



Tasmanian
Audit Office

**Report of the Auditor-General
No. 9 of 2020-21**

COVID-19 Support Measures –
Small Business Hardship Grant Program

9 February 2021

The Role of the Auditor-General

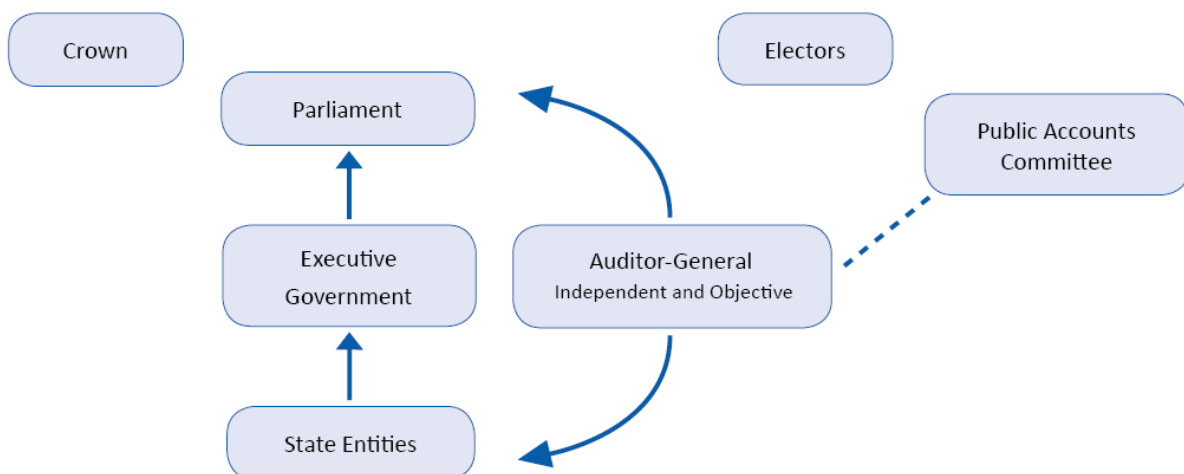
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**2021
PARLIAMENT OF TASMANIA**

**COVID-19 Support Measures –
Small Business Hardship Grant Program**

9 February 2021

Presented to both Houses of Parliament pursuant to
Section 30(1) of the *Audit Act 2008*

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9 February 2021

President, Legislative Council
Speaker, House of Assembly
Parliament House
HOBART TAS 7000

Dear President, Madam Speaker

**Report of the Auditor-General No. 9 of 2020-21: COVID-19 Support
Measures – Small Business Hardship Grant Program**

This report relates to my audit of selected COVID-19 stimulus measures and targeted support payments and expenditures. It reports on the effectiveness of the Department of State Growth's administration of the Small Business Hardship Grant Program.

This report has been prepared consequent to examinations and investigations conducted under section 23 of the *Audit Act 2008*. The objective of the audit was to express a reasonable assurance opinion on the Department of State Growth's implementation and management of the Small Business Hardship Grant Program.

Yours sincerely



Rod Whitehead
Auditor-General

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Foreword

It would be difficult to look back at 2020 without framing it in terms of the impact of COVID-19 on our lives. Tasmania, like every jurisdiction in the world, has had to grapple with how to position its health, education, social and economic responses. Those responses have needed to be rapid.

It was essential that when stimulus funding was provided for distribution by the Tasmanian Government that effective controls were in place to manage risks and ensure funding was provided to those that needed it. There is a greater risk of fraud, error and inequity when the development of systems and allocation criteria is implemented quickly. It is therefore important that care is taken to put the necessary controls in place and manage risks appropriately, and dare I say, more so in the circumstance we find ourselves in.

This is the second report in a series covering the audit or review of selected COVID-19 stimulus measures and targeted financial support payments and expenditures. Future reports will cover payroll tax waivers administered by the Department of Treasury and Finance and the Community Support Fund administered by the Department of Communities Tasmania.

My hope from the audits and reviews of selected COVID-19 stimulus measures is twofold. Firstly to bring some assurance to the Parliament and, more broadly, the community that effective controls were put in place and risks effectively managed to ensure the objectives of the funding have been met in supporting businesses and the community during these challenging times. Secondly, to provide some pragmatic recommendations to help improve the rapid implementation of stimulus funding programs should we ever have to face a similar challenge in the future.



Rod Whitehead
Auditor-General

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Independent assurance report

This independent assurance report is addressed to the President of the Legislative Council and the Speaker of the House of Assembly. It relates to my performance audit (audit) of the Small Business Hardship Grant Program (the Program) that was administered by the Department of State Growth (State Growth).

Audit objective

The objective of the review was to form a reasonable assurance conclusion on the effectiveness of State Growth's implementation and management of the Program.

Audit scope

The audit examined:

- the design of the Program
- the process for assessing applications against the assessment criteria and awarding of funding
- reviews requested by unsuccessful applicants who believed their application had been unfairly assessed
- communication with applicants.

The audit did not examine controls around payments to successful applicants.

Audit approach

The audit was conducted in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements* issued by the Auditing and Assurance Standards Board, to express a reasonable assurance conclusion.

The audit evaluated the following criteria:

1. Did the design of the Program mitigate risk and promote equity?
2. Were applications assessed in a timely and consistent manner?
3. Was the review process consistent, independent and transparent?

Audit observations and findings were based on information and evidence obtained through:

- discussions with State Growth's Executive and employees involved in implementing the Program
- examination of relevant documentation relating to the design of the Program, assessment of applications, funding decisions and communication with applicants.

Responsibilities of management

Responsibility for administering the Program rests with the Secretary of State Growth. This includes the execution of the Program to meet the Government's objectives and any variations to funding agreements within Government set monetary limits.

Responsibility of the Auditor-General

In the context of this audit, my responsibility was to express a reasonable assurance conclusion on the effectiveness of State Growth's administration of the Program as evaluated against the criteria.

Independence and quality control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and applied Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance audit.

Conclusion

It is my conclusion the implementation and management of the Small Business Hardship Grant Program as measured against the audit criteria was, in all material respects, performed effectively.



Rod Whitehead
Auditor-General

9 February 2021

Executive summary

Summary of findings

In recognition of the impact COVID-19 and the associated trading restrictions were placing on Tasmanian small businesses, on 8 April 2020 the Government announced the introduction of the Small Business Hardship Grants Program. The Program was allocated initial funding of \$20 million to provide one-off grants of \$15,000 to those businesses that had been impacted highly by the COVID 19 restrictions and experiencing significant hardship.

Applications for the grants were to be assessed individually on a case-by-case basis by State Growth, with payments to be made to approved applicants as quickly as possible. To be eligible for the grant, businesses had to demonstrate severe hardship or had temporarily ceased operations. They also had to show they were able to operate in the current environment and provide necessary products and services to the community, or were in strong positions to continue to support local jobs and economic growth into the recovery phase.

Our audit assessed whether the design of the Program mitigated risk and promoted equity and whether applications were assessed in a timely, consistent and transparent manner.

Our overall view is, within the context of a Program that needed to be developed and implemented quickly, the application process was appropriately designed with risks generally identified and managed, applications were broadly assessed consistently and payments made to small businesses were for the most part equitable and timely. The effective administration of the Program achieved the objective of getting hardship grants to small businesses quickly as part of the Governments emergency response to the pandemic.

There were a number of areas where improvements could have been made to the design of the Program criteria and to reduce the risk for human error in processing applications through better functionality of the system. The absence of this functionality only impacted on a relatively small number of applications.

Analysis of both successful and declined applications showed no bias in terms of geographical location of the businesses within Tasmania. Similarly there was no evidence that any industry types of businesses were more favoured than others. Our analysis did highlight that sole traders were more disadvantaged in the pool of applications that received the \$15,000 grant. This was intentional and understandable as the grants were directed towards business that employed staff, as this was deemed to have a greater economic benefit, including supporting the employment of more Tasmanians.

One group of businesses that were disadvantaged were those from the dental industry. They were incorrectly excluded from receiving grant payments as it was thought dentists would be eligible for grant payments under the Primary Health Care program, which was not the case. A number of businesses of this type did receive grants or were declined for other reasons, indicating an inconsistent approach to the criteria used and assessment of applications for this industry type.

The nature of the Program, which required the need for prompt distribution of grant funds to small businesses, meant it could not be a truly competitive program¹. The competitive aspect of the Program was met through the daily assessment of applications, with successful applications approved and all lower ranked applications or those not meeting the criteria held as pending.

On 30 April 2020 the Government announced additional funding of \$10 million for State Growth to support businesses. Of this funding of \$6.6 million was allocated to the Program. As a result of this extra funding those applications initially assessed as unsuccessful and further new applications were assessed, with the majority of approved applications receiving smaller grants of \$4,000. The decision to reduce the amount of the grant was to spread the reduced second round funding to a greater number of small businesses.

A web-based grants management system was used to administer the Program and process applications. While this system enabled applicants to complete their applications online and upload supporting documentation quickly, system functionality was not fully deployed when designing the Program and therefore not used when processing applications.

This reduced functionality meant there was more reliance on human input when applicants applied for grants using the web-based system and in the processing of applications by assessors. This in turn increased the risk of human error. Assessors did not complete all mandatory fields but the web-based system allowed these applications to proceed through the process. While most applications without this information were appropriately assessed and moderated, a small number were paid grants where these businesses were either not eligible or were more favourably treated than comparable applications.

Assessors were required to complete a field within the web-based system declaring whether or not they had a conflict of interest with the business they were assessing. In some instances, where a conflict of interest was acknowledged, it was not clear if this application was reallocated to another assessor. There were also a small number of instances where the conflict of interest field was left blank. These applications were allowed to proceed, and therefore presented a risk to ensuring a completely fair and transparent process.

Assessment errors were generally mitigated through a daily moderation process where the accuracy and consistency of decisions made by assessors was checked. The moderation process was risk based, due to the volume of applications, and focused more on declined applications rather than those which were successful. This approach also increased the risk of grants being paid to ineligible applicants.

Better deployment of functionality available within the system would have helped eradicate these risks and the reliance on reducing human error through a moderation process. Deploying better system functionality is particularly important when implementing a fast process with high volume.

¹ A competitive grants process has a defined closing date with all applications received by this date competitively assessed and ranked, with payments made on this basis.

Applicants received written communication informing them of their grant application outcome. However, details explaining why an application was declined were not outlined beyond being ineligible or unsuccessful. Declined applicants could phone Business Tasmania within State Growth to request more information, but more clear and transparent detail in written communication would have aided in reducing the need for reviews or follow-ups. Declined applicants were not informed of their outcomes until after the Program had closed and the allocation of grants completed. This impacted on the timeliness of communication to these applicants.

While the criteria remained the same throughout the Program, guidelines on how assessors applied the criteria to applications changed to better support businesses most in need. However, this was not communicated to applicants which may have helped inform them on whether they were likely to receive a grant through the Program.

We thank State Growth staff for their help and assistance with this audit.

Recommendations

We have made four recommendations to assist the administration of future grant programs.

We recommend State Growth:

1. Deploy improved web-based system functionality to increase automation, reduce the risk of human error and decrease the burden of moderation.
2. Introduce more detailed and timely communication to applicants who were unsuccessful, ineligible or whose applications were being reassessed.
3. Publicise changes to assessment guidelines to better inform applicants.
4. Check eligibility criteria during the design phase and clearly communicate changes to, or clarification of, eligibility criteria to ensure all grant applications are fairly and consistently assessed.

Submissions and comments received

In accordance with section 30(2) of the *Audit Act 2008* (Audit Act) a summary of observations was provided to State Growth, the Minister for Small Business, Hospitality and Events (Minister) and the Treasurer, with a request for submissions or comments.

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 response. However, views expressed in the submissions were considered in reaching our conclusions.

Section 30(3) of the Audit 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.

Premier and Treasurer

The Small Business Hardship Grant Program provided critical support to those businesses that had been impacted by the COVID-19 restrictions and were experiencing significant financial hardship.

I welcome the Auditor-General's Report into the Program and the conclusion that "*analysis of both successful and declined applications showed no bias in terms of geographical location of the businesses and similarly there was no evidence that any industry types of businesses were more favoured than other.*"

It is pleasing to learn that the implementation and management of the Program as measured against the audit criteria was, in all material respects, performed effectively.

I note the recommendations in the Report focus on the administrative functions that could be implemented in future grant programs.

Thank you for the opportunity to comment on the Report.

The Honourable Peter Gutwein MP

Minister for Small Business, Hospitality and Events

Firstly, I would like to acknowledge the work you have done to examine and report on the effectiveness of the Department of State Growth's administration of the Small Business Hardship Grant Program. I appreciate the effort that has gone into this audit and welcome your interest and the resultant report.

Given the extreme circumstances in which this Program was established and implemented, I particularly welcome your findings that the implementation and management of the Small Business Hardship Grant Program as measured against the audit criteria was, in all material respects, performed effectively. I also welcome your finding that there was no bias in terms of assessment of applications based on industry type or geographical location.

In relation to your observation that the dental industry was treated inconsistently through this program, I have asked the Secretary of the Department of State Growth, Mr Kim Evans, to review the applications from dental business applicants to ensure equity of assessment.

With regards to your other observations in relation to grant systems and communications, I am advised that the Department of State Growth has recently completed development of a new grants management framework, which includes improved policies, processes, guidelines, templates and systems, and that a dedicated grant services support team has now been established.

As Minister I take the appropriate management and disbursement of public funds very seriously and fully support these measures, which will improve administration of future grant programs, including in emergency situations.

Thank you again for your work on this audit and the opportunity to comment on the Report.

The Honourable Sarah Courtney MP

Department of State Growth

On review of the Small Business Hardship Grant Program report I am pleased to see the report findings reflecting the hard work that was invested by the Department of State Growth in the delivery of this grant program.

I accept the findings and recommendations of the audit, noting that improvements are either completed or in progress to address the report recommendations to the Department.

I note your conclusion that the management of the Small Business Hardship Grant Program, as measured against the audit criteria, in all material aspects, performed effectively.

Kim Evans
Secretary

1. Did the design of the Program mitigate risk and promote equity?

In this Chapter, we assess how effective the design of the Program was in dealing with a high volume of applications and facilitating the prompt payment of grants to successful applicants. This covers:

- the initial design of the process
- the development of the assessment criteria
- design of the web-based system.

Chapter summary

The design of the process, development of assessment criteria and implementation of the process using a web-based grants management system (grants system) generally ensured an approach where eligible applicants received prompt payment of grants. The web-based application process provided easy accessibility to applicants. The assessment criteria were quickly developed and generally appropriate for determining those applications eligible for a grant. While risks were mitigated through a moderation process, the failure to implement available system functionality did not mitigate the risk of human error and resulted in a small number of grants being incorrectly paid.

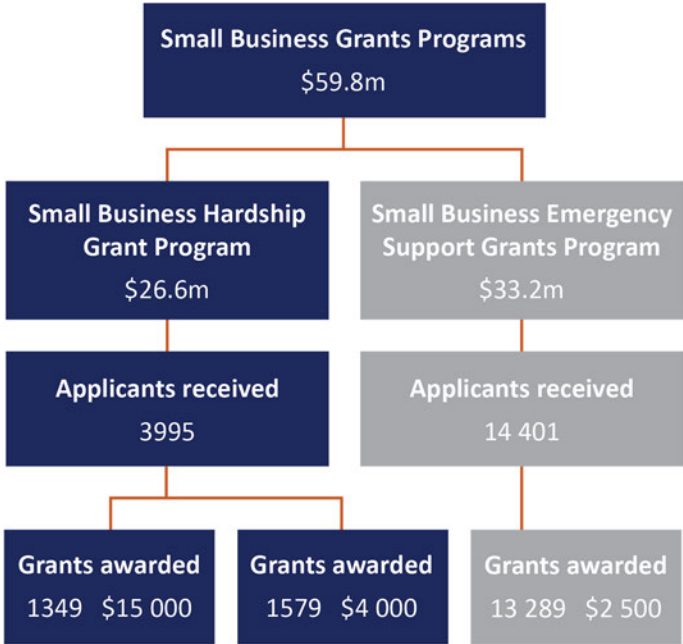
State Growth moved quickly to introduce a Program to ensure small businesses received Government hardship grants

- 1.1 The impact of the COVID-19 pandemic has been significant globally, nationally and within Tasmania. There have been many impacts that have affected most aspects of our lives including on the economy. For many businesses, lockdowns and the suspension of normal trading activities have presented significant hardships. For smaller businesses the lack of customers and ability to trade has impacted on livelihoods and their ability to resume or continue trading once economic activity started to recover.
- 1.2 In recognition of the impact COVID-19 and the associated trading restrictions were placing on Tasmanian small businesses, on 8 April 2020 the Government announced the introduction of the Small Business Hardship Grants Program. The Program was allocated initial funding of \$20 million to provide one-off grants of \$15,000 to those businesses who had been highly impacted by the COVID 19 restrictions and experienced significant hardship.
- 1.3 On 30 April 2020, the Government announced additional funding of \$10 million to support businesses. Of this funding of \$6.6 million was allocated to the Program with the remainder of the additional funding going to other COVID-19 Support Measures

such as the Emergency Support Program. As a result of this extra funding those applications initially assessed as unsuccessful and further new applications were assessed, with the majority of approved applications receiving smaller grants of \$4,000.

- 1.4 State Growth was charged with administering the Program as this was consistent with responsibilities it had in working with and supporting small business development across Tasmania. The selection criteria and application assessment process were developed quickly over a number of days with the objective to get grants out to eligible small businesses quickly to reduce hardship.
- 1.5 The Program closed to new applications on 4 May 2020, although applications continued to be processed for those that had started but not yet completed their applications until 8 May 2020.
- 1.6 The Small Business Hardship Grant Program, which is the focus of this review, was part of the larger \$60 million Small Business Grants Program as shown in Figure 1. Overall, 3,995 applications² were received via the web-based grants management system with:
 - 2,928 applicants receiving grants of either \$15,000 or \$4,000
 - 522 applicants that were eligible, but not successful in securing a grant
 - 531 ineligible applicants
 - 14 applications that were withdrawn.

Figure 1: Program information and scope of this review



Source: TAO

² An additional three hard copy applications were submitted, these applications were not audited or represented in the findings or process maps. Only those application submitted through the web-based grants management system have been included.

The assessment criteria were broadly appropriate

- 1.7 An overview of key dates relating to the Program is provided in Table 1. Table 1 shows the initial design of the Program took place between 2 April 2020 and 7 April 2020. State Growth used its experience to develop criteria to ensure Government grants administered through the Program would be able to be targeted to those businesses most in need but also sustainable. This included the requirement for businesses to have been established for over a year, registered for Goods and Services Tax (GST) and genuinely suffering financial hardship.

Table 1: Small Business Hardship Grants Program key dates

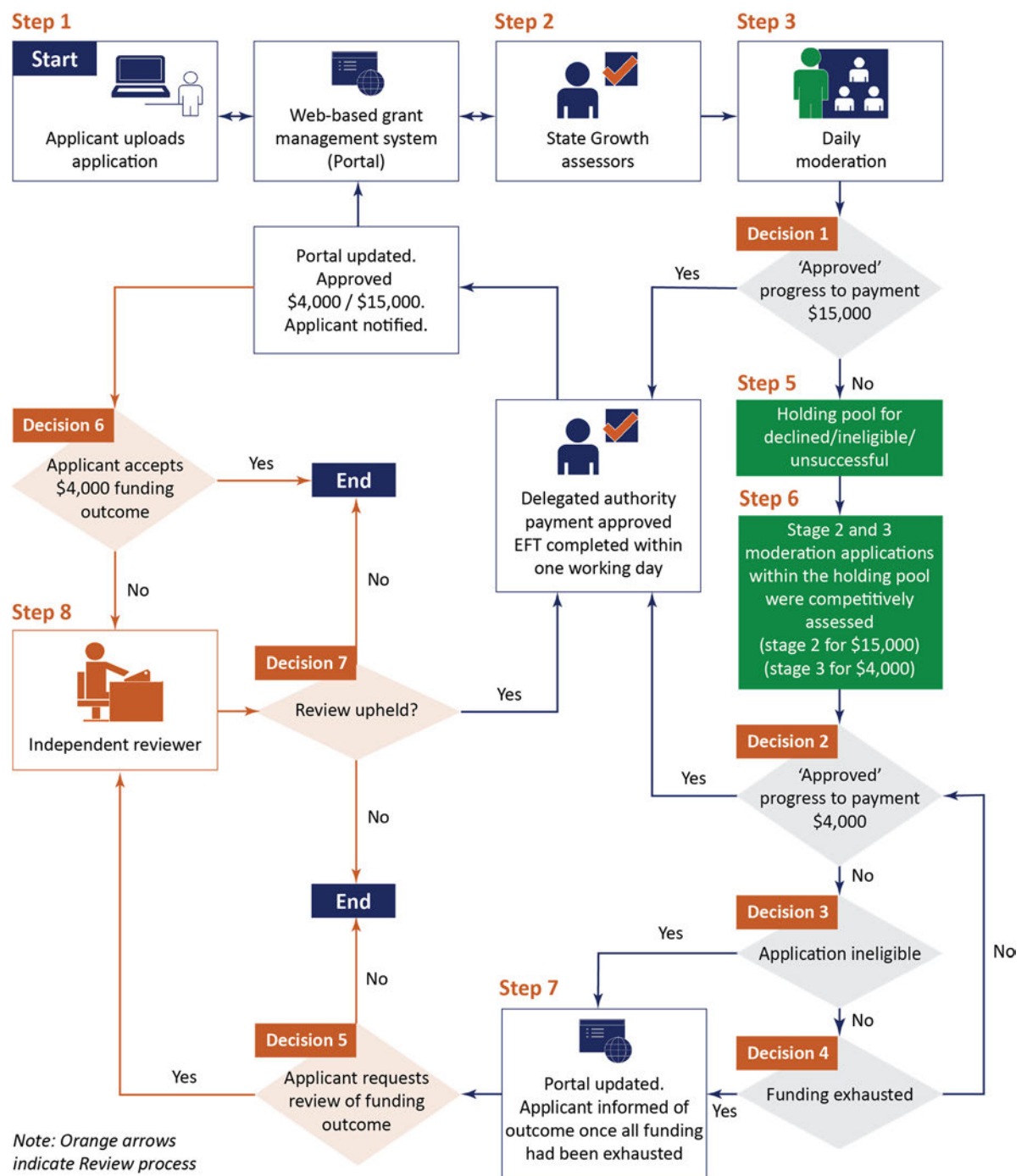
Key date	Action
26 March 2020	Premier announced a Social and Economic Package with measures to support Tasmanians' Health, Businesses and Jobs, Households and Individuals, and the Community. The Package included a new \$40 million Small Business Grants Program with \$20 million set aside for an emergency grants program of \$2500 cash payments.
2 April 2020	Development of the Program Guidelines commenced.
7 April 2020	The Program Guidelines approved.
8 April 2020	The Minister announced the opening of the Program.
14 April 2020	Assessment process finalised and first payment made.
30 April 2020	The Minister announced additional funding. Email distributed to all applicants registered within the system informing them their applications must be submitted by 4 May 2020.
1 May 2020	Minister extended the closing date for applications commenced on or prior to 4 May 2020 to 8 May 2020.
4 May 2020	Closing date for new applications.
8 May 2020	Program closed to all applications.
28 May 2020	All declined applicants received written communication on their application outcome.
2 June 2020	State Growth committed to a review of applications if applicants believed their application had been unfairly assessed.
Ongoing	Reviews are ongoing.

Source: State Growth

There was an effective application submission, assessment and funding approval process

1.8 The process for application submission, application assessment and funding approval is set out in Figure 2.

Figure 2: Program application submission, assessment and funding approval process



Source: TAO

- 1.9 State Growth were able to establish the program in preparation for the receipt of applications within a matter of days. This was achieved through the use of the existing web-based grant management system and utilising skills and expertise in grant program design and establishment that existed within State Growth.
- 1.10 The system enabled the creation of customised forms which were used by applicants to enter specific data relating to the assessment criteria and upload other supporting documentation, such as financial statements. This web-based grant management system provided an efficient and easily accessible approach for applicants to apply for grants. Applicants could also submit hard copy applications and three were received by State Growth.
- 1.11 The following high-level steps and decision points were key to the process, as outlined in Figure 2 above:
- Applicants submitted their applications by completing the web-based form and uploading the required financial and supporting documentation.
 - On a daily basis, assessors reviewed the online applications against the assessment criteria and made a recommendation to approve or not approve the application for funding.
 - All applications progressed as a daily batch to moderation whereupon assessors and program managers competitively ranked them as either 'approved progress to payment \$15,000', 'unsuccessful' (less competitive) or 'ineligible' (not meeting the eligibility criteria).
 - A daily batch of approved applications progressed to the Delegated Authority³, who reviewed the applications and authorised the release of funds to pay the grants (generally within one working day).
 - Administrators updated the web-based application for the outcome of the moderation and approval steps. Unsuccessful applications were placed in a holding pool.
 - Stage two moderation commenced on 21 May 2020. Competitively ranked eligible but unsuccessful applications identified in the first round of moderation were reassessed using the assessment criteria for a \$15,000 grant. Successful applications were 'approved progress to payment \$15,000'.
 - For the additional funding of \$6.6 million, new applications and those in the holding pool were competitively ranked against lower threshold assessment criteria established for a \$4,000 grant. Applications were 'approved progress to payment \$4,000', identified as ineligible and removed from the pool or confirmed as being unsuccessful.
 - Applicants whose applications were assessed as ineligible or unsuccessful were notified of the outcome on 28 May 2020.

³ Staff member(s) delegated to make decisions on behalf of the Department

- An ongoing review process was conducted for applicants that believed their application had been unfairly assessed.
- 1.12 The web-based grant management system was the primary method used by State Growth to assess applications and record funding decisions. It allowed assessors and program managers:
- to be assigned specific tasks
 - record detailed assessment notes and the ultimate funding recommendation
 - keep track of applications from submission through to funding decision
 - notify applicants via mass or individual emails
 - export data to Word or Excel to support the moderation of application assessments and keep senior managers informed about the Program.

Limited use of the web-based system functionality impeded the effective mitigation of risks from human error

- 1.13 The development of the Program (including the web-based forms) was rapid, to allow small businesses to receive funding in the quickest possible time. However, further use of additional functionality within the web-based grant management system, as described in the following paragraphs, may have enhanced the validation of application data entered by applicants and aided assessors in the moderation process.
- 1.14 Although some system and configured web-based form functionality was deployed, the use of additional functionality could have prevented ineligible applications from proceeding to assessment and may have reduce the possibility of assessor error. For example, some fields on the web-based application/assessment forms were mandatory, meaning they must be completed. These included fields based on the eligibility criteria such as, had the applicant's Australian Business Number (ABN) been continuously registered since, on or before, 31 January 2019 and whether the business was registered for GST. It was possible for the applicants and assessors to leave the fields blank and the applications still proceed to recommendation.
- 1.15 Assessors were required to declare conflicts of interest on each application but we found a number of forms, less than 1%, where this was not completed, or where the conflict had been declared, yet the application progressed. This did not support mitigating risks and also increased the chance of human error.
- 1.16 More advanced system functionality could have enhanced the process and made it less reliant on assessor and moderator views. For example, the use of calculated weighted assessment scores could have driven recommendations as opposed to subjective decision-making processes.
- 1.17 We found the design of the application forms captured relevant information, however better consideration around the questions on current number of full-time equivalent

(FTE) employees would have been helpful. This was a relevant factor in deciding if a business was successful in receiving a grant but was not always completed correctly by applicants who in some cases provided the total number of employees rather than FTEs. In the absence of clarity concerning this question, assessors and moderators were required to estimate the number of FTE employees.

The Program design enabled the fast allocation of funding to Small Businesses

- 1.18 The Program design facilitated the quick allocation of grants to small businesses. Initial successful applicants had grant funds deposited into their bank accounts within 24 to 48 hours of approval. Applicants who were initially unsuccessful, but subsequently approved at a later date, obviously waited longer to receive their grant payment.

2. Was the assessment process consistently applied?

In this Chapter, we assess the process used to assess applications against the assessment criteria and award funding. This covers:

- the assessment process implemented
- the nature of the assessment process
- the review of assessment decision on request of the applicant.

Chapter summary

While the assessment of applications was generally consistent and competitive on a daily basis, we found some inconsistencies relating to the application of the eligibility criteria and the assessment of applications from businesses in the dental industry. Overall, we determined there was sufficient capacity to process applications as quickly as possible and the review process implemented after funding had been awarded was independent and consistent with the original assessment process.

The assessment process implemented was more detailed than that set out in the Program Guidelines

- 2.1 The assessment criteria, comprising both eligibility and merit criteria, used to assess applications were set out in the Program Guidelines approved by the Minister on 7 April 2020.
- 2.2 As detailed in Table 2, we found some of the eligibility criteria were applied strictly but a softer approach was taken in relation to other criteria.

Table 2: Approach to assessing applications against the eligibility criteria

Criteria	Identified approach to assessing applications against the criteria
Less than 50 FTE employees as at 31 January 2019.	Applied strictly.
Registered for tax purposes in Australia with an ABN.	Applied strictly.
Majority Tasmanian-owned and operated business in Tasmania.	Applied strictly.
Registered for GST.	Not applied strictly. See 2.18 for further information.

Criteria	Identified approach to assessing applications against the criteria
Operating as a business on or before 31 January 2019.	Applied but some inconsistencies with processing applications. See 2.19 for further information
Met hardship test of a loss in revenue of more than 30 per cent.	Loss of revenue in March 2020 compared to March 2019 or expected loss of revenue in April 2020.

Source: State Growth

2.3 Once it was determined the applicant met the core eligibility criteria, the assessor recorded the following information in the grant system:

- whether the business was strategically significant for growth
- an affirmation that the applicant's 2021 FTE employee forecast was reasonable and, if not, an adjusted forecast was recorded
- a score out of five on the economic and social benefit of the business to the community using the matrix provided in Table 3 as a guide.

2.4 At 2:00 pm each day, the Program Managers would meet with the assessors to discuss all of the assessments performed. During this moderation process, any business that met the hardship test or was reasonably expected to in April 2020 and also met one of the following criteria would be awarded \$15,000 funding:

- a social and economic benefit score of four or five (using the scoring matrix in Table 3 below)
- projected to employ more than five FTE employees
- deemed strategically important.

Table 3: Economic and social benefit scoring matrix

Score	Qualifying criteria
1	The business does not provide a service or add an economic benefit to the community.
2	A small element of the business provides a service or add an economic benefit to the community. Tourism businesses that employ less than four employees in a metropolitan region.

Score	Qualifying criteria
3	<p>The business provides some service or add an economic benefit to the community. For example, a:</p> <ul style="list-style-type: none"> • restaurant or a shop that is remaining open and future job prospects are five people or greater • business impacted by the NW restriction and employs greater than two or three people • business that create jobs in a regional area.
4	The business provides a service or adds an economic benefit to the community, such as health and food distributors.
5	The business provides a service or adds an economic benefit to the community. Such as food distributor or manufacturer of medical services.

Source: State Growth

- 2.5 The remaining eligible, but not yet approved, applications would be placed back into the pool of assessed applications to be reconsidered at a later date.
- 2.6 On 30 April 2020, the Government announced additional funding for the Program. At that time, State Growth recognised that the majority of eligible applicants that had not been recommended or approved for funding were at the smaller end of the spectrum in terms of employee numbers. It was also recognised that the quality of information in some of these applications was poor.
- 2.7 In order to support as many of these eligible small businesses as possible, the decision was taken by State Growth and endorsed by the Minister to allocate the additional funding in smaller grants of \$4,000.
- 2.8 To assess these applications quickly and fairly, State Growth implemented the grading framework outlined in Table 4.

Table 4: Grading framework applied to assess applications for \$4,000 grants

Criteria	Score	
	1	0
Business Growth January 2019 compared to January 2020	Greater than 0%	Equal to or less than 0%
Growth Quarter 1 2019 compared to Quarter 1 2020	Greater than 0%	Equal to or less than 0%
Pre-COVID employment numbers (January 2020)	Greater than 4	Equal to or less than 4

Criteria	Score	
	1	0
Employment numbers at the time the application was submitted	Greater than 2	Equal to or less than 2
Future realistic jobs	Greater than 4	Equal to or less than 4
Economic and social benefit score	Score out of five – see the scoring matrix provided in Table 3.	

Source: State Growth

The process was competitive on a daily basis, but could not be competitive over the life of the Program

- 2.9 The requirement to get funding out to small business to reduce hardship as quickly as possible meant applications had to be assessed quickly and could not be held back until the end to be compared across the duration of the Program.
- 2.10 Grant programs generally fall into two categories — a merit-based program with applications assessed once the funding round has closed; or a demand driven process with applications assessed against eligibility criteria in the order that they are submitted. The program that was implemented by State Growth did not fit neatly in either category. Specifically, applicants were advised through the Program Guidelines:
- applications would be ‘competitively assessed on an as need basis’
 - ‘the Department will be working hard to process funding to each successful applicant as quickly as possible’.
- 2.11 In practice, a competitive assessment was implemented on a daily basis. Applications considered to have performed strongly against the assessment criteria in the initial assessment received a \$15,000 grant. The remaining applications were considered again in a second review process called moderation. In moderation, the applications that performed more strongly against the assessment criteria received a \$15,000 grant and the remaining applicants were later reconsidered under a second round moderation in which the \$4,000 grants were awarded (see Figure 2 for further information on this process).
- 2.12 This assessment approach resulted in the likelihood of an application being awarded funding remaining relatively consistent, but the average value of funding awarded to successful applicants reducing once the Government’s second funding instalment was allocated to the Program.

Inconsistencies were identified in the assessments we reviewed

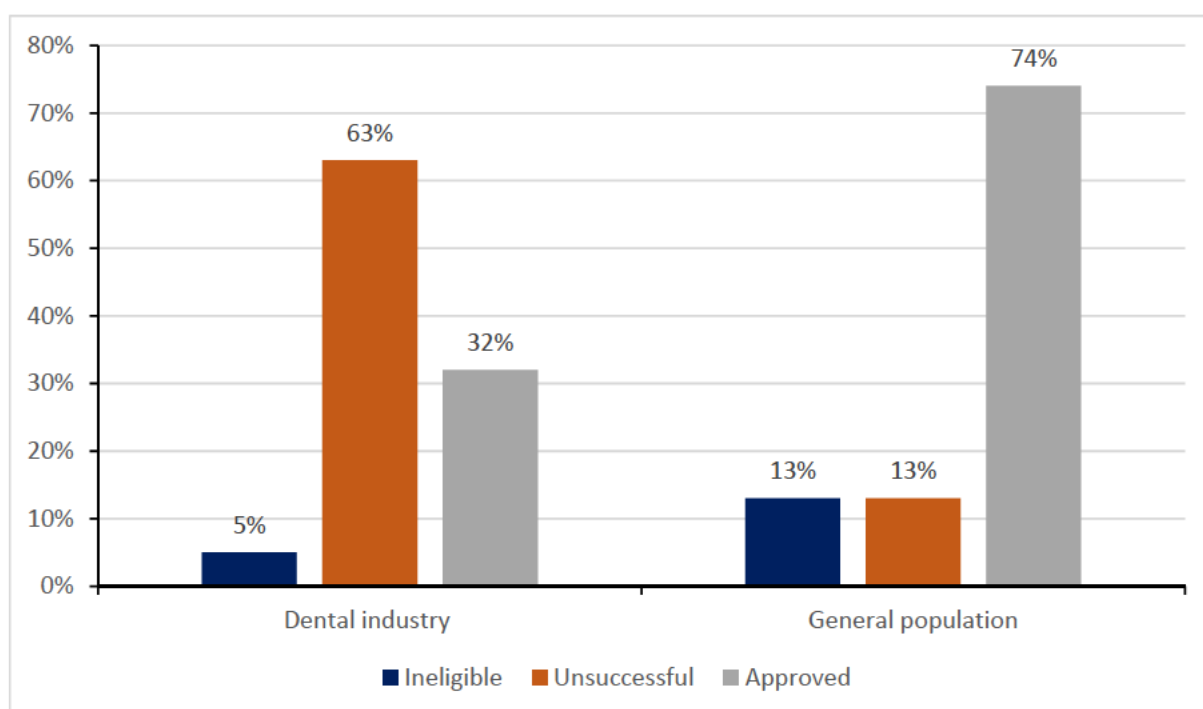
2.13 While the assessment process implemented was fairly prescriptive, we found a number of instances where the process had not been followed completely. These instances were relatively few in number and while they impacted on some small businesses, it did not have a significant outcome on the fairness of the assessment process. These inconsistencies may have also impacted on some small businesses who might have been eligible not applying. The inconsistencies related to the approach to assessing applications:

- from the dental industry and sole traders
- against the requirement to be registered for GST, to be operating as a business in January 2019 and number of FTE employees.

2.14 The inconsistencies relating to the eligibility criteria could have been largely prevented through enhanced grant management system functionality that was available to State Growth at the time the Program was run, as discussed in Chapter 1.

2.15 In relation to the applications from the dental industry, we found the majority of applications were deemed to be eligible, but unsuccessful. This result was significantly different from the general population, as shown in Figure 3.

Figure 3: Applications outcomes for the dental industry compared to the general population



Source: State Growth, TAO

2.16 The reasons for not awarding grants to dental industry applicants ranged from a misunderstanding that these businesses could apply for hardship funding from other

sources and that, in an economic sense, these businesses would be able to recover more quickly.

- 2.17 Sole traders were not as successful in receiving grants as small businesses that employed more than three FTE employees when being assessed for the \$15,000 grant. This was a deliberate decision by State Growth as it was felt that, by supporting business that employed more than three FTE employees, the grants would also have greater indirect benefits such as the retention of existing jobs or creation of new jobs. Sole traders did proportionately better when reassessed for the \$4,000 grant.
- 2.18 In relation to the requirement to be registered for GST, there were 228 applicants whose businesses were not registered. However, 18 per cent of these applications were awarded funding. State Growth acknowledged the intent behind asking for GST registration was around trying to eliminate applicants who were a hobby business and had a smaller impact on the economy. However, assessors could still recommend those applications for funding if an application from a business not registered for GST:
- had a revenue stream that was, or was likely to be, greater than \$75,000 per annum
 - was an application of strategic importance based on the information provided.
- 2.19 For businesses to be eligible for a grant, they had to be in operation from January 2019. State Growth used the ABN to confirm the active registration date of businesses applying for the grant. While this was generally used effectively to determine eligibility, our work did uncover a small number of businesses who had not been registered by this date who received grants. In other instances this criteria was overridden where assessors made subjective decisions based on:
- the strategic importance of the business to their community
 - whether the business was in operation prior to January 2019 but had changed ownership after this date.

Reviews of assessments were independent and performed consistently

- 2.20 State Growth received 262 requests for review of the original assessment. Following the review of these assessments:
- the original decision was upheld for 187 applicants
 - a \$4 000 grant was awarded to 56 applicants
 - the grant awarded increased from \$4 000 to \$15 000 for 16 applicants
 - a \$15 000 grant was awarded to 3 applicants.
- 2.21 All reviews were conducted by a State Growth employee that was independent of the original assessment. The outcome of the review was then confirmed by a member of the State Growth's Executive and the applicant was informed.

- 2.22 We examined 20 per cent of the original assessment reviews. We found the process implemented was consistent with the assessment process used during the initial assessment and moderation rounds.

There was sufficient capacity to undertake processing of applications quickly

- 2.23 The success of communications to make small businesses aware of the Program stretched the initial capacity of State Growth to administer and process applications. State Growth was responsive to the amount of applications received with the assessment team starting at 10 FTE employees and growing to 25 FTE employees. The additional employees were drawn from other parts of State Growth.
- 2.24 State Growth advised the additional employees were appropriately qualified, provided with an assessor manual and trained remotely. This enabled applications to be processed quickly.

3. Was distribution of funding equitable?

As part of the application form, applicants needed to self-report their industry and location. We used this information to examine the distribution of funding to eligible applicants.

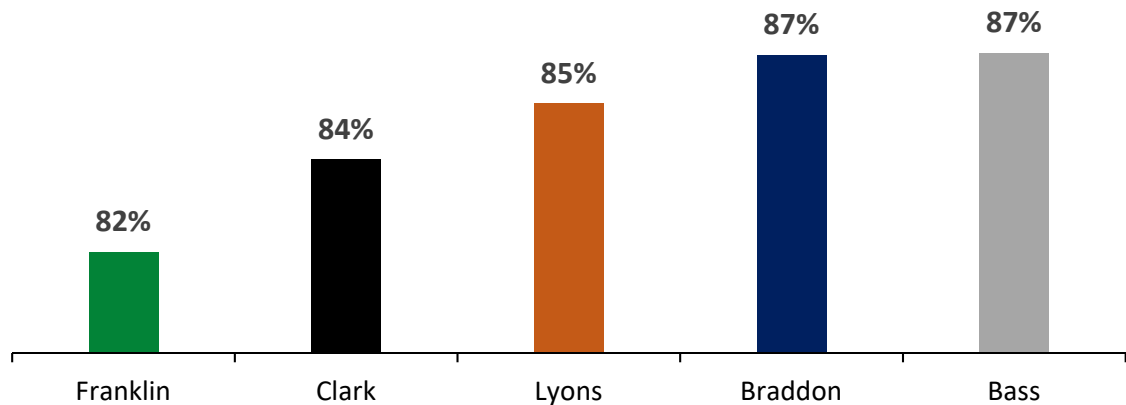
Chapter summary

The assessment process used by State Growth generally ensured an equitable distribution of funding by type of business and geographical location.

Distribution of funding across the State was equitable

- 3.1 As shown in Figure 4, the likelihood that an eligible applicant, who submitted an eligible application, would be successful in securing funding was between 82 and 87 per cent based on Tasmanian Electoral Division.

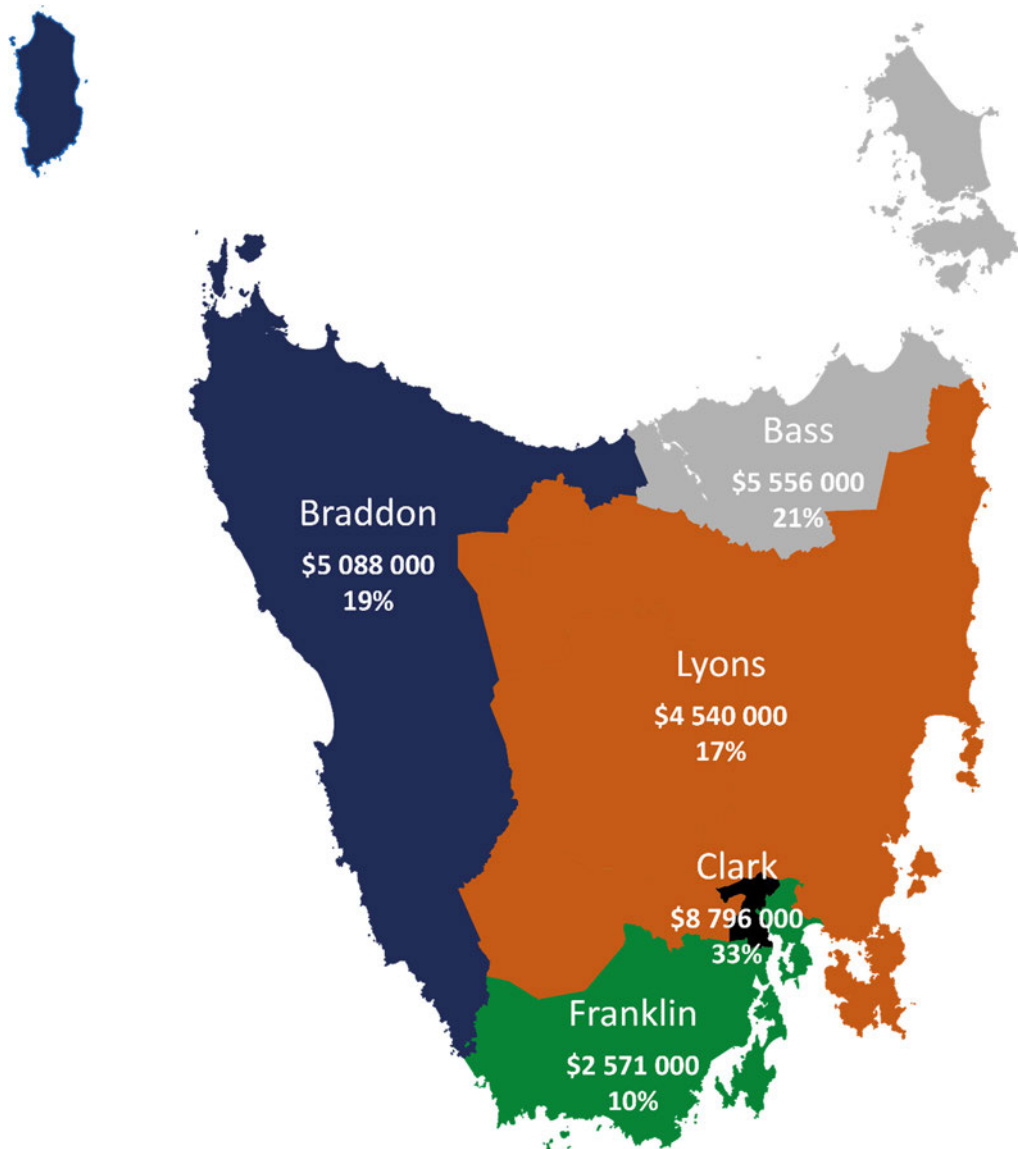
Figure 4: Likelihood of applications receiving funding by Tasmanian Electoral Division



Source: State Growth, TAO

- 3.2 The total distribution of funding and approved eligible applications as a percentage by Tasmanian Electoral Division are shown in Figure 5.

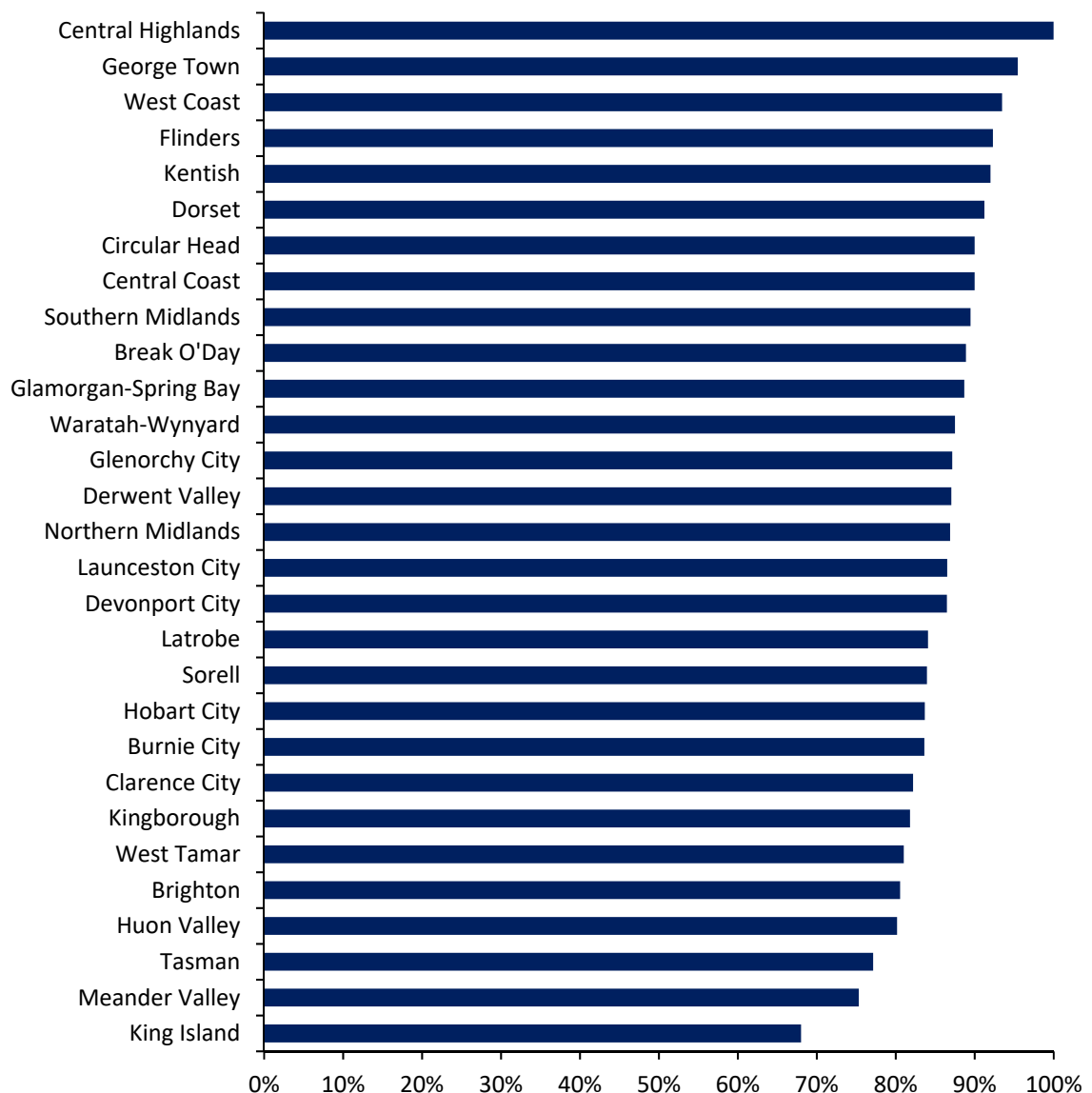
Figure 5: Distribution of funding by Tasmanian Electoral Division



Source: State Growth, TAO

- 3.3 To further identify if a funding bias occurred, we examined each Local Government Area and postcode, comparing non-approved eligible applications against those that received funding. Against both datasets, we found no evidence to indicate a bias.
- 3.4 The likelihood that an eligible applicant would be successful in securing funding was 85 per cent across the State and between 68 per cent and 100 per cent based on Local Government Area, as shown in Figure 6.

Figure 6: Likelihood of applications receiving funding by Local Government Area



Source: State Growth, TAO

- 3.5 Assessors were guided to take into consideration whether businesses were in areas that were impacted by the 2019 bushfires or the North West Coast lockdown. Other areas indicate a slight preference given to, for example, sole traders in regional locations.

Distribution of funding across industries was generally equitable

3.6 To examine applications across industries, we grouped businesses into nine categories shown in Figure 7.

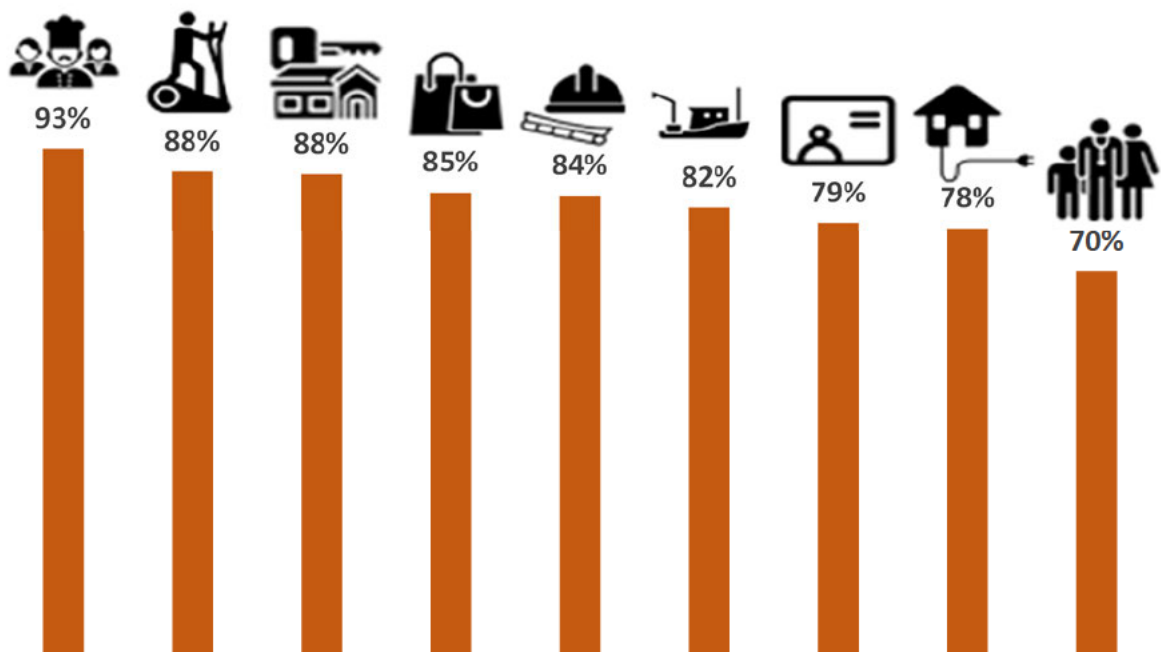
Figure 7: Industry categories used in our analysis



Source: State Growth

As shown in Figure 8, the likelihood that an eligible applicant would be successful in securing funding was 84 per cent on average and between 70 and 93 per cent across the industry-types.

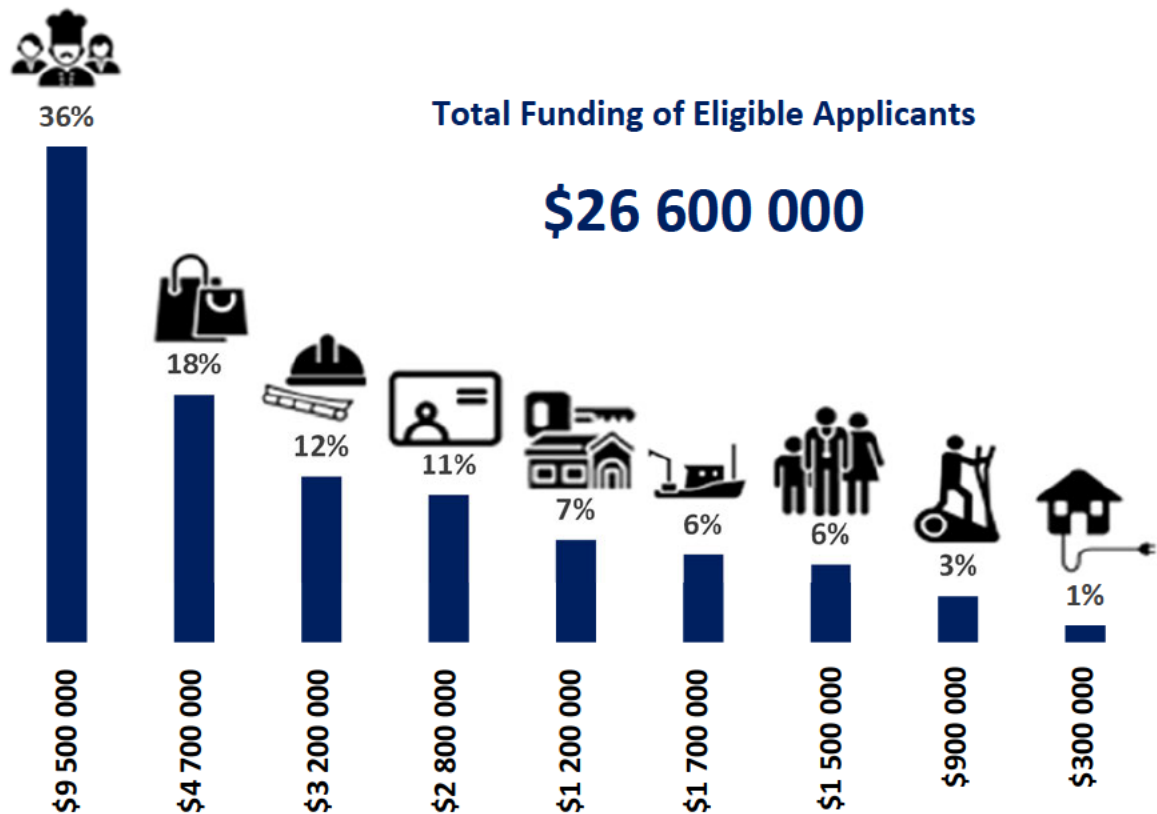
Figure 8: Likelihood of applications receiving funding by self-reported industry-type



Source: State Growth, TAO

- 3.7 The distribution of funding across industries is shown in Figure 9, indicating there were more successful applications from hospitality services.

Figure 9: Distribution of funding by self-reported industry-type across eligible applicants



Source: State Growth, TAO

4. Was communication effective in ensuring a transparent process?

In this Chapter, we assess whether communication about the Program and communication with applicants was effective. This covers communication:

- about the availability of funding to small business
- changes in how applications were assessed
- to successful applicants about the funding decision
- to unsuccessful applications about the funding decision.

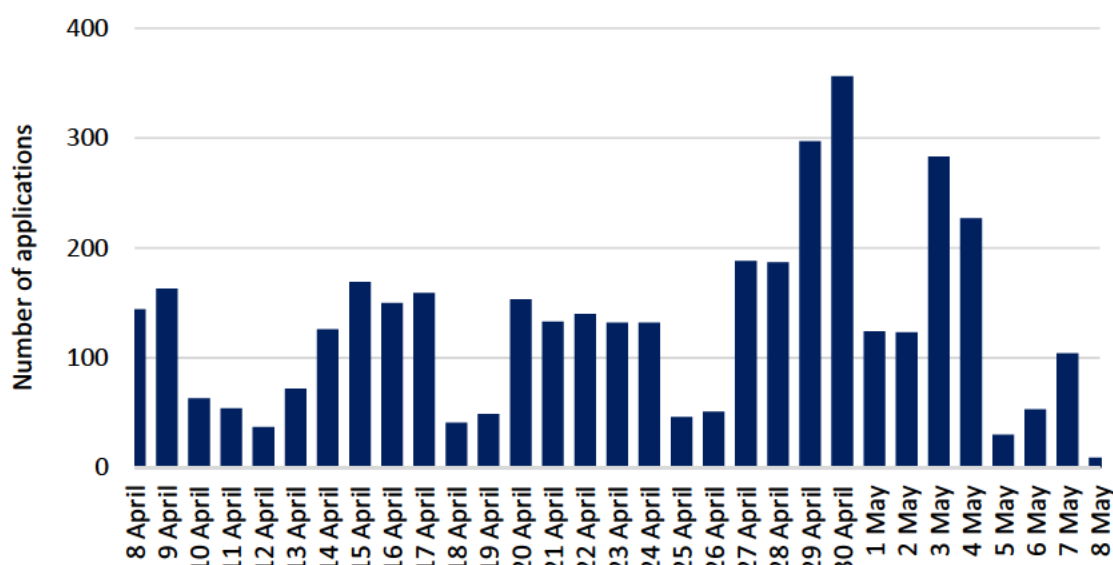
Chapter summary

We concluded that communication to small businesses about the Program was effective and successful applicants were generally informed quickly of the outcome. However, there was room for improvement in respect to the timeliness of communicating the funding outcome to declined 'ineligible' applicants including detail on why they were ineligible. Communicating changes to how criteria was assessed could also have been more transparent.

Communication about the Program was effective

- 4.1 Communication at the time the Program was launched was effective. As a result of a well-advertised program with sufficient information on how to apply, more applications were received for the Program than State Growth had the capacity to fund.
- 4.2 The Program was launched on 8 April 2020 with:
 - a media release from the Minister
 - provision of information to applicants on the Business Tasmania website
 - distribution of information through the Business Tasmania social media accounts, which was shared by parties external to government.
- 4.3 In addition to the information on the Business Tasmania website, any person requiring further advice or information on the Program could make enquiries to Business Tasmania via phone or email.
- 4.4 Between 8 April 2020 and 8 May 2020, an average of 129 applications were submitted on a daily basis. Figure 10 shows half of the applications were submitted in the last two weeks of the Program as applicants recognised that the Program would be closing to new applications.

Figure 10: Timing of application submission



Source: State Growth, TAO

Some successful applicants were informed of the funding outcome in a timely manner

4.5 The average time from application submission to the notification that the applicant had been successful in securing funding was 24 days. However, there was a significant difference between the times taken to notify an applicant that a \$15,000 grant had been awarded compared to a \$4,000 grant. Applicants awarded \$15,000 grants were notified of the outcome on average within 15 days of application submission, while applicants awarded a \$4,000 grant had to wait an average of 34 days before being notified of the outcome.

4.6 This difference between the times taken to award the two grant amounts was due to:

- provision of additional funding for the Program on 30 April 2020
- design of the assessment process - in particular the action of returning all unsuccessful applications to a holding pool until the additional funding was announced and the \$4,000 grants were awarded.

More detailed and timely information could have been provided to some unsuccessful applicants

4.7 All unsuccessful applicants were informed via email on 28 May 2020 that they had not been awarded funding. The email did not explain whether the application was ineligible or that it did not perform strongly enough against the merit criteria to be awarded funding.

4.8 By delaying the advice until 28 May 2020, applicants were waiting for a maximum of 50 days for the outcome of their application, or 34 days on average.

- 4.9 The delay in providing advice was necessary for those applications that did not perform strongly enough against the merit criteria. This was consistent with the assessment process, with applications returning to a holding pool until the additional funding was announced and the \$4,000 grants were awarded. However, ineligible applicants could have been advised of the fact that their application was ineligible and the reason for that decision much earlier.
- 4.10 Provision of this information would have been invaluable to the applicant and State Growth in relation to applicants requesting that their application assessment be reviewed. There were 38 ineligible applications reviewed in this process.
- 4.11 It may have also been beneficial for applicants who were initially unsuccessful for the \$15,000 grant, but held pending review after additional funding was made available, to have been informed of their status rather than receiving generic updates on the Program. Specifically, State Growth advised applicants on:
- 24 April 2020 that a large number of applications had been received and assessments were taking longer than anticipated, with notification of the outcome the application expected in three weeks
 - 13 May 2020 that they would likely be notified of the outcome of their application within 10 business days.

Changes in how applications were against published criteria were not effectively communicated

- 4.12 It is acknowledged that the speed of implementation meant that there was reduced time and capacity to consider communication to applicants more fully. However, with the second tranche of funding the changes to how applications were assessed, outlined in the grading framework in Table 4, were not communicated to applicants. This impacted on applicants understanding of how they were being assessed and changes in funding level. This contributed to a process that was not fully transparent and resulted in some negative views and experiences by applicants and adverse public perception of the Program.

Acronyms and abbreviations

ABN	Australian Business Number
Audit Act	<i>Audit Act 2008</i>
FTE	Full-time equivalent
grants system	web-based grants management system
GST	Goods and Services Tax
Minister	Minister for Small Business, Hospitality and Events
Program	Small Business Hardship Grant Program
State Growth	Department of State Growth
TAO	Tasmanian Audit Office

Audit Mandate and Standards Applied

Mandate

Section 23 of the *Audit Act 2008* states that:

- (1) The Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes:
 - (a) examining the accounting and financial management information systems of the Treasurer, a State entity or a subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results;
 - (b) investigating any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity;
 - (c) investigating any matter relating to public money or other money, or to public property or other property;
 - (d) examining the compliance of a State entity or a subsidiary of a State entity with written laws or its own internal policies;
 - (e) examining the efficiency, effectiveness and economy of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity;
 - (f) examining the efficiency, effectiveness and economy with which a related entity of a State entity performs functions –
 - (i) on behalf of the State entity; or
 - (ii) in partnership or jointly with the State entity; or
 - (iii) as the delegate or agent of the State entity;
 - (g) examining the performance and exercise of the Employer's functions and powers under the *State Service Act 2000*.
- (2) Any examination or investigation carried out by the Auditor-General under subsection (1) is to be carried out in accordance with the powers of this Act

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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