2013, employment in the forestry industry had declined to 2715 people⁸. The proportion of the State's workforce employed in the forest industry reduced from a peak of 3.1 per cent in 2008 to approximately 1.2 per cent in November 2013⁹.

The decline was attributed to several factors including the state of the economy after the Global Financial Crisis, the strong Australian dollar and campaigns by environmental organisations to reduce demand for native forest products, especially woodchips from old-growth forests.

In 2010, representatives of the forest industry and environmental groups signed a statement of principles designed to end decades of conflict between the forest industry and environmentalists. On 7 August 2011, the Tasmanian and Commonwealth governments signed the *Tasmanian Forests Intergovernmental Agreement* (2011 TFIGA). The 2011 TFIGA was renewed in May 2013 (2013 TFIGA). The objective of both

⁵ Dr. Jacki Schirmer, Cooperative Research Centre for Forestry, *Tasmania's forest industry, Trends in forest industry employment and turnover 2006 to 2010*, (Schirmer 2010).

⁶ *ibid*, p.3, the 6963 people equated to 6460 Full-Time Equivalent (FTE), and the 4650 people equated to 4340 FTE.

⁷ *ibid*, p.6, approximately 55 per cent.

⁸ Jacki Schirmer, Caroline Dunn, Edwina Loxton, University of Canberra, *Socio-economic impacts of forest industry change Tasmanian forest industry employment and production, 2012-13*, (Schirmer 2014), p.7.

⁹ TAO calculations on data in Schirmer 2010 *op.cit.* (6963 and 3.08%); and Schirmer 2014 *op.cit.*(2715); TAO calculations: if 6963 is 3.08% then total workforce (100%) is 226 071 and 2715 is 1.2% of the same workforce.

the 2011 TFIGA and the 2013 TFIGA (TFIGAs) was to enable restructuring of the forestry industry, resolve conflict, protect additional native forests and develop a sustainable timber industry.

The TFIGAs listed 21 projects to be funded over a number of years. The Commonwealth committed \$338m and the Tasmanian Government \$56.40m, providing a total of \$394.40m to support the agreements¹⁰. Of the 16 Commonwealth-funded projects, six were administered by the Commonwealth and the Tasmanian Government implemented the other ten. The remaining five programs, worth \$56.40m, were funded and implemented by the Tasmanian Government.

The 2011 TFIGA led to the signing of the *Tasmanian Forest Agreement (TFA)* in November 2012. The *Tasmanian Forests Agreement Act 2013 (TFA Act 2013)* was enacted to give legislative force to the TFA, including the transfer of identified land into reserves. A Special Council was enacted under the *TFA Act 2013*, to facilitate implementation of the TFA.

Following the State election in March 2014, the newly elected Tasmanian Government repealed the *TFA Act 2013* and introduced the *Forestry (Rebuilding the Forest Industry) Act 2014 (Forestry Act 2014)*. The legislation reclassified land identified as future reserves to future potential production forest. In addition, the Special Council was replaced by a Ministerial Advisory Council. The new Government focussed on training and development within the forest industry, rather than compensation or programs to support workers leaving the industry.

The audit included an examination of the effects of the legislative changes on the TFIGA projects.

Audit objective

The objective of this audit was to assess the effectiveness of the State's administration of projects listed for implementation by the Tasmanian Government, under the *Tasmanian Forests Intergovernmental Agreement 2011* and *2013*.

Effectiveness was assessed using the criteria outlined in the 'Audit criteria' section below.

¹⁰ Council of Australian Governments, *Tasmanian Forests Intergovernmental Agreement*, Canberra, July 2013, p.13.

Audit scope

The audit examined administration of a selection of TFIGA projects listed for implementation by the Tasmanian Government, in either version of TFIGA (2011 and 2013), each of which involved at least one of the following:

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- Department of Treasury and Finance (Treasury)
- Department of Primary Industries, Parks, Water and Environment (DPIPWE)
- Forestry Tasmania (FT).

Audit criteria

We developed a number of audit criteria, which are contained in the following subsections of the Report:

- Was governance adequately outlined in project guidelines? (Section 2.2)
- Did assessment processes comply with relevant guidelines? (Section 2.3)
- Was performance monitored and reported? (Section 2.4)
- Was funding accounted for? (Section 2.5).

Audit approach

We reviewed project management information recorded for each of the projects listed in Chapter 1. We audited supporting data or documentation as necessary and held discussions with relevant staff.

Timing

Planning for this audit began in November 2015 with fieldwork undertaken until September 2016. The report was finalised in February 2017.

Resources

The audit plan recommended 930 hours and a budget (excluding production costs) of \$147 284. Total hours were 1284 and actual costs, excluding production, were \$190 896, which exceeded our budget.

Why this project was selected

This audit was first included in the *Annual Plan of 2014–15* for two reasons:

- A request was made by the joint parliamentary Public Accounts Committee
- Problems were reported in other jurisdictions¹¹ concerning errors made delivering programs to encourage operators to exit the forestry industry.

¹¹ Australian National Audit Office, *Report No.22 of 2012–13, Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program*, Canberra, 2013.

