

The Auditor-General
Audit Report No.36 2003–04
Performance Audit

The Commonwealth's Administration of the Dairy Industry Adjustment Package

**Department of Agriculture, Fisheries and
Forestry—Australia**

Dairy Adjustment Authority

Australian National Audit Office

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of Australia 2004

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Canberra ACT
25 March 2004

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Agriculture, Fisheries and Forestry—Australia and the Dairy Adjustment Authority in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *The Commonwealth's Administration of the Dairy Industry Adjustment Package*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



Oliver Winder
Acting Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ADC	Australian Dairy Corporation
DAA	Dairy Adjustment Authority
DAFF	Department of Agriculture, Fisheries and Forestry (formerly AFFA—Department of Agriculture, Fisheries and Forestry—Australia)
DA	Dairy Australia Limited
DEP	Dairy Exit Payment
DES	Dairy Entitlement System
DIAP	Dairy Industry Adjustment Package
DRAP	Dairy Regional Assistance Program
DSAF	Dairy Structural Adjustment Fund
DSAP	Dairy Structural Adjustment Program
SDA	Supplementary Dairy Assistance
SES	Supplementary Entitlement System

Glossary

Discretionary Payment	An SDA payment right granted under s.13 of the SDA Scheme.
DSAP unit	Equivalent to one dollar of DSAP entitlement.
Enterprise <i>or</i> Dairy Farm Enterprise	A business in Australia carried on with a view to delivering market milk or manufacturing milk during the qualifying period.
Entity	An owner-operator, share farmer, lessee, lessor, or trustee of an estate who has an interest in a dairy farm enterprise.
Manufacturing milk	Milk used in producing dairy products e.g. cheese, butter and dairy desserts.
Market milk	Milk sold for consumption e.g. drinking milk, UHT milk.
Market Milk Payment	An SDA payment right granted under s.12 of the SDA Scheme.
Payment Right	An entitlement to a payment under the DSAP or SDA Schemes.
Register	A database that records the number of units to which eligible enterprises/entities are entitled.

Summary and Recommendations

Summary

Background

1. The Australian dairy industry was deregulated by all States/Territories on 1 July 2000. This removed price guarantees and restrictions on inter-state sales. In response to requests from the industry, the Commonwealth established the Dairy Industry Adjustment Package, to assist dairy farmers to make the transition to a deregulated environment.
2. The Department of Agriculture, Fisheries and Forestry (DAFF) was responsible for advising the Government on establishment of the Package.
3. There are two major elements to the Package, established by the *Dairy Industry Adjustment Act 2000*.¹ The first is the Dairy Structural Adjustment Program (DSAP), introduced in May 2000. This provides \$1.63 billion in payments to dairy farmers. The second is the Supplementary Dairy Assistance Program (SDA), introduced in September 2001. This provides \$120 million in payments to dairy farmers.
4. The Package is funded by a levy of 11 cents per litre on retail sales of milk.
5. DSAP and SDA are delivered by a new Commonwealth agency, the Dairy Adjustment Authority (DAA). The DAA was established in April 2000. The Australian Dairy Corporation (ADC) provided support to the DAA in making payments. The ADC also undertook development work for the Package prior to the DAA's establishment, at the request of DAFF.
6. The ADC was responsible for the Dairy Structural Adjustment Fund, from which payments are made to farmers. The ADC was privatised on 1 July 2003, and became Dairy Australia Limited (DA). DA continues to discharge the functions previously undertaken by the ADC, through contractual arrangements with DAFF.

Audit objective

7. The objective of the audit was to assess the Commonwealth's administration of the Dairy Structural Adjustment Program and the Supplementary Dairy Assistance Program.² To this end, the audit addressed:
 - planning for implementation of the programs;

¹ The package also includes: Dairy Exit Program payments to dairy farmers leaving the industry; and the Dairy Regional Assistance Program.

² These programs account for some 96 per cent of the program payments from the Package.

- governance arrangements in the DAA;
- implementation and delivery of DSAP and SDA; and
- management of the Dairy Structural Adjustment Fund.

Key findings

Planning for implementation (Chapter 2)

8. DAFF's initial policy development activities in mid-1999 focussed on assisting the government to address the dairy industry's request for assistance. This resulted in the development of options for Ministers that had the support of relevant stakeholders, particularly those in the industry. DAFF developed a risk plan for the assistance package and identified key tasks associated with developing the required legislation. However, DAFF did not develop a detailed implementation plan nor identify key implementation risks at this stage.

9. Once the basic framework had been agreed by Ministers, DAFF developed legislative proposals, which had to address a number of complexities, and associated governing arrangements, in line with the Government's and industry's timetable. It also refined its risk and task plans, which focussed on the need for stakeholder management and the development of appropriate legislation.

10. However, these plans did not systematically address the challenges and obstacles to effective implementation of the assistance Package. For example, the planning did not set out in any depth the full range of necessary tasks, how these were to be implemented, potential obstacles, nor how these obstacles might be overcome.

11. DAFF considered these matters to be the responsibility of the ADC and DAA. However, the DAA was not formally established until 3 April 2000, some six weeks before application forms needed to be sent to farmers.³

12. Accordingly, the ADC was expected to provide much of the preparatory work and delivery infrastructure for the Package. In response to a request from DAFF in October 1999, the ADC advised DAFF that it was assessing the extent of responsibilities involved and had commenced work on some tasks. However, DAFF did not negotiate a formal agreement with the ADC for the detail of preparatory work to be conducted, nor its cost. Neither did DAFF explicitly identify those tasks that the ADC could not perform, and

³ To facilitate transition, future members of the DAA were appointed to an interim body, the Dairy Adjustment Panel, on 28 March 2000. Once the DAA was established, the members of the Panel then automatically became members of the DAA.

how these might be performed without unduly hampering the implementation or timing of the Package.

13. In the event, DAFF underestimated the nature and scale of the delivery task. For example, it initially advised Ministers that the DAA would be a small expert body with no operational functions. In contrast, the DAA undertook key operational tasks that were originally envisaged for the ADC, such as processing of applications.

14. The expected cost of implementation grew substantially as the DAA determined how it would implement the Package. An initial budget estimate for 2000–01 of some \$3 million, supplied by DAFF to the DAA, was revised upwards several times. The DAA's final budget for 2000–01 was \$13 million; staff numbers peaked at around 100 in the same year. An additional \$2 million was incurred by the other agencies for that year.

15. The initial Chair of the DAA resigned in late May 2000, noting that:

Whilst it might have been envisaged that the DAA board was to have operated essentially as an overseeing organ of a fully equipped management team, the actual circumstances has made it necessary that the board members undertake executive functions of the most pressing kind.⁴

16. The DAA advised the ANAO that the situation meant that the DAA had to plan on the run. It operated under a 'huge time pressure on the Authority.'⁵

17. Overall, the above experience reinforces the value of development of policy approaches being complemented by a focus on actual or likely delivery challenges, and how these challenges can be identified and overcome. There were substantial risks associated with relying on a new agency, with a short start-up timeframe, to oversee delivery efficiently and effectively. As well, the delivery tasks required of the ADC were more substantial and complex than its previous experience.⁶

18. Earlier and more detailed analysis by DAFF of the delivery tasks would have offered the opportunity to better prepare the ADC and the DAA for the delivery responsibilities. It would also have provided greater assurance to Ministers that implementation would be timely and cost effective.