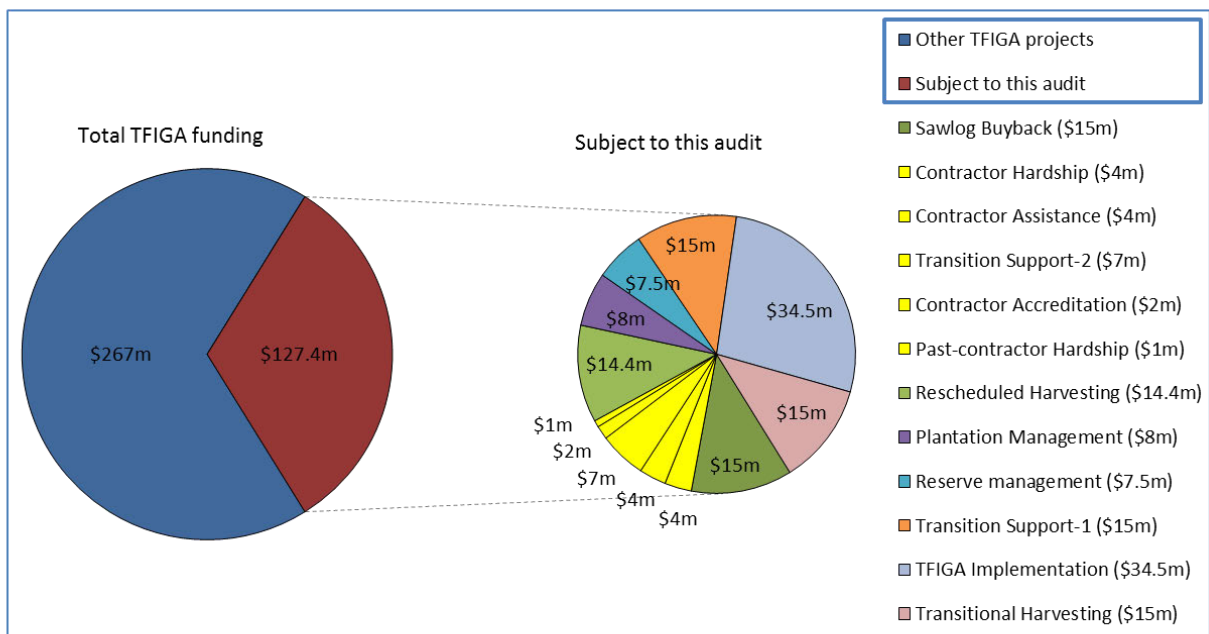
1 Projects selected for this audit

1 Projects selected for this audit

We selected eight of the 21 programs listed in the TFIGAs for the audit on the basis they were funded by the Tasmanian Government or allocated the largest portions of TFIGA funds.

However, one of the programs we selected – \$20m *Support for Affected Workers and Contractors* – was administered as five separate projects. Consequently, we examined 12 projects, which represented \$127.40m of the \$394.40m TFIGA funding. Figure 1 illustrates the portion of TFIGA funding subject to this audit.

Figure 1: Proportion of funding subject to this audit



Source: State Growth and Treasury

Table 1: The 12 projects selected for this audit

Processes that required applications		No applications, just payments	
1.1	Sawlog Contract Buyback Program (Sawlog Buyback) - \$15m	1.7	Contractor Accreditation - \$2m
1.2	Contractor Hardship Program (Contractor Hardship) - \$4m	1.8	Rescheduled Harvesting - \$14.4m
1.3	Native Forest Harvest Contractor Assistance Program (Contractor Assistance) - \$4m	1.9	Plantation Management - \$8m
1.4	Previous Native Forest Contractor Hardship Program (Past-contractor Hardship) - \$1m	1.10	Transitional Harvesting - \$15m
1.5	Transition Support Payments (Transition Support-1) - \$15m	1.11	Implement the 2011 TFIGA (TFIGA Implementation) - \$34.5m
1.6	Transitional Support and Training Program (Transition Support-2) - \$7m	1.12	Reserve Management - \$7.5m

1.1 *Sawlog Buyback (\$15m)*

The Commonwealth committed \$15m to the Sawlog Buyback in the 2011 TFIGA. This was to enable sawmillers holding contracts with FT for the supply of high-quality native forest eucalypt sawlogs to voluntarily surrender all or part of their contracted volume.

The objective of the program was to permanently reduce the total contracted volume from the then annual supply of 163 000m³ to the 137 000m³ minimum supply guarantee set in the TFA.

In September 2012, seven of ten eligible¹² sawmillers submitted applications for reductions, some with alternate proposals. Applications were assessed by a panel with representatives of the (then) Department of Infrastructure, Energy and Resources and the Commonwealth Government.

¹² Sawmillers that held contracts for high quality native forest eucalypt sawlogs (Category 1 and 3) sawlogs with Forestry Tasmania.

Three sawmillers were identified as being suitable for volume reduction at the commencement of negotiations, based on regional targets and minimising cost. However, it emerged that the positions of some of the parties had changed for reasons including the catastrophic bushfires that occurred during the 2012–13 summer.

The panel continued negotiations until suitable solutions were identified and, in August 2013, agreements were reached with four applicants to reduce the volume of wood in the supply agreements at a cost of \$14.25m.

Recipients were not required to exit the native forest industry. One of the sawmillers announced they were ceasing production. Another was burnt out in the 2012–13 fires and did not reopen the mill. One recipient closed a mill in St Helens to consolidate operations in Brighton. The fourth recipient reduced the volume of native forest sawlogs being processed. The program did not require recipients to close their businesses.

1.2 Contractor Hardship (\$4m)

The Contractor Hardship program delivered payments to employers affected by the restructuring of the forest industry. The allocation of up to \$4m was made from a Commonwealth commitment: \$20m *Support for Affected Workers and Contractors*¹³.

Payments totalling \$3.99m were shared amongst 11 recipients, in accordance with hardship cases recommended by the Special Council with reference to Legislative Council proceedings. The program was not open to the public, so the program was not advertised and the guidelines were not publicly available.

¹³ The Commonwealth Government committed \$20m under the 2013 TFIGA to assist employees and harvest or haulage contractors experiencing hardship as a result of the restructuring of the Tasmanian forest industry. The commitment was delivered through five programs, as discussed in the following subsections:

- 1.2 Contractor Hardship (\$4m)
- 1.3 Contractor Assistance (\$4m)
- 1.4 Past-contractor Hardship (\$1m)
- 1.6 Transition Support-2 (\$7m)
- 2.1 Contractor Accreditation (\$2m).

The remaining \$2m was directed to administration and additional programs; e.g. Arbre Training Hub (Appendix A.2.4).

Ministerial approval was provided for:

- no conditions being imposed on the recipients
- industry associations being consulted on the amounts to be paid.

Letters to recipients advised no requirements were attached to the payments and that no further funding 'for hardship' would be available. The terms of payment did not exclude participants seeking funding under other TFIGA programs for other than for hardship.

1.3 Contractor Assistance (\$4m)

The broad aim of the Contractor Assistance program was to ensure sufficient short-term capacity among harvest contractors to meet the legislated minimum annual supply of 137 000m³ high-quality native forest eucalypt sawlogs. Other objectives listed in the guidelines were to:

- improve the short-term financial viability of harvest contracting businesses (via grants to pay down eligible business debts)
- maintain the productive capacity of the native forest harvest contracting sector.

The targets for the Contractor Assistance program were existing contractors¹⁴ undertaking harvest operations on behalf of FT in public native forests. Eligibility depended on applicants holding a contract with FT.

The program was not advertised, beyond a Ministerial announcement to the media. Instead, the department wrote directly to potential applicants. Nineteen applications were received, of which 15 were eligible. Grants were capped at \$350 000. A total of \$3.03m was disbursed by the program.

The allocation of up to \$4m was made from the Commonwealth commitment: \$20m *Support for Affected Workers and Contractors* (see footnote to Section 1.2). Terms allowed remaining funds to be allocated to other programs to support the TFIGA objective, such as the Arbre Training Hub, described in Appendix A.2.4.

¹⁴ Contractor Assistance program was launched in December 2014 and completed in November 2015.

1.4 *Past-contractor Hardship (\$1m)*

The Past-contractor Hardship program was a separate program, launched in December 2015. It was established to assist former native forest contractors and sub-contractors who continued to suffer hardship as a result of the structural change to the native-forest industry.

The allocation of up to \$1m was made from the Commonwealth commitment: \$20m *Support for Affected Workers and Contractors* (see footnote to Section 1.2).

State Growth developed guidelines to deliver the project in accordance with Cabinet decisions. The hardship criterion (financial assistance from Centrelink) was developed by the department and approved by Cabinet. The guidelines offered ex-gratia¹⁵ payments of \$10 000 to eligible applicants.

The department engaged a consultant to assess the applications, who found only five of the 21 applications met all requirements and subsequently received ex-gratia payments of \$10 000 each.

As with all TFIGA programs, Treasury retained any unspent funds in the special deposits and trust account used to manage all the TFIGA money. Unspent funds are discussed in more detail in Section 2.5.3.

1.5 *Transition Support-1 (\$15m)*

The Tasmanian Government recognised that the decision by Gunns to exit native forests was directly linked to the 2011 TFIGA. Consequently, it provided \$15m for transition support payments to Gunns employees and the employees of Gunns contractors who were directly affected.

Consultants identified in the 2011 TFIGA¹⁶ administered and provided the payments, subject to criteria, which included redundancy. Gunns internal systems were used to identify and contact potential applicants.

Payments were structured to achieve equality irrespective of employer. Assessment of the amount that individuals were paid

¹⁵ No conditions were attached to payments, other than meeting the eligibility criteria.

¹⁶ The same consultants were also engaged to administer two other parts of the \$20m *Support for Affected Workers and Contractors* provided in the 2013 TFIGA, namely:

1.6 Transition Support-2 (\$7m)

1.7 Contractor Accreditation (\$2m).

took account of each employee's existing entitlements, investment in skills over time and accrued leave. Redundancy packages, including any amounts paid by the employers, were capped at \$200 000 each.

By October 2012, the consultants had disbursed the full \$15m amongst 389 eligible applicants, which included 340 Gunns employees and 49 employees of Gunns contractors. Another 31 applications were received after the fund closed in April 2012, which were subsequently assessed for a second program (see Section 1.6: Transition Support-2).

1.6 *Transition Support-2 (\$7m)*

The second round of transition support payments was directed to employees or contractors of Gunns who were made redundant as a consequence of Gunns' exit from native forest operations, and had not been assessed for Transition Support-1 (Section 1.5).

This included workers made redundant as a result of the Regional Sawmill Structural Adjustment program or the Sawlog Buyback. Employees retrenched when the Triabunna woodchip mill closed on 1 April 2011 were also eligible.

The allocation of \$7m was made from the Commonwealth commitment: *\$20m Support for Affected Workers and Contractors* (see footnote to Section 1.2).

The payments were administered by the consultants under similar criteria to the original program (Transition Support-1, as discussed in Section 1.5), but capped at \$100 000 per applicant.

The consultants received 54 applications¹⁷. A total of \$651 298 was disbursed to 26 eligible applicants.

Details of the program were defined in a grant deed with the consultants, which restricted the use of the remaining funds to the development of training programs for the forest industry.

1.7 *Contractor Accreditation (\$2m)*

This program was for the development of an industry-based accreditation scheme with an allocation of \$2m from the

¹⁷ Includes applications received after the first round (Transition Support-1) closed, of which only 12 were eligible for payment.

Commonwealth commitment of \$20m *Support for Affected Workers and Contractors* (see footnote to Section 1.2).

Details of the program were defined in a grant deed with the consultants, which listed milestones for four payments of \$500 000. At the time of our audit, State Growth had made three of the four payments and the consultants were hosting a trial version of the scheme called the Forestry Better Business Program on their website. The final milestone required demonstration that the industry-based scheme would be self-funding.

1.8 *Rescheduled Harvesting (\$14.4m)*

Implementation of the TFIGAs required FT to reschedule harvesting and alter its plans to supply wood from areas that became reserved land. The objective of the Rescheduled Harvesting program was to enable harvesting of areas essential to supply the minimum volume of high-quality sawlogs¹⁸.

The State Government committed \$14.40m to Rescheduled Harvesting in the 2013 TFIGA (signed May 2013). A grant deed with FT (signed November 2013) extended the funding to \$4.80m per annum for five years to offset the costs of cable harvesting, road works and residue transport associated with harvesting less accessible areas¹⁹.

Milestones specified in the deed required State Growth acceptance of cable harvesting contracts and wood supply plans. At the time of this audit, FT had satisfied the milestones for the first three years and received \$14.40m from Treasury.

1.9 *Plantation Management (\$2m per annum for four years)*

The November 2013 grant deed cited in Section 1.8 also provided \$8m to improve the management of eucalypt plantations required to produce future high-quality sawlogs.

¹⁸ The legislated minimum volume, as agreed under the *TFA Act 2013* (137 000m³)

¹⁹ The grant deed with FT, signed November 2013 described four programs, namely:

1. Rescheduled Harvesting - \$4.80m per annum for five years (Section 1.8)
2. Plantation Management - \$2m per annum for four years (Section 1.9)
3. Transitional Harvesting - \$6.50m in 2012-13 and \$8.50m in 2013-14 (Section 1.10)
4. FSC for FT - \$1.50m over two years for FT to achieve Forest Stewardship Council certification (not in the scope of this audit, see Appendix to this Report).

Work supported under the funding included assistance with the cost of transporting thinning residues.

Treasury disbursed funding for the Plantation Management program as reimbursements on receipt of invoices, in accordance with approvals from the Minister, the department and the Treasurer.

1.10 Transitional Harvesting (\$6.5m in 2012–13 and \$8.5m in 2013–14)

The November 2013 grant deed cited in Section 1.8 also provided FT with up to \$15m for transitional harvesting. Work covered under this program included road works, forest practice plans related to rescheduling and some short-term funding for the movement of residues from the South to the North of the State.

The State Government committed the \$15m funding to Transitional Harvesting in the 2013 TFIGA²⁰.

1.11 TFIGA Implementation (\$34.5m)

Agreements required to progress the 2011 TFIGA included settlements for wood supply contracts between Gunns and FT.

Negotiations were resolved with a payment of \$23m to Gunns and \$11.50m to FT. These payments were recorded as the Implementation of the 2011 TFIGA program.

The objective of the program was to ensure the retirement of appropriate native forest into conservation. Amounts to be paid were agreed between the then Premier of Tasmania and the Commonwealth.

The basis for the \$23m payment was to remove Gunns' residual rights over native forest contracts. Terms and conditions of the \$23m payment were set out in a grant deed between the Crown in Right of Tasmania (Crown) and Gunns.

The \$11.50m payment to FT was made to settle a dispute with Gunns over outstanding debts. The payment was made in accordance with arrangements set out in grant deeds between FT and Gunns and between the Crown and FT.

²⁰ Clause 13(a)(v) 2013 TFIGA

1.12 Reserve Management (\$7.5m)

The 2011 TFIGA committed \$7m per annum²¹ for five years to support the ongoing management of land being transferred into reserves. However, the National Partnership Agreement associated with the 2011 TFIGA allowed the parties to amend the agreement. The 2011 TFIGA was signed in August 2011 and the National Partnership Agreement one month later, by which time the State and Commonwealth governments had agreed to reallocate the funding provided for reserve management to other aspects of the agreement²². Consequently, the Reserve Management program did not receive the \$7m committed for 2011–12. The Commonwealth did provide the \$7m committed for 2012–13 but it too was reallocated to other TFIGA projects²³. However, Treasury received the CPI (\$217 000) applied to the 2012–13 commitment for the Reserve Management program.

The 2013 TFIGA reiterated the commitment of \$7m per annum²⁴ for reserve management, plus an additional \$2m per annum²⁵ on completion of the transfer of land to reserves. However, the second stage of the land transfer was not completed. In total, Treasury received \$7.53m for reserve management²⁶.

In 2013–14, Treasury reimbursed DPIPWE \$3.6m for costs associated with management of the land, including the transfer of staff and upgrades to equipment such as fire trucks. Treasury reimbursed FT \$275 150 for local government rates raised on the transferred land and costs associated with restoration burning. Treasury paid a total of \$629 650 to FT for two years' restoration burning.

In 2014–15 Treasury transferred \$3m to DPIPWE, via the Consolidated Fund being the rest of the funds received from the Commonwealth for Reserve Management²⁷.

²¹ Consumer Price Index (CPI) adjusted.

²² As agreed with the Commonwealth Government.

²³ \$5.50m for residues transport and \$1.50m to map Tasmanian World Heritage Area.

²⁴ indexed to CPI from 2013–14.

²⁵ *ibid.*

²⁶ \$7 525 000 comprised of \$217 000 (CPI on the June 2012 \$7m that was reallocated) and \$7 308 000 (November 2013 \$7m plus \$308 000 CPI)

²⁷ \$453 difference is due to rounding.

2 Audit findings

2 Audit findings

2.1 Summary

In this Chapter, we considered whether:

- governance was adequately outlined in project guidelines (Section 2.2)
- assessment processes complied with relevant guidelines (Section 2.3)
- performance was monitored and reported (Section 2.4)
- funding was accounted for (Section 2.5).

2.2 Was governance adequately outlined in project guidelines?

Summary results of audit testing of governance processes are provided in Table 2. Findings are further discussed in the sections following the table.

Table 2: Results of audit testing — governance processes

Programs:												
✓ Satisfactory												
✗ Unsatisfactory												
Sub-criteria:	Sawlog buyback	Contractor hardship	Contractor assistance	Past-contractor hardship	Transition support-1	Transition support-2	Contractor accreditation	Rescheduled harvesting	Plantation management	Transitional harvesting	TFIGA implementation	Reserve management
Roles and responsibilities defined?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Objectives and relevant criteria identified?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eligibility criteria defined?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Monitoring and reporting defined?	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

2.2.1 Did guidelines define roles and responsibilities?

We found roles and responsibilities for administering the programs were identified in descriptive documents for each of the programs. The nature of the roles varied according to the programs. Examples included the roles of:

- approval of grants (usually the Minister for Resources)
- negotiating teams
- assessment panels
- reallocation of unspent funding.

We were satisfied that roles and responsibilities had been defined in all cases and that the roles defined were appropriate to the separate programs.

2.2.2 *Were program objectives and aligned criteria specified?*

As outlined in Chapter 1, all programs had clear objectives, which had been specified in program guidelines.

2.2.3 *Did guidelines define eligibility criteria?*

We found all the programs involving applications included precise eligibility requirements. For example:

- Sawlog Buyback:
 - contracts with FT
 - with specified sawlog provisions.
- Transition Support-1:
 - individuals employed by Gunns
 - made redundant on 7 August 2011 or after, as a result of 2011 TFIGA.

For programs involving payments but no applications, eligibility requirements were also specified, such as management plans and performance reports for the Plantation Management program.

2.2.4 *Did guidelines define monitoring and reporting requirements?*

We expected to find a process to monitor and report performance against the objectives, in guidelines or other project management information.

For 11 of the 12 programs we were satisfied that the criterion had been met, as follows:

- [Contractor Hardship, TFIGA Implementation]: the only process required was to make specified payments
- [Contractor Assistance, Past-contractor Hardship, Transition Support-1, Transition Support-2, Contractor Accreditation]: arrangements with external

administrators included monitoring and reporting requirements

- [Rescheduled Harvesting, Plantation Management, Transitional Harvesting, Reserve Management]: program guidelines clearly specified reporting requirements.

However, we were not fully satisfied that monitoring and reporting requirements had been defined for the Sawlog Buyback.

The objective of the Sawlog Buyback was to reduce the volume of high-quality sawlogs available from public native forests. The department developed the program through an iterative series of negotiations with applicants and FT, until the targeted reduction had been achieved.

We accept that the Minister was kept aware of progress by way of updates on proposals that could potentially meet the objective. However, we found no defined monitoring process in program guidelines.

We note that recommendations arising from the Commonwealth Senate Committee Inquiry into two reports on Tasmanian forestry programs by the Australian National Audit Office (ANAO)²⁸ included that guidelines should be developed to assess achievement of objectives²⁹.

We consider program control for the Sawlog Buyback could have been strengthened by the development of project management documentation that defined a process to monitor and report progress toward achievement of the objectives.

²⁸ Australian National Audit Office (ANAO), *Report No. 26 of 2007-08, Tasmanian Forest Industry Development and Assistance Programs*, Canberra, 2008 and *Report No.22 of 2012-13, Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program*, Canberra, 2013.

²⁹ Senate Standing Committee on Rural and Regional Affairs and Transport, *Auditor-General's reports on Tasmanian Forestry Grants Programs*, Canberra, June 2013, Recommendation 2 (Section 3.48).

Section 2.2 conclusion

Governance processes were adequately outlined in project guidelines, other than the Sawlog Buyback, for which monitoring and reporting requirements were not defined.

Recommendation 1

We recommend that the guidelines developed to manage grant programs define a process to monitor and report progress toward achievement of the objectives.

2.3 Did assessment processes comply with relevant guidelines?

Summary results of audit testing of assessment processes are provided in Table 3. Findings are further discussed in the subsections following Table 3.

Table 3: Results of audit testing — assessment processes

Programs:												
P Partial												
✓ Satisfactory												
✗ Unsatisfactory												
Sub-criteria:	Sawlog buyback	Contractor hardship	Contractor assistance	Past-contractor hardship	Transition support-1	Transition support-2	Contractor accreditation	Rescheduled harvesting	Plantation management	Transitional harvesting	TFIGA implementation	Reserve management
Project management compliant with TI 709?	P	P	P	P	P	P	P	P	P	P	P	P
Adequate opportunity to apply?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Applications assessed according to criteria?	✓	✓	P	✓	P	P	✓	✓	✓	✓	✓	✓

2.3.1 Did project management comply with TI 709?

The standards outlined in Treasurer’s Instruction 709, *Grant Management Framework* (TI 709) were developed to assist government grant recipients ensure sufficient information is recorded to support business cases, ongoing applications and reports on the outcomes achieved with funds provided by the government.

We examined the level of project management documentation developed for each of the programs selected for audit.

We tested the processes used to manage the grants against TI 709. We were satisfied with the results of our testing for ten of the 13 tests we applied. We identified shortfalls in the project management documentation relating to three aspects of TI 709:

1 TI 709 (5) appropriate risk management plans to be developed before program commencement

The nature of the TFIGA programs was unusual for State Growth, with the funding announced and the department directed to deliver the required outcomes. As a consequence, the department had not developed business cases and project management documents such as risk management plans before some of the initial programs commenced (e.g. Sawlog Buyback).

We observed that controls and risk mitigations were considered in the development of the programs and risks were identified in advice to the Minister. Examples of risk measures included capping payments, using strict eligibility criteria and grant deeds prepared by the Crown Solicitor.

Notwithstanding the examples of risks identified and managed, we consider development of formal risk plans add rigour and create greater assurance than ad hoc approaches. We concluded that TI 709 (5) had not been fully satisfied for all of the TFIGA programs.

2 TI 709 (12) details, including intended outcomes, of each grant to be provided in the agency's annual report

We found the information provided in annual reports from State Growth lacked detail, including intended outcomes of the grants. We concluded that the requirement of TI 709 (12) had not been met.

3 TI 709 (13) each grant to be reviewed at least annually and findings reported in the agency's annual report

We found annual reports from State Growth lacked information from reviews of the TFIGA grant programs. We were not satisfied that the department had complied with TI 709 (13).

2.3.2 Were potential applicants given adequate opportunity to apply?

We were satisfied that all programs met this criterion through at least one of:

- [Transition Support-1]: Ministerial media announcements

- [Sawlog Buyback, Past-contractor Hardship, Transition Support-2]: public notices
- [Contractor Hardship, Contractor Assistance]: potential applicants identified through relevant contracts with FT or Gunns
- [Contractor Hardship]: assessment groups included representatives of applicant categories such as industry groups, contractor associations and unions
- [Contractor Accreditation]: contact with industry representatives
- [Rescheduled Harvesting, Plantation Management, Transitional Harvesting, Reserve Management]: direct negotiations with Gunns, FT, other state entities.

2.3.3 *Were applications assessed according to eligibility criteria?*

We tested whether applications were assessed according to eligibility as defined in program guidelines. The following programs did not involve individual assessment of applications against criteria. We were satisfied that criteria were met for each group below:

- [Sawlog Buyback]: approval was based on the acceptance of offers by the Minister for Resources, following negotiation processes, rather than an eligibility process
- [Contractor Hardship, TFIGA Implementation, Reserve Management, Contractor Accreditation]: Treasury and State Growth disbursed funds as directed by the Minister for Resources and/or the Treasurer.
- [Rescheduled Harvesting, Plantation Management, Transitional Harvesting]: the only eligibility requirement was completing process milestones such as development of plans.

Individual assessment of applicants' claims was required for the Contractor Assistance, Past-contractor Hardship, Transition Support-1 and Transition Support-2 programs.

We found that in most cases, documentation for individual applications provided evidence that individual criteria had been met (i.e. 'ticks' and 'crosses'). However, for many applications no conclusion or rationale was recorded to state whether or why the application had or had not been accepted. For example, conclusions were not documented in some of the assessment records for four of the programs, namely:

- 12 of 17 applications tested for Contractor Assistance
- ten of 21 applications tested for Past-contractor Hardship
- all 13 applications tested for Transition Support-1
- two of 11 applications tested for Transition Support-2.

In most cases, the conclusion would be as simple as a statement that ‘all criteria were met – application approved’. Consequently, it was not immediately evident whether the applications we tested had been accepted or not, although further review disclosed no errors.

We note that the ANAO recommended that assessment of applications and decisions be recorded³⁰.

2.3.4 Were applicants notified of decisions in a timely manner?

We tested whether applicants were notified of decisions in a timely manner. We found all of the timeframes provided in relevant guidelines or grant deeds were achieved.

Section 2.3 conclusion

Assessment processes complied with relevant guidelines, except for:

- some TI 709 requirements for project management documentation, including risk management plans
- shortfalls documenting conclusions for four programs.

Recommendation 2

We recommend that regardless of how grant programs are initiated, the requirements of TI 709 be followed.

Recommendation 3

We recommend that all grant payments should explicitly include a documented assessment of applications and decisions.

2.4 Was performance monitored and reported?

Summary results of our testing of monitoring and reporting processes are provided in Table 4. Findings are further discussed in the sections following the table.

³⁰Australian National Audit Office, op.cit., No. 22 of 2012-13, Recommendation 1.

Table 4: Results of testing – monitoring and reporting processes

Programs:												
✓ Satisfactory												
✗ Unsatisfactory												
Sub-criteria:	Sawlog buyback	Contractor hardship	Contractor assistance	Past-contractor hardship	Transition support-1	Transition support-2	Contractor accreditation	Rescheduled harvesting	Plantation management	Transitional harvesting	TFIGA implementation	Reserve management
Monitoring and reporting of progress?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Monitoring of compliance with agreements?	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓

2.4.1 Was progress monitored and reported?

We found for all programs that there was regular communication between project managers, heads of agency and relevant Ministers, including:

- progress reports to the Secretary of State Growth³¹ and the Treasurer
- reports to Ministers in issues briefs and ministerial minutes
- involvement of Ministers in approving key stages of projects
- discussion of risks in correspondence with Ministers.

2.4.2 Was there adequate monitoring of compliance with agreements?

We tested the effectiveness of processes to ensure compliance with the objectives for each program selected for the audit. Results were as follows:

- [Sawlog Buyback, TFIGA Implementation]: terms of the grant deeds achieved compliance with project objectives.
- [Contractor Assistance]: grant deeds required recipients to verify payment of the eligible business debts.

³¹ Formerly DIER

However, only five of the 15 recipients had verified their compliance within the required time (30 days to pay debts and another 14 days to verify they had done so). By the time we finished the audit only one recipient had not complied. Nonetheless, we concluded there had been insufficient monitoring of compliance.

- [Contractor Hardship, Past-contractor Hardship, Transition Support-1, Transition Support-2]: no post-payment requirements.
- [Contractor Accreditation, Rescheduled Harvesting, Plantation Management, Transitional Harvesting]: reports required for milestones demonstrated compliance with project objectives.
- [Reserve Management]: Treasury delivered the funding as reimbursement of actual costs. Accordingly, review of invoices ensured compliance with program objectives.

In summary, we found there had been adequate monitoring of compliance with program objectives, except for the Contractor Assistance program.

Section 2.4 conclusion

Performance, including both progress and compliance with objectives, was monitored and reported. The only exception was that State Growth had not ensured that all recipients of the Contractor Assistance program had confirmed the relevant business debts had been paid within the specified time.

Recommendation 4

We recommend that processes to monitor compliance with program objectives, commensurate with program risks, should be defined in project management documentation for all grant programs.

2.5 *Was funding accounted for?*

Summary results of audit testing of accountability processes are provided in Table 5. Findings are further discussed in the subsections following the table.

Table 5: Results of audit testing – accountability processes

Programs: ✓ Satisfactory NA Not Applicable Sub-criteria:	Sawlog buyback	Contractor hardship	Contractor assistance	Past-contractor hardship	Transition support-1	Transition support-2	Contractor accreditation	Rescheduled harvesting	Plantation management	Transitional harvesting	TFIGA implementation	Reserve management
Legally enforceable agreements?	✓	NA	✓	NA	✓	✓	✓	✓	✓	✓	✓	NA
Eligibility verified before payment?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Were funds accounted for?	✓											
Rationale for any changes to programs documented?	NA											✓

2.5.1 *Were grants recorded in legally enforceable agreements?*

We tested whether the grants for the 12 programs selected for the audit had been recorded in legally enforceable agreements. We found settlement or grant deeds drawn up by the Crown Solicitor for nine of the 12 programs. The remaining programs were:

- [Contractor Hardship]: ex-gratia payments made on receipt of a tax invoice
- [Past-contractor Hardship]: ex-gratia payments were made without conditions
- [Reserve Management]: reimbursement on receipt of invoices from government agencies.

We were satisfied that, where appropriate, grants had been recorded in legally enforceable agreements.

2.5.2 *Did the project manager verify eligibility before making payments?*

We looked for evidence that the project manager (State Growth) had monitored progress against milestones, verified evidence and checked accuracy before making payments.

We tested and were satisfied that for the six programs that did not involve applications, the project manager had monitored progress against milestones, verified evidence and checked accuracy before making payments.

We also examined the processes used to monitor progress and verify evidence provided for the assessment of applications received for the other six programs, namely:

- [Sawlog Buyback]: the department was fully involved in negotiations throughout the process
- [Contractor Hardship]: payments were at Ministerial direction based on recommendations of the Special Council
- [Contractor Assistance]: the department developed and used an assessment checklist to confirm eligibility
- [Past-contractor Hardship]: the department engaged a consultant to assess the applications, who found only five of the 21 applications met all the requirements and gave reasons for those rejected. We considered that the information provided by the consultant was sufficient to enable State Growth to be confident that eligibility requirements had been met
- [Transition Support-1, Transition Support-2]: the consultants used payroll records or eligibility checklists, then reported summary information to the department. We were satisfied with the department relying on summary information because it had established that the consultants' assessment processes were reliable.

We were satisfied in all cases that the project manager had verified eligibility prior to making payments.

2.5.3 Were TFIGA funds accounted for?

We noted that \$3.74m of the \$20m from the Commonwealth to Support Affected Workers and Contractors (see footnote to Section 1.2) had not been spent at 30 June 2016. That amount included:

- \$1.83m which was not allocated to programs or administration costs
- \$5000 of the \$4m allocated to Contractor Hardship
- \$0.97m of the \$4m allocated to Contractor Assistance
- \$0.94m of the \$1m allocated to Past-contractor Hardship.

Of the unspent funds, \$150 000 had been allocated to a forest worker training program (Arbre Training Hub described in Appendix A.2.4).

Treasury tracked actual payments against each of the TFIGA programs. At 30 November 2016, unspent funding totalled \$8.87m and commitments totalled \$5.78m, leaving a balance of \$3.09m, which Treasury continued to manage in the special deposits and trust account for the TFIGA projects. State Growth provided information on commitments for the TFIGA projects.

The National Partnership Agreement on the 2013 TFIGA stated Tasmania would not be required to refund any residual monies. Following the termination of the TFIGAs, the Commonwealth also agreed to the Tasmanian Government using the funds for:

- strategic investments that were consistent with sustainable management of forests
- growth plans to address supply and demand for forest products
- activities related to better use of residues
- other joint-government agreed activities related to independent review of the Tasmanian Regional Forest Agreement.

Treasury described the unspent funds in the Budget³² as an administered expense as part of Finance-General. Further use of the unspent funds will be agreed by the Minister for Resources and/or the Treasurer.

We were satisfied that the TFIGA funds were accounted for.

2.5.4 *Was a rationale for any changes to programs documented?*

Each of the TFIGAs included clauses that allowed the governments to agree to amend allocation of the funds³³.

In 2011 TFIGA, the Commonwealth committed \$7m to support management of the additional reserves, with further support of \$7m per annum for five years³⁴. However, by the time the National Partnership Agreement on the 2011 TFIGA was

³² Parliament of Tasmania 2016, *Budget Paper No 2, Government Services*, Volume 1, p.50

³³ Clause 28, 2011 TFIGA, signed 7 August 2011.

³⁴ Clause 35, 2011 TFIGA.

signed³⁵ the governments had reallocated the funding to higher priority aspects of the forest agreements, leaving nothing for support of reserve management.

In the 2013 TFIGA, the Commonwealth promised \$25m as \$7m per annum plus an additional \$2m per annum when the second tranche of land identified in *TFA Act 2013* had been legally reserved. However, again most of the funds were reallocated to other programs, with only \$7.53m allocated to reserve management.

Treasury provided records of the reallocations and records of how the funds were spent. We concluded that reallocations had been documented.

Section 2.5 conclusion

Funding had been accounted for. Evidence was verified before making payments, which were made on the basis of legally enforceable agreements. Changes to programs were documented.

2.6 Conclusion

Overall, we were satisfied with the effectiveness of the State's administration of the TFIGA programs. We found no errors in the disbursement of the grants.

We recommend additional project management documentation be prepared to plan, assess, review and record details for all grant programs.

Nevertheless, we were satisfied that the funding had been accounted for and any changes to the programs had been documented

³⁵ September 2011.

Appendix: Other relevant projects

Appendix: Other relevant projects

Various Tasmanian and Commonwealth governments have provided funding packages to assist the Tasmanian native forest industry. The following programs were not included in the scope of this audit but are relevant to the context of the audit.

A.1 *Projects originating prior to TFIGA and not included in this audit*

A.1.1 *Tasmanian Community Forest Agreement*

The 2005 agreement provided more than \$250m over three years to assist the industry and preserve old-growth forests. Specific grants under the agreement included:

- \$42m to upgrade hardwood industry
- \$4m for new technologies and uses for smaller plantation logs and residues
- \$10m to retool mills for softwoods.

The agreement was subsequently the subject³⁶ of one of two ANAO reports on Tasmanian forestry programs referred to a Commonwealth Senate Committee Inquiry. Recommendations arising from the Senate report³⁷ included:

- that guidelines be developed to assess achievement of objectives
- that guidelines require development of a compliance and risk management plan.

A.1.2 *Tasmanian Forest Contractors Exit Assistance Program*

In 2010, the Commonwealth provided and administered \$17m to assist harvest and or haulage contracting businesses who agreed to exit the industry. The purpose of the program was to reduce the number of businesses operating in the sector. Grants to the 29 eligible applicants were capped at \$750 000. Recipients were required to pledge not to run a Tasmanian native forest harvest or haulage business for five years.

³⁶ Australian National Audit Office, op.cit., No. 26 of 2007-08.

³⁷ Senate Standing Committee on Rural and Regional Affairs and Transport, op.cit.

A.1.3 Tasmanian Forest Contractors Financial Support Program

This 2010 Commonwealth-funded, Tasmanian-administered program was provided to support contractors continuing in the industry. \$5.37m was distributed among 53 contracting businesses. The purpose was to provide financial assistance to support harvest and haulage contractors to move some operations from the native forest sector into the broader contracting industry.

Unfortunately, benefits of the program were overridden by a further decline in the industry, including the closure of Gunns' Triabunna woodchip mill in April 2011.

A.2 TFIGA programs not included in this audit

A.2.1 Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (IGACEP)

The 2011 TFIGA acknowledged that the industry had continued to decline and that changes in markets, community values and the decision of Gunns to exit the Tasmanian native forest industry had affected the viability of harvest, haulage and silvicultural businesses. As part of the 2011 TFIGA, the Commonwealth provided and administered funding of \$45m for voluntary exit grants. The IGACEP objective was to restructure the industry to a smaller operating environment by offering eligible contractors grants to voluntarily exit the industry.

The \$45m was disbursed amongst 61 eligible applicants in the 2011-12 financial year. IGACEP was separate to the Tasmanian Forest Contractors Exit Assistance program (Appendix A.1.2), which had provided \$17m for the same purpose in the 2010-11 financial year.

IGACEP was the subject of one³⁸ of two ANAO reports referred to the Commonwealth Senate Committee Inquiry, discussed in Appendix A.1.1.

A.2.2 Regional Sawmillers Structural Adjustment Grants

As part of the 2013 TFIGA, Commonwealth-funded, State-administered grants totalling \$10m were provided to assist

³⁸ ANAO Report No.22 of 2012-13, *Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program*.

regional sawmillers who had not been eligible for the Sawlog Buyback (Section 1.1). An additional \$1.70m was subsequently provided by the State Government.

The grants were directed to regional sawmillers who relied on sawlogs from public native forests and who either wanted to exit the industry or transition to more sustainable businesses by securing long-term contracts for public native sawlogs.

To accept the exit grants, businesses agreed not to process native forest sawlogs for at least five years. The exit grants included assistance to pay statutory severance payments to the sawmillers' employees.

Alternatively, regional sawmillers could apply for a business transition grant to assist with the cost of purchasing long-term sawlog supply volumes from other sawmillers. The purpose of the business transition grants was to enhance resource security and the sustainability of remaining regional sawmilling businesses.

This program was one of only two TFIGA programs that required recipients to exit the native forest industry. Following the March 2014 State election, the newly elected State Government amended the program to provide options for recipients to retain parts of the exit grants, but continue to process limited volumes of native forest sawlogs. The purpose of the amendments was to maintain capability in the forest industry.

A.2.3 Forest Stewardship Council certification

The 2013 TFIGA included a State government commitment to fund the following programs, which are in the scope of this audit and have been discussed in Chapters one and two of this report:

- Rescheduled Harvesting (Section 1.8)
- Plantation Management (Section 1.9)
- Transitional Harvesting (Section 1.10).

Funding for the three programs was provided under a grant deed with FT for \$42m which included \$1.50m over two years for FT to achieve Forest Stewardship Council (FSC) certification. The FSC for FT funding was not included in the scope of this audit.

The grant deed signed on 17 November 2013 listed milestones for the FSC certification funding, including an independent audit of forest management.

FT completed all of the milestones for the \$1.50m funding by December 2014. The report of the forest management audit listed improvements required before FT can achieve FSC certification, including:

- reduction in old-growth logging
- improvements to threatened species management
- implementation of measures to enhance high-conservation values.

A.2.4 Provision of Skill Development Services – the Arbre Forest Industry Career and Training Hub (Arbre Training Hub)

The Launceston-based Arbre Training Hub is a not for profit organisation built by forest industry leaders in Tasmania to promote the industry and related jobs. Ministers approved an allocation of up to \$150 000 from the Commonwealth commitment: \$20m *Support for Affected Workers and Contractors* (see footnote to Section 1.2). The funds were provided on a 'dollar for dollar' basis, for work associated with the development of the Arbre Training Hub.

The purpose of the Arbre Training Hub is to facilitate forest industry training and career development with a focus on harvesting, transport and silviculture. The Arbre Training Hub will provide training facilities, career information and a conduit to employers in the forest industry.

Independent auditor's conclusion

Independent auditor's conclusion

This independent conclusion is addressed to the President of the Legislative Council and to the Speaker of the House of Assembly. It relates to my performance audit of the State's administration of projects listed for implementation by the Tasmanian Government, under the *Tasmanian Forests Intergovernmental Agreement 2011 and 2013* (TFIGA).

Audit objective

The objective of the audit was to form an opinion on the effectiveness of the State's administration of the TFIGA projects listed for implementation by the Tasmanian Government.

Audit scope

The audit covered the administration of selected TFIGA projects, implemented by the Tasmanian Government.

Management responsibility

Secretaries of Department of State Growth and Department of Treasury and Finance were responsible for the State's administration of TFIGA projects listed for implementation by the Tasmanian Government.

Auditor-General's responsibility

In the context of this performance audit, my responsibility was to express a conclusion on the effectiveness of the State's administration of the TFIGA projects.

I conducted my audit in accordance with Australian Auditing Standard ASAE 3500 *Performance Engagements*, which required me to comply with relevant ethical requirements relating to audit engagements. I planned and performed the audit to obtain reasonable assurance that the Department of State Growth and Department of Treasury and Finance had administered the TFIGA projects effectively.

My work involved obtaining evidence that:

- governance processes were outlined in publicly available, clear and comprehensive project guidelines (or similar documentation)
- assessment processes complied with relevant guidelines and legislative requirements
- performance was monitored and reported
- funding has been spent on each project's intended purpose and funding has been accounted for.

Auditor-General's conclusion

Based on the audit objective and scope, and for reasons outlined in this Report, it is my conclusion that:

- Governance processes were adequately outlined in guidelines developed for the TFIGA projects, other than monitoring and reporting requirements not having been defined for the Sawlog Buyback.
- Assessment processes complied with relevant guidelines, except for some TI 709 requirements for project management documentation and shortfalls documenting conclusions for four programs.
- Performance was monitored and reported. The only exception was that State Growth had not ensured all recipients of the Contractor Assistance program had confirmed the relevant business debts had been paid within the specified time period.
- Funding had been accounted for and evidence verified before making payments using legally enforceable agreements. Changes to programs were documented.

Overall, I was satisfied with the effectiveness of the State's administration of the TFIGA programs. I found no errors in the disbursement of the grants.

I have recommended additional project management documentation be prepared to plan, assess, review and record details for all grant programs.

Nevertheless, I was satisfied that the funding had been accounted for and that any changes to the programs had been documented.

Rod Whitehead
Auditor-General
14 March 2017

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Recent reports

Recent reports

Tabled	No.	Title
October	No. 4 of 2015-16	Follow up of four reports published since June 2011
November	No. 5 of 2015-16	Financial Statements of State entities, Volume 2 — Government Businesses 2014-15
November	No. 6 of 2015-16	Financial Statements of State entities, Volume 3 — Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15
December	No. 7 of 2015-16	Financial Statements of State entities, Volume 1 — Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefits Fund 2014-15
February	No. 8 of 2015-16	Provision of social housing
February	No. 9 of 2015-16	Funding of Common Ground Tasmania
May	No. 10 of 2015-16	Financial Statements of State entities, Volume 4 — State entities 30 June and 31 December 2015 findings relating to 2014-15 audits and other matters
June	No. 11 of 2015-16	Compliance with legislation
September	No. 1 of 2016-17	Ambulance services
October	No. 2 of 2016-17	Workforce Planning
October	No. 3 of 2016-17	Annual Report
November	No. 4 of 2016-17	Event funding
November	No. 5 of 2016-17	Park management
November	No. 6 of 2016-17	Volume 1 – Analysis of the Treasurer's Annual Financial Report 2015-16
November	No. 7 of 2016-17	Volume 2 – Auditor-General's Report on the Financial Statements of State entities - Government Business 2015-16
November	No. 8 of 2016-17	Volume 3 – Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16.

Current projects

Current projects

The table below contains details of performance and compliance audits that the Auditor-General is conducting and relates them to the *Annual Plan of Work 2016–17* that is available on our website.

Title	Audit objective is to...	<i>Annual Plan of Work</i> reference
Follow up audit	... measure the extent to which audit clients implemented recommendations contained in four reports of the Auditor-General tabled between September 2011 and June 2014.	Page 17 Topic No. 5
Tasmanian prisons	... form an opinion on the effectiveness and efficiency of the Tasmania Prison Service's financial management of its custodial facilities.	Page 17 Topic No. 1
Gambling revenue and harm minimisation	... express an opinion on: <ul style="list-style-type: none"> • managing the collection of gambling revenue • the effective management of the CSL • the effectiveness and enforcement of regulatory harm minimisation measures. 	Page 18 Topic No. 3
TasWater, the benefits of formation	... assess the extent to which the benefits, as envisaged by the government in the 2008 and 2013 water and sewerage reforms, have been achieved.	Page 18 Topic No. 4

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

‘An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.’

Under the provisions of section 18, the Auditor-General:

‘(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).’

Under the provisions of section 19, the Auditor-General:

‘(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.’

Standards Applied

Section 31 specifies that:

‘The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.’

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



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