19. In contrast to this experience, the development and implementation of the SDA program one year later demonstrated a greater degree of planning for delivery by both DAFF and the DAA.

⁴ Resignation letter from W. Madgwick, 23 May 2000.

⁵ Dairy Adjustment Authority, *Annual Report 2000-01*, p. 1.

⁶ The ADC had, for example, previously delivered the Domestic Market Support Scheme.

The Dairy Adjustment Authority's governance arrangements (Chapter 3)

20. The DAA developed a Business Plan, Financial Management Charter, Strategic Plan and Chief Executive Instructions. Collectively, these documents provided an appropriate strategic and financial management and control framework for the DAA.

21. The DAA also established an Audit Strategy, including an audit charter, an internal audit plan, and an Audit Committee. The use of internal audit, and contracted legal advice, contributed to assurance that decisions were appropriate.

22. However, the Audit Committee did not follow better practice principles, which stress the importance of audit committees providing independent advice, and being seen to do so. The Committee comprised all DAA members; was chaired by the Chair of the DAA; and did not include an external independent member. It also made some operational decisions, which reflected its membership composition but not better practice to assist with sound governance.

23. The DAA advised that it adopted this approach because of the short timeframe to implement the Package. In response to the draft audit report, DAA advised that it has now restructured the Audit Committee to be more consistent with better practice.

24. The DAA established a robust risk management framework. This was based on a Fraud Control Plan, finalised in July 2000, which also functioned as an overall risk management plan. The plan guided, for example, the development of management systems and processes, as well as the audit program.

25. The DAA also established a number of objectives and associated key performance indicators (KPIs), which focussed on the delivery of DSAP. However, the ANAO found that the KPIs were not used consistently for internal and external reporting.

The Dairy Structural Adjustment Program (Chapter 4)

26. Delivery of DSAP, the major part of the Dairy Industry Adjustment Package, was a substantial task for the DAA. The short timeframe for implementation, and underestimation of the scale of the task, contributed to the challenges faced.

27. The DAA responded by increasing the involvement of the DAA members in operations, and increasing resources applied, as noted above. The ADC and DAFF also made considerable efforts to assist implementation.

28. Earlier planning for DSAP had identified that a database of farm enterprise milk deliveries was needed. This would assist, inter alia, in facilitating mail-out of information and application forms to farmers, and in verifying subsequent claims for payment rights. This task was undertaken by the ADC, which obtained data from milk processing companies and state dairy authorities. The database was completed in sufficient time to assist the DAA in its processing tasks.

29. One of the first tasks of the DAA was to complete an information pack and claim form for the program (the ADC had undertaken initial drafting). The DAA spent substantial effort reviewing the draft form, which needed to address complex matters, but undertook only limited piloting of it with farmers, because it considered it had insufficient time. The ANAO considers that earlier and greater emphasis on user friendliness and usability of the form would have assisted in identifying obstacles to timely implementation that later emerged. In particular, many farmers did not complete the form accurately, as discussed below.

30. The DAA was required, by the *DSAP Scheme*,⁷ to conduct a public information campaign and to encourage farmers to submit claim forms by 17 August 2000, the cut-off date. The DAA was successful in this. Only 13 farmers submitted a late claim, none of whom claimed that they had been unaware of the closing date.

31. The DAA established an effective framework to assist staff process claims. This included guidelines, decision-making delegations, and risk treatments. For example, there was extensive cross checking of applications. There was also substantial internal audit and quality assurance effort, which accounted for around 15 per cent of the agency's budget in 2000–01.

32. The ANAO examined entitlement calculations for a sample of claims, and found that the DAA had calculated those entitlements accurately.

33. However, the ANAO noted that one late claim was accepted on compassionate grounds,⁸ notwithstanding that this was not fully in accordance with requirements set out in the *DSAP Scheme*.

34. The DAA had expected processing of claims to be relatively straightforward. However, only some 14 per cent of claims could be processed without further investigation. This was because of errors in data entered on the

⁷ DSAP was established by the *Dairy Industry Adjustment Act 2000*, and is governed by a Scheme formulated by the Minister in accordance with section 10 of the Act—the *Dairy Structural Adjustment Program Scheme 2000*.

⁸ The basis of this decision was that the farmer did not suffer due to an error of the part of their accountant.

form, or because farmer data did not match that held by the DAA. These errors, in part, reflected the difficulties farmers had in understanding the form.

35. The DAA estimates that between one-third and one-half of the 96 DAA staff employed at the time were engaged in investigating, and resolving, these issues.

36. Claims processing also took longer than expected. The DAA target that 100 per cent of claims be decided and notified by 9 October 2000 was not met. Only 52 per cent of claims were notified by 16 October. Eighty per cent were despatched by mid-December. Five per cent took five months or more, due to their complexity.

37. In total, some 30 000 farmers were granted DSAP payment rights, with an average payment right of \$54 300.

The Supplementary Dairy Assistance (SDA) Package (Chapter 5)

38. The SDA included two types of supplementary assistance for dairy farmers. The largest of these, Market Milk Payments, was targeted at those in the dairy industry who were most severely affected by movements in the price of market milk⁹ following deregulation. It provided payments in addition to those already granted under DSAP.

39. The DAA was able to administer Market Milk Payments using information already collected for DSAP. This enabled it to identify farmers who might be eligible for the payments, and to calculate their likely payment. The ANAO found that the DAA did this accurately and promptly. The DAA despatched virtually all notices of decision within three months of the announcement of the package, meeting its target. Some \$100 million in payments will be made to 7735 farmers.

40. In contrast, administration of the second type of payment was complex. These Discretionary Payments were targeted at those farmers whose entitlement for DSAP was unintentionally limited. Eligibility for the Discretionary Payments was based on farmers having experienced a significant event, crisis, or other anomalous circumstances that adversely affected DSAP entitlement.

41. The DAA was required to identify farmers potentially eligible for Discretionary Payment, and to invite them to apply. The ANAO found that the DAA took appropriate steps to do this. The DAA searched its databases and files for those who potentially satisfy the criteria. It also undertook a publicity campaign, encouraging applications from those who may be eligible.

⁹ 'Market milk' is milk sold for consumption eg. drinking milk, UHT milk. 'Manufacturing milk' is milk used in producing dairy products, such as cheese, butter and dairy desserts.

42. The DAA met its target that 90 per cent of potentially eligible entities would be identified within three months of commencement of the SDA.

43. The assessment of subsequent claims for the payment was rigorous and well documented. The DAA sought confirmation, from independent sources, of assertions made by farmers. Files also clearly set out the steps taken in consideration of circumstances, and demonstrated required sign-off and review.

44. However, the process was resource intensive.¹⁰ For example, all applications were reviewed by DAA internal audit and its legal review team. All DAA Members participated in decision-making for an application.

45. The DAA advised that it adopted this approach as it had limited ability to recover payments that it had made in error,¹¹ and to ensure consistency of decision-making. However, the ANAO notes that a more risk-based process would have focussed for example on internal audit involvement and legal review for those claims assessed as higher risk.

46. In total, 1361 farmers applied for a Discretionary Payment right, of whom 641 were granted a payment, at an average amount of \$27 900. The DAA's service standard, that applications would be finalised within two months of receipt, was met in just 74 per cent of cases. The DAA advised that this was due to it having to undertake careful verification of data and delays in farmers submitting information.

Management of the Dairy Structural Adjustment Fund (Chapter 6)

47. The ADC, and subsequently Dairy Australia, has had a sound framework for managing the Fund. There are policies and procedures relating to management of the Fund. These are complemented by service level agreements with agencies which make claims for payment from the Fund. There is regular reporting on the status of the Fund to the DAA.

48. Program payments from the Fund exceed levy proceeds until payments cease in 2008. The Act therefore allows for borrowings to make up for any levy shortfall.

49. Dairy Australia is, with the Minister, required to take all reasonable steps to ensure that there is sufficient money in the Fund to make payments as they fall due. The ANAO found that Fund inflows and outflows are closely monitored. Dairy Australia uses a computer model to minimise borrowings,

¹⁰ Data is not available on the full costs of processing each claim.

¹¹ Section 22, *Supplementary Dairy Assistance Scheme 2000*.

whilst ensuring that sufficient funds are available for payments. All calls on the Fund had been met.

50. Borrowings to support the Fund average \$250 million per year, and peak at around \$400 million in 2008. A conservative approach has been adopted to interest rate exposure. There is an interest rate arrangement that fixes interest rate payments on \$200 million of borrowings at 6.355 per cent per annum until 2008.

51. The bulk of expenditure from the Fund, some \$1.8 billion, will be payments to farmers or communities as part of the Package. The ANAO found that procedures in place for control of these expenditures from the Fund were effective.

52. The bodies involved in delivering the Package, mainly DAFF, the DAA and Dairy Australia, also receive payments from the Fund for their cost expenses in administering the Package. These claims were handled in accordance with the legislation.

53. However, the arrangements in regard to achieving value for money for expenses incurred in administering the Package differ somewhat from those in place for many other Commonwealth programs. Although the Fund is vested in Dairy Australia, it does not have the authority to refuse to pay invoices on the grounds that they do not represent value for money. As long as the claimant is one of the eligible agencies, and the expenditure is consistent with the Act, Dairy Australia must pay the claim. There is no overall budget limit or cap for costs of administration.

54. The risk to be managed in these circumstances is that agencies may make decisions that are more risk averse and less cost effective than might be the case if there were more typical budgetary controls on the costs of administering the Program.

55. The increase in the costs of developing and implementing the Package was not subject to external review. The cost of administration over the life of the Package is now expected to be some 2.4 per cent of total costs, exceeding DAFF's original provision of 2 per cent.

56. The funding agreement between DAFF and DA gives DAFF powers of access and direction. However, it does not explicitly provide for Auditor-General access to material held by the contractor or access to premises. It would be better practice to do so, as well as providing greater assurance to all stakeholders.

Overall audit conclusion

57. The Dairy Industry Adjustment Package was implemented consistent with Government policy. Delivery of the Package by the Commonwealth

agencies involved was a considerable achievement. It was a substantial task, with a short timeframe for implementation, and was subject to a number of unanticipated challenges.

58. However, the nature, scale and obstacles to timely and effective implementation were underestimated in planning for the Package. This had an adverse impact on the timeliness of program payments, and on administrative costs.

59. This experience reinforces the value in having sufficient focus on the delivery challenges faced in large initiatives, to complement the necessary attention to policy development and stakeholder relationship management. In this case, delivery through third parties, rather than DAFF, heightened the need for planning to address specific implementation obstacles that might emerge. Addressing this in the future would also increase assurance to Ministers that agreed policy objectives can be achieved in a timely and cost effective manner. The importance of such planning to address delivery challenges has been emphasised recently by the Department of the Prime Minister and Cabinet.¹²

60. Governance arrangements in the DAA were generally appropriate. However, the arrangements for the audit committee weakened the assurance framework, as they lacked the demonstrable independence necessary for such committees.

61. The DAA effectively identified, and communicated with, farmers potentially eligible for payments. Program payments were calculated accurately. However, delays in processing of DSAP claims, and higher than expected costs, reflect the implementation planning difficulties.

62. The DAA undertook a rigorous, and resource intensive, approach to assessing claims for SDA discretionary payments. A more risk-based process would have directed resources proportionately to higher risk claims.

63. The Dairy Structural Adjustment Fund is administered consistent with the legislation. Cash flows have been managed to ensure the Fund remains solvent and able to meet claims for payment.

64. However, the arrangements for achieving value for money for expenses incurred in administering the Package, while consistent with the legislation, provide less oversight and accountability overall than is the case in some other programs. Better reporting to Parliament and DAFF on these expenses would strengthen accountability and related assurance, in this case.

¹² Dr. Peter Shergold, 'The Foundation of Ruined Hopes? Delivering Government Policy', Address to the Public Service Commission, 15 October 2003.

ANAO Recommendation and Agency Responses

65. The ANAO has made three recommendations to the Department of Agriculture, Fisheries and Forestry aimed at enhancing implementation of future government initiatives and its current contractual arrangements with Dairy Australia.

66. DAFF's full response to the audit is at Appendix 3. Its overall comment was:

The audit report's recommendations and general comments on the development and delivery of the DIAP are a useful assessment of the management of this process by the Department, the DAA and the Australian Dairy Corporation. The Department will consider fully this report in the context of future program implementation and is mindful that an appropriate balance needs to be maintained to ensure that policy outcomes are achieved in a timely manner whilst ensuring the appropriateness of administrative processes.

67. The DAA's comment was that:

The creation of a dedicated Financial Management and Accountability Act Agency required implementation of a complete suite of agency governance policies and procedures as well the establishment of program specific plans, their implementation and monitoring. The Dairy Adjustment Authority supports the findings of the Australian National Audit Office and acknowledges that implementation of the Dairy Structural Adjustment Program Scheme was impacted by the short planning timeframe and 'once-off' nature of the program. Supplementary Dairy Assistance Scheme implementation was significantly enhanced by the early consultation with the Australian Government Department of Agriculture, Fisheries and Forestry during the policy formulation process. The Dairy Adjustment Authority was mindful of operating costs and established a robust, but prudent approach to the determination of entitlement payments because the legislation did not permit recovery of funds if the Dairy Adjustment Authority made an error.

Recommendations

Recommendation No.1
Para. 2.58

The ANAO recommends that the Department of Agriculture, Fisheries and Forestry’s planning for future major new initiatives include better identification and analysis of the risks, costs and challenges of implementation, to enable greater assurance of timely and cost effective program delivery.

DAFF response: Agreed.

Recommendation No. 2
Para. 6.39

The ANAO recommends that the Department of Agriculture, Fisheries and Forestry seek to amend its contract with Dairy Australia to enable the department to require performance measures from all agencies able to draw administrative moneys from the Fund. This would assist the department to justify the value for money of the costs of administering the Package for greater accountability for performance.

DAFF response: Agreed.

Recommendation No. 3
Para. 6.44

The ANAO recommends that the Department of Agriculture, Fisheries and Forestry reconsider amending its contract with Dairy Australia to add standard clauses providing for ANAO access to premises, records, information and assets associated with Dairy Australia’s responsibilities under the Dairy Industry Adjustment Package.

DAFF response: Agreed.

Audit Findings and Conclusions

1. Introduction

Background

1.1 The Australian dairy industry is one of Australia's major industries. More than 60 000 people are employed on dairy farms and in related manufacturing and distribution. It is the nation's largest exporter of manufactured food products and the third largest agricultural exporter. In 2002–03, the industry exported \$2.4 billion in dairy products. Over 50 per cent of total milk production, and over 60 per cent of manufactured dairy products, have been exported.

1.2 For many years, state regulations provided a guaranteed price for the supply of drinking milk (referred to by the industry as market milk). Dairy farmers were effectively prevented from selling milk interstate. The Commonwealth's Domestic Market Support Scheme also provided support for farmers supplying to the manufacturing sector.

1.3 During 1998–99, parts of the dairy industry and the Victorian government indicated that they wished to deregulate the industry in the light of growing efficiency disparities between the States. In particular, the Victorian industry, which accounted for 62 per cent of national production, sought access to interstate markets.

1.4 The industry approached the Commonwealth Government seeking support for dairy farmers, should deregulation occur. In September 1999, the Commonwealth announced that it would provide support in the form of a Dairy Industry Adjustment Package. The Minister stated that the aim of the Package was:

... to assist dairy farmers make the transition to a deregulated environment if State governments and the dairy industry went ahead with market deregulation.¹³

1.5 In December 1999, following a plebiscite of Victorian dairy farmers, the Victorian government announced that it would proceed with deregulation on 1 July 2000. In March 2000, all other States agreed to aim to deregulate their milk pricing regulations by 1 July 2000. All States subsequently dismantled their regulatory schemes. NSW was the last State to do so, on 30 June 2000. All State markets were deregulated on 1 July 2000.

¹³ The Hon W Truss MP, 'Dairy Industry Restructure Package' 28 September 1999.

Overview of the Dairy Industry Adjustment Package

1.6 The Dairy Industry Adjustment Package (the Package) was established by the *Dairy Industry Adjustment Act 2000* in May 2000. The Package comprised:

- the Dairy Structural Adjustment Program (DSAP);
- the Dairy Exit Program (DEP); and
- the Dairy Regional Assistance Program (DRAP).

1.7 The legislation also established a new Commonwealth authority, the Dairy Adjustment Authority (DAA) to deliver the Package.

1.8 In May 2001, the Government provided additional assistance by establishing the Supplementary Dairy Assistance (SDA) program and expanding the Dairy Regional Assistance Program.

1.9 The elements of the Package are summarised in Table 1.1. The Package is currently estimated to deliver over \$1.8 billion in assistance over the period 2000–08.

Table 1.1

Elements of the Dairy Industry Adjustment Package

Package Element	Date established	Description	Value of entitlements /grants 2000–2008 (\$ million)
Dairy Structural Adjustment Program (DSAP)	May 2000	To assist dairy farmers affected by dairy deregulation, DSAP provides eligible dairy producers with payment rights paid on a quarterly basis over a period of eight years.	1626
Supplementary Dairy Assistance (SDA)	September 2001	Provides an additional one-off payment to eligible dairy producers who were severely affected by deregulation, and whose eligibility for DSAP was unintentionally limited.	120
Dairy Regional Assistance Program (DRAP)	May 2000 (expanded September 2001)	Provides funding for business projects that lead to on-going employment and address issues of social dislocation that may arise as a result of structural change.	65
Dairy Exit Program	May 2000	Provides a grant to dairy producers who are eligible for DSAP or SDA payment rights and who wish to leave the industry.	7
		Total	1818

Source: Department of Agriculture, Fisheries and Forestry and Dairy Australia Limited

Note: Numbers on the table are individually rounded.

Administrative arrangements for DSAP and SDA

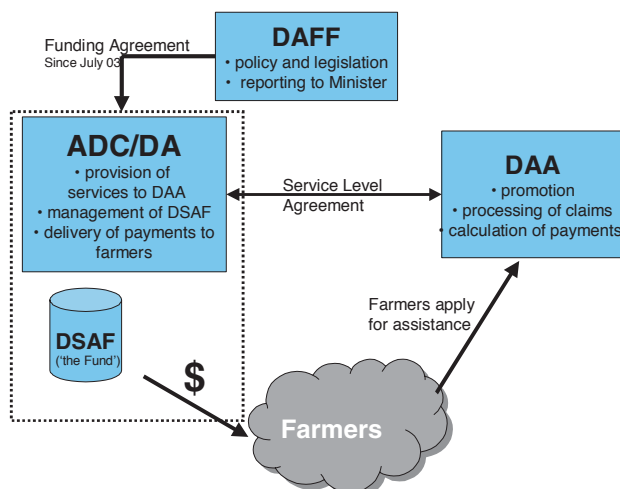
1.10 The major agencies involved in delivering DSAP and SDA are:

- the Department of Agriculture, Fisheries and Forestry (DAFF), which developed the policy framework, drafted the legislation, and monitored implementation by the DAA;
- the Dairy Adjustment Authority (DAA), which was established in 3 April 2000, and which has prime responsibility for delivering DSAP and SDA. The DAA has reduced in size since its peak in 2001. All its remaining functions are expected to be transferred to DAFF in mid-2005; and
- the Australian Dairy Corporation (ADC), which assisted the DAA in implementing the Package, and which managed the Dairy Structural Adjustment Fund. On 1 July 2003 the ADC was privatised, and became Dairy Australia Limited.¹⁴ Dairy Australia continues to provide the services previously delivered by the ADC. It has a service agreement with the DAA and a funding agreement with DAFF.

1.11 These arrangements are depicted in Figure 1.1.

Figure 1.1

Agencies involved in delivering DSAP and SDA



Note: On 1 July 2003, the ADC was privatised and became Dairy Australia Limited (DA). Dairy Australia performs the functions previously conducted by the ADC.

Source: ANAO

¹⁴ Dairy Australia Limited is a public company, limited by guarantee. Its members are dairy farmers who pay a dairy levy and dairy industry peak organisations.

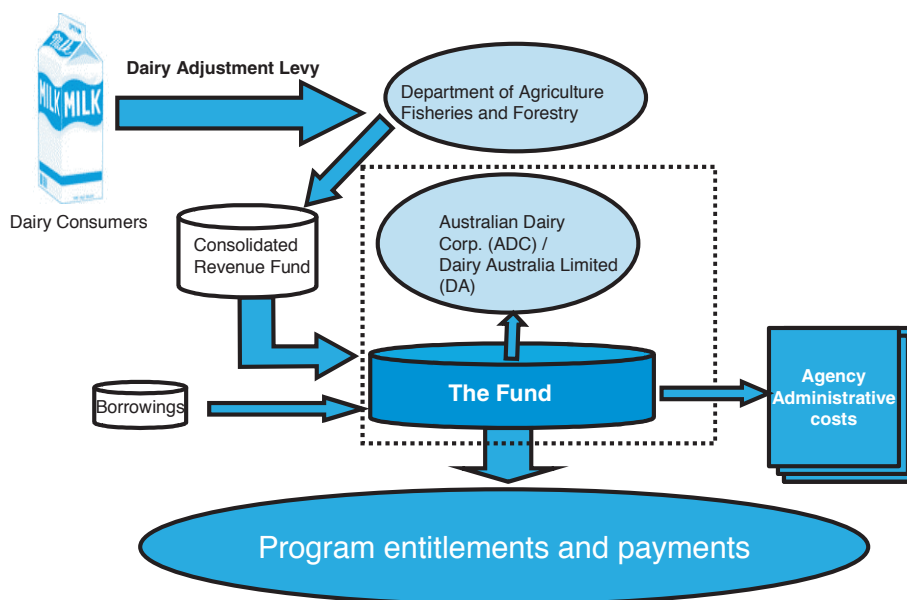
Funding

1.12 Funding for the Package comes from a levy of 11 cents per litre on the sale of all drinking milk. The levy is collected by DAFF from milk processors in accordance with legislative requirements.¹⁵ The processors pass on the cost of the levy to consumers. Once the levy has been collected, DAFF deposits an amount equal to the levy proceeds into the Dairy Structural Adjustment Fund (the Fund), which is used to make payments under the Package.

1.13 Outflows from the Fund, until 2008, exceed income. This is due to levy proceeds being less than payments made. To ensure solvency, section 77c of the *Dairy Produce Act* allows Dairy Australia to borrow to make up for any levy shortfall. The levy will continue until all costs associated with the Package have been met, estimated to be mid-2010. The flow of funds is shown in Figure 1.2.

Figure 1.2

Overview of the flow of funds from dairy consumers to dairy farmers and other recipients



Source: ANAO

¹⁵ The *Dairy Adjustment Levy (Customs) Act 2000*, the *Dairy Adjustment Levy (Excise) Act 2000* and the *Dairy Adjustment Levy (General) Act 2000*.

Other reviews

1.14 In early 2003, DAFF commissioned a review of the efficiency and effectiveness of the DSAP and SDA, which has been provided to the Minister.

Audit objective and approach

1.15 The objective of the audit was to assess the Commonwealth's administration of the Dairy Structural Adjustment Program and the Supplementary Dairy Assistance Program.¹⁶ To this end, the audit addressed:

- planning for implementation of the programs;
- governance arrangements in the DAA;
- implementation and delivery of DSAP and SDA; and
- management of the Dairy Structural Adjustment Fund.

1.16 The audit criteria were drawn from: legislative requirements; the agency standards and guidance; better practice in governance and service delivery (drawn from previous ANAO audits, better practice guides and other sources); and an earlier audit of DAFF's management of the restructuring of the Meat and Livestock bodies.¹⁷

1.17 The ANAO examined relevant administrative files and documents within DAFF, the DAA and the ADC, analysed management information systems and reviewed a sample of individual claim files. The ANAO also interviewed staff of the agencies, as well as industry stakeholders.

1.18 The audit was conducted in accordance with ANAO auditing standards at a cost of \$540 000. The ANAO engaged Origin Consulting to assist with the conduct of the audit.

¹⁶ These programs account for some 96 per cent of the program payments from the Package.

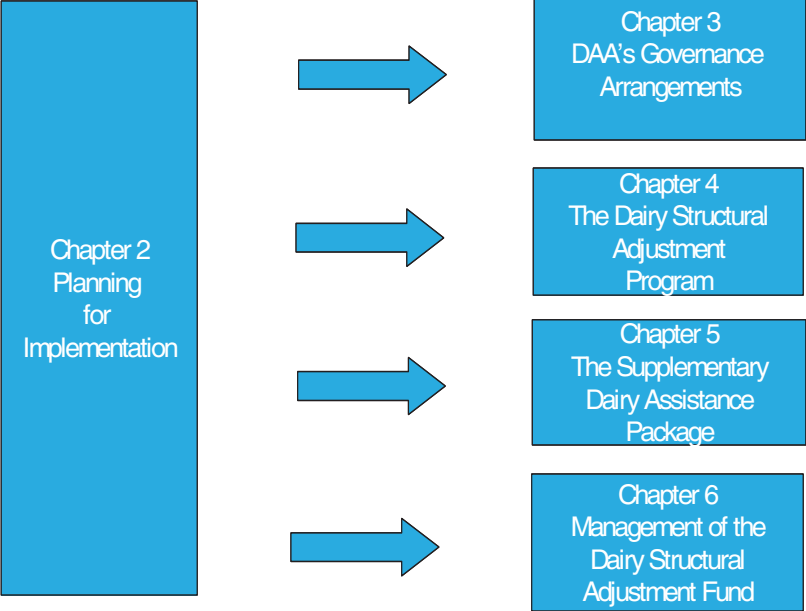
¹⁷ ANAO Audit Report No. 50 of 1997-98, *Restructuring of Meat and Livestock Statutory Organisations*.

Report structure

1.19 The following Chapters discuss the audit findings, as illustrated in Figure 1.3.

Figure 1.3

Report Structure



2. Planning for Implementation

This chapter examines DAFF's planning for the establishment and implementation of the Package, in particular the extent to which it identified and addressed major risks to effective delivery.

Introduction

2.1 The Department of Agriculture, Fisheries and Forestry is responsible for providing policy advice to the Government on dairy deregulation and structural adjustment. This included planning for implementation of the Government's policy decision. This planning was a key task, as the package involved delivery of some \$1.7 billion in payments to the dairy industry,¹⁸ and there were a considerable number of risks to effective delivery. There was also uncertainty over when deregulation would occur, with consequential impact on planning complexity and timeframes.

2.2 The challenges of delivering a major government initiative in these circumstances necessitated a systematic focus on implementation, which required:

...identifying at an early stage the delivery challenges that will be faced, ensuring that these obstacles are understood, planning how they might be overcome and monitoring closely the progress of implementation.¹⁹

2.3 There were broadly three phases to DAFF's planning for the dairy package:

- development of the basic policy model in the lead up to the Commonwealth Government's announcement on 28 September 1999;
- development of the draft legislation and delivery framework from October 1999 to February 2000; and
- the handover of responsibility for the major element of the Package, the Dairy Structural Adjustment Program, for implementation by the DAA.

Development of the basic policy model

2.4 DAFF commenced work in early 1999 to assist the Government to make its decision on the dairy industry's request for assistance to facilitate an orderly

¹⁸ Combined costs of DSAP, DRAP and Dairy Exit were \$1.7 billion, excluding interest. The SDA program was added in September 2001, bringing total payments to over \$1.8 billion.

¹⁹ Dr Peter Shergold, 'The Foundation of Ruined Hopes? Delivering Government Policy', Address to the Public Service Commission, 15 October 2003.

end to regulation. For example, it developed a risk plan in March 1999, which was revised in July 1999. The plan considered available resources and identified a number of risks, such as inconsistency with trade policy and lack of industry support. The plan ranked each risk and set out a strategy for treating those risks.

2.5 Complementing the risk plan, DAFF developed planning charts that identified a number of tasks. These tasks included:

- government consideration of proposals;
- State/Territory meetings;
- the steps needed to develop and pass legislation; and
- establishment of borrowing arrangements and communications strategies.

2.6 While identifying the above tasks, the risk plan and planning chart focussed on the development of the proposed legislation. At this stage, DAFF did not develop a detailed implementation plan or identify key implementation risks. The planning chart did specify that a 'delivery entity' would be required. However, this was not expanded on in any detail. Nor were the range of tasks associated with delivery of the Package specified.

2.7 DAFF recognised the importance of sound stakeholder input to the development of the Package. It established a joint task force with the dairy industry and held a number of discussions with the industry, State/Territory governments and other stakeholders on options for a possible assistance package.

2.8 DAFF refined the proposed assistance package, during September 1999, in the light of its consultations. It then prepared proposals, which had the support of industry, for consideration by Commonwealth Ministers. In its proposal, DAFF acknowledged that program delivery costs were uncertain, and included a provision of two per cent of total costs (or \$36 million) for such costs over the life of the Package.²⁰

2.9 Departmental papers indicate that this cost provision was considered to be a conservative estimate. It provided scope for unforeseen expenses, such as legal costs, to be accommodated within the provision. The estimate was agreed with industry. DAFF advised the ANAO that it was not possible to plan and budget in detail until Ministers made a decision on the overall approach to assist the industry.

²⁰ At that time, the total cost of the Package, including interest, was estimated at some \$1.8 billion.

2.10 The key assumptions of the delivery framework proposed by DAFF were that:

- producer entitlements would be determined by a new panel with statutory decision-making powers, to be known as the Dairy Adjustment Authority (DAA). The panel would be a small, expert, decision-making body. It would have no operational functions and be established only a short time before the first delivery tasks had to be implemented; and
- the Australian Dairy Corporation (ADC) would establish and manage the bulk of infrastructure required to support the DAA and deliver the Package (such as databases, staffing and contract management).

2.11 The Government, on 28 September 1999, announced its agreement to provide the assistance package should deregulation occur.

Development of the legislative and delivery framework

2.12 Following the Government's announcement in September 1999, DAFF's planning focussed on developing the legislative and delivery framework for the Package. Implementation was still dependent on States agreeing to deregulate.

Development of the legislation

2.13 DAFF established an internal team in October 1999 to develop the draft legislation. The team continued to liaise closely with stakeholders through formal and informal meetings and discussions. In particular, it discussed the nature of ownership arrangements in the dairy industry, which were varied and complex. Drafting of the legislation, therefore, required detailed understanding of the industry arrangements. DAFF also communicated frequently with State Government departments, to seek their views and to monitor the likely progress of deregulation.

2.14 The legislative proposals were complex, requiring consideration of farm ownership arrangements, the logistical aspects of delivering the benefits to farmers and arrangements to collect the proposed Dairy Adjustment Levy. In addition, the draft legislation established the DAA, and defined the Dairy Structural Adjustment Program (DSAP) and Dairy Exit Program (DEP). The proposed legislation to amend the *Dairy Produce Act*, was introduced early in the Autumn Session of Parliament on 16 February 2000, as required by Government.

Developing the delivery framework

2.15 As well as developing the draft legislation, DAFF considered the arrangements required to implement the legislation. To facilitate this, it

developed a number of task plans and lists, and also refined its risk management documentation.

2.16 However, the planning did not set out in any depth how these tasks were to be implemented. DAFF considered this to be the responsibility of the ADC and the DAA (see paragraph 2.31).

2.17 As the ADC was expected to bear the bulk of the costs, DAFF asked the ADC to estimate the range of possible costs for implementing the Package. The preliminary costings prepared by the ADC included its own costs and those likely to be incurred by the DAA, but not those of DAFF. The ADC estimated these costs for the first year at between \$1.6 million and \$3.2 million.²¹ DAFF subsequently prepared an estimate for the DAA's cost for 2000–01 of \$3.015 million.

2.18 The risk plan (see paragraph 2.4) was updated during this period. The plan identified risks, their severity, proposed mitigation strategy and relationship to DAFF's target timetable. Major risk areas identified are set out in Figure 2.1.

Figure 2.1

Major risk areas identified by DAFF in October 1999

- Agreement of States.
- Establishment of key communications strategy.
- Legislation process.
- Establishment of levy arrangements.

Source: Department of Agriculture, Fisheries and Forestry

2.19 However, the ANAO found that the specification of tasks and risks was only made in general terms. For example, the plan specified risks in terms such as 'legislation process'. The risk management plan did not identify implementation of the Package as an area of risk.

Defining the role of the ADC

2.20 The ADC was expected to provide the delivery infrastructure for the Package (see paragraph 2.10). DAFF wrote to the ADC in October 1999 seeking its '...cooperation in exploring its implementation...'. DAFF suggested what some of the support functions could be. It also suggested a number of key preparatory tasks that could be commenced by the ADC.

2.21 In response, the ADC advised DAFF that it was assessing the extent of responsibilities involved and confirmed that work had begun on some tasks.

²¹ For the period October 1999 to October 2000.

2.22 The ADC submitted to DAFF a draft task list and plans as to how it may deliver the suggested functions. The tasks, and the extent to which they were eventually delivered by the ADC, are shown in Table 2.1.

Table 2.1

Suggested assistance from the ADC

Suggested task		Outcome
Developing a database (determined from the DMS market milk levy and market support payments) to determine base entitlements.	✓	Milk production database and entitlement system delivered by the ADC.
Management of an appropriate communications strategy on behalf of the DAA.	P	Initial contracting done by the ADC, DAA subsequently managed.
Assessing applications against statutory guidelines (with disputed applications referred to the DAA).	-	Delivered by the DAA.
Assessment and recommendation on applications for exit payments.	-	DAFF subsequently entered into an agreement with Centrelink to administer the program.
Estimating the costs of implementation.	P	Delivered by the ADC, however the final costs were substantially greater than estimated.
Establishing a borrowing facility to fund the Package.	✓	Delivered and still managed by the ADC.
Provision of general secretariat functions to the DAA, including meetings, reporting, legal representation, dispute resolution and external audit.	P	The DAA eventually took on the bulk of these functions. However, the ADC did second a number of staff to the DAA, including the DAA's General Manager.

Source: ANAO analysis of DAFF documentation

Notes: ✓ Largely implemented.
 P Partly implemented.
 - Not implemented as expected.

2.23 As Table 2.1 demonstrates, because of limited resources and legislative constraints, some tasks expected to be delivered by the ADC were, in practice, delivered by the DAA. For example, DAFF expected that the ADC would process claims under DSAP. This critical task was subsequently taken on by the DAA. In the event, the ADC's involvement in delivery, while substantial, was markedly less than that expected by DAFF.

2.24 The ANAO considers that planning and management would have been better managed by an explicit agreement with the ADC. In this context, DAFF did not negotiate a formal agreement with the ADC for the detail of preparatory work to be conducted, nor its cost. Neither did DAFF explicitly identify those tasks that the ADC could not perform, and how these might be performed without hampering implementation timing.

Development of the *DSAP Scheme* and handover to the DAA

2.25 Once the proposed legislation was introduced into Parliament, in February 2000, DAFF focussed on development of the *DSAP Scheme*. The *DSAP Scheme* is subordinate legislation made under the *Dairy Produce Act*. It sets out the eligibility criteria for DSAP, how farmers are to claim rights, the calculation of rights, and the making of payments by the DAA. The development of the Scheme was a major activity for DAFF and was delivered consistent with Government expectations.

2.26 DAFF also took some preparatory steps for addressing implementation tasks during this period. During February, it contracted a market research agency to prepare a communications strategy.

2.27 DAFF also sought external advice from an accountancy firm on the probity of the proposed process for implementing DSAP. The advisors provided a report to DAFF in late February 2000. The report noted, inter alia, the need to implement project management techniques as soon as possible, to contain slippage. It also advised that:

the legislation does as planned and provides a workable framework to introduce the Scheme by subsequent orders and regulations ... the only concern is the potential for delay and the subsequent impact on implementation.

2.28 To facilitate transition, future members of the DAA were appointed by the Minister to an interim body, the Dairy Adjustment Panel, on 28 March 2000. A departmental officer was appointed as full time government member of the Panel to support implementation. Once the DAA was established, the members of the Panel then automatically became members of the DAA on 3 April. Consequently, the members had little time to get across operational issues that needed to be addressed for implementation, before their formal appointment.

2.29 In addition, at the end of March 2000, DAFF prepared a plan that identified a number of actions necessary for implementation. These included: advertisements in newspapers; a call centre; and an information pack and form for farmers. DAFF again updated its risk management plan for the development of the Package to identify, for example, establishment of the DAA and implementation of the *DSAP Scheme* as risk areas.

2.30 The ANAO found, however, that the specification of tasks and identification of risks was only made in general terms. For example, there was limited analysis and detail of how tasks would be implemented. This inhibited the foresight available to the DAA on the challenges in implementing the Package, and how they might be met. Although the revised risk strategy now

identified implementation of DSAP as a risk area, the strategy did not identify the causes of risks (such as inadequate systems or difficulties the DAA might face in processing claims). Rather, the risk plan identified the impacts of risks (such as that there might be delays). As a result, the risk plan had limited utility in assisting planning for delivery.

2.31 DAFF advised that, at that time, it would not have been appropriate for it to undertake detailed planning for delivery. This was, in part, because there was uncertainty as to whether deregulation would occur. DAFF also considered that the *DSAP Scheme* set out in law a detailed implementation plan that both enabled, and obliged, the DAA to understand its obligations early in the implementation process.

2.32 DAFF is correct in stating that the endorsed delivery model and legislation gave the DAA primary responsibility for delivery of DSAP. However, the ANAO considers that, as noted above, there were significant risks inherent in the model proposed. Prompt and effective delivery to the dairy industry was required in a short development timeframe. To meet this need, it is necessary to identify, assess and report on such delivery risks, and at least identify risk treatments, to better prepare those responsible for overcoming likely obstacles to implementation.

2.33 As portfolio advisor to the Government, responsibility lay with DAFF to sufficiently plan for, and facilitate, delivery arrangements. This would have provided assurance that the program could, in fact, be delivered as desired by the Government. Notwithstanding that the *DSAP Scheme* sets out in detail the characteristics of farmers' entitlements, it does not articulate the detailed tasks, necessary resources and facilities necessary to deliver them. A more systematic project implementation plan would most likely have done this, and assisted in preparation for, and subsequent implementation of, the DAA's role.

2.34 DAFF did establish a DIAP Steering Committee in April 2000. This was, in part in response to advice from the probity auditor, identifying the need for effective coordination among agencies delivering the package.

2.35 The Committee comprised the DAA Chair, ADC CEO and departmental representation. Its role was to manage the implementation of DSAP. However, the committee met only once.

2.36 DAFF advised the ANAO that, due to the pace of implementation, a formal structure was not appropriate. Instead, the Committee's functions were performed by a combination of a Communications Steering Committee (which had relevant agencies as members and focussed on the publicity and communications aspects of the Package) and weekly teleconferences between the DAA Chair and senior departmental officers.

2.37 DAFF's role in planning concluded with the establishment of the DAA on 3 April 2000.

Delivery by the DAA

2.38 Once the DAA was established, it had some six weeks from its establishment to the first major task of implementation, the despatch of information packs and application forms to farmers. This deadline was set by the Minister, when gazetting the *DSAP Scheme*.

2.39 The DAA advised the ANAO that progress was slow initially, until it realised that the task of delivering DSAP was substantially greater than expected. In particular, it became clear to the DAA that its role would be far greater than that assumed in DAFF's model. It also required a different balance of skills. In addition, progress on some key tasks (such as development of the main IT system) was less than the DAA had expected, accentuating difficulties with the short time available.

2.40 Accordingly, as the nature and scale of the task became more apparent, the DAA took on greater responsibility for detailed planning of operational implementation; development of administrative systems; and other processes necessary to deliver the Package. The DAA members considered that their role became different to that communicated by DAFF. For example, they considered that, as they had legislative responsibility for the delivery of DSAP, their direct involvement was required in all aspects of administration. It was, therefore, not appropriate to rely on the ADC for the bulk of administration.

2.41 On 23 May 2000, the initial Chair of the DAA resigned, noting that:

Whilst it might have been envisaged that the DAA board was to have operated essentially as an overseeing organ of a fully equipped management team, the actual circumstances has made it necessary that the board members undertake executive functions of the most pressing kind.²²

2.42 The DAA advised the ANAO that it considered that there was insufficient time allowed for planning of implementation and that, as a result, the DAA 'had to plan on the run'. For example, the expected cost of implementation grew substantially as the DAA defined the scope of tasks. The DAA grew rapidly, with staff numbers rising to a peak of nearly 100 staff in the same year.

2.43 A preliminary first year cost estimate of \$3.015 million, supplied by DAFF, was revised upwards several times during 2000. The DAA's final budget for 2000–01 was \$13 million. An additional \$2 million was incurred by

²² Resignation letter from R. Madgwick, 23 May 2000.

other agencies in that year as part of implementation. During this time DAFF also provided assistance to the DAA by seconding staff.

2.44 The ANAO considers that earlier and more thorough planning by DAFF, including identification of risks and obstacles to delivery, and how these obstacles could be overcome, would have strengthened the implementation processes. Some examples of delivery tasks that would have benefited from such planning are summarised in Figure 2.2.

Figure 2.2

Areas of implementation that would have benefited from greater planning

Development of the Dairy Entitlement System (DES)

DES was intended to be the main IT system for processing DSAP claims. The ADC commenced planning for the DES in early 2000 in response to a request from DAFF in October 1999.

DES was central to implementation of DSAP. However, the ADC and DAA faced several challenges in developing the system:

- due to the short timeframes, the system was developed in parallel to the development of the *DSAP Scheme*. This resulted in changes to the DES specifications, including 183 specific change requests.
- the DES specifications also assumed that milk data, once entered, would require little amendment before calculating benefits. However, this was not the case and a substantial number of corrections to data were required, increasing costs and reducing assurance on the integrity of data.

The initial estimate of IT costs was some \$300 000. This was substantially exceeded with final costs amounting to some \$2 million.

Skill sets of the DAA members

The identification of members reflected the expected role of the DAA. For example, the initial Chair had a legal background. As the nature of the delivery task was clarified by the DAA and DAFF, it was recognised that greater project and business management skills were needed. The replacement Chair had experience more consistent with these skills.

Development of the DSAP Claim form

Development of the DSAP claim form was an early task of the ADC and DAA. The DAA focused on the form's legal status, and did not sufficiently test the form with a representative sample of the dairy industry. This is discussed further at paragraph 4.21.

Source: ANAO

2.45 As discussed in Chapter 4, the DAA (with support from the ADC) implemented DSAP in accordance with the legislation, although delivery of payments took somewhat longer than expected.

2.46 The DAA advised the ANAO that achieving implementation required intensive effort; and that it operated in 'crisis mode' during 2000, as it responded to 'a huge time pressure on the Authority'.²³

2.47 In contrast to the experience with DSAP, the development and implementation of the SDA program, a year later, demonstrated a greater degree of planning for delivery by both DAFF and the DAA. Both agencies communicated effectively during the development of the SDA and were able, for example, to ensure that the requirements of the legislation would be easily incorporated into the relevant IT system, the Supplementary Entitlement System (SES). The DAA developed risk and project plans in advance of the Scheme's introduction, which facilitated prompt payment of entitlements.

Adequacy of implementation planning

2.48 Overall, the level of DAFF's project planning, risk management and stakeholder consultation, during the development of the basic model in 1999, was sufficient to develop the key principles of the Package and gain industry support.

2.49 During the second phase, developing the legislation and associated *DSAP Scheme*, DAFF developed a complex package of legislation. This was done in accordance with the Government's timetable.

2.50 However, the ANAO considers there were several aspects of DAFF's planning for delivery that reinforce the need for attention to policy development to be complemented by a focus on delivery challenges; and how these challenges could be identified and overcome.

2.51 There were substantial risks associated with relying on a new agency such as the DAA to oversee delivery, as well as on an independent corporation such as the ADC to deliver a major program. In the event, the tasks undertaken by these agencies were markedly different to those expected by DAFF.

2.52 In addition, there were substantial risks and uncertainty in the assumptions made about the role of the ADC in implementation. This was notwithstanding the ADC's willingness to facilitate the Package within its capabilities. As well, the delivery tasks required of the ADC were more substantial and complex than its previous experience. For example, the ADC had previously delivered the Domestic Market Support Scheme.²⁴

²³ Dairy Adjustment Authority, *Annual Report 2000-01*, p. 1.

²⁴ The Domestic Market Support Scheme was part of the assistance framework established by the Commonwealth. Under the Scheme, Funds from levies on market and manufacturing milk were collected by the ADC, and paid to farmers on the basis of their manufacturing milk production. Source: Australian Dairy Industry Council Annual Report, 2002.

2.53 The practical aspects of implementation, and likely obstacles to successful implementation, warranted consideration at the planning stage, to address the risks associated with delivery by these agencies.

2.54 In particular, earlier and more detailed analysis of the delivery tasks by DAFF, could have given the ADC and DAA a 'running start' to delivery. However, the specification of delivery tasks was limited to a broad level with limited resulting benefit. For example, while tasks such as establishment of the call centre were identified, DAFF's project plans did not set out the actions, risks, timeframes and resources associated with achieving the tasks in practice. This resulted in DAFF underestimating the scale and complexity of the delivery tasks; DAA members investing a larger amount of their time than expected; and planning 'on the run' by the DAA, with the risk of greater cost than might otherwise have been the case.

2.55 Such planning would also have allowed DAFF, in its role as policy adviser to the Government, to provide greater assurance to the Minister that the risks and implementation requirements had been adequately addressed and communicated to the Board.

2.56 The planning could also have better identified the desirable skill sets and experience of DAA members, and highlighted that project management, rather than legal skills, were required of the Chair.

2.57 DAFF subsequently advised the ANAO that it had somewhat underestimated the scale of the implementation task. In this context, the ANAO notes that short timeframes for the delivery of a major initiative are not unusual. Some of the obstacles to timely and effective implementation, discussed above, were predictable, and not unique. The ANAO considers that this experience indicates that such matters warrant greater attention in future initiatives for cost effective results and greater assurance for all concerned.

Recommendation No.1

2.58 The ANAO recommends that the Department of Agriculture, Fisheries and Forestry's planning for future major new initiatives include better identification and analysis of the risks, costs and challenges of implementation, to enable greater assurance of timely and cost effective program delivery.

DAFF Response

2.59 Agreed. The department agrees that ongoing planning is critical to the successful implementation of new initiatives. The department is currently examining appropriate mechanisms for establishing more robust planning processes for implementing major new initiatives.

3. Dairy Adjustment Authority's Governance Arrangements

This chapter discusses the governance arrangements put in place by the DAA.

Introduction

3.1 The Dairy Adjustment Authority (DAA) was established in April 2000 by the *Dairy Industry Adjustment Act 2000*. Its purpose was to administer applications and make determinations for the purpose of making Dairy Structural Adjustment Program (DSAP) payments. The functions of the DAA were subsequently extended in June 2001 to include administering the Supplementary Dairy Assistance (SDA) program. The functions of the DAA are set out in Figure 3.1.

Figure 3.1

Functions of the DAA

- Implement a communications strategy and invite applications for entitlements from dairy producers for the Dairy Structural Adjustment Program (DSAP).
- Assess applications and determine entitlements under the Dairy Structural Adjustment Program eligibility criteria.
- Direct the Australian Dairy Corporation to pay entitlements granted to eligible dairy producers under the Dairy Structural Adjustment Program.
- Oversee the development and maintenance of a register of entitlements under the Dairy Structural Adjustment Program.
- Determine disputes concerning entitlements.
- Review arrangements for the ongoing operation of the Dairy Structural Adjustment Program.
- Administer the Supplementary Dairy Assistance (SDA) program.

Source: DAA annual report

3.2 The DAA comprises five members appointed by the Minister. It is an agency subject to the *Financial Management and Accountability Act 1997*, and must conduct its operations consistent with the *Dairy Adjustment Authority Regulations 2000*. The members are supported both by DAA staff and through facilities contracted from Dairy Australia Limited under a Service Level Agreement between the two bodies.

3.3 The DAA has a limited life. Once the major tasks of implementing the Package are complete, it will phase down. Residual functions will be assumed by DAFF. This is expected to occur in mid-2005.

3.4 This chapter addresses:

- the DAA's strategic and financial management framework;
- the function and role of the DAA members;
- the DAA's audit and compliance framework;
- risk management in the DAA; and
- reporting and performance monitoring.

Strategic and financial management framework

3.5 In July 2000, three months after its establishment, the DAA developed a Business Plan and Financial Management Charter. The documents are summarised in Table 3.1.

Table 3.1

Contents of the DAA's Business Plan and Financial Management Charter

Business Plan	DAA's Financial Management Charter
<ul style="list-style-type: none"> ▪ the member's vision for the DAA; ▪ code of conduct and values; ▪ key phases of expected activity in implementing DSAP; ▪ functions (roles and responsibilities) of the DAA, the Department, ADC and other agencies in implementing the Package; ▪ approach to managing relationships with stakeholders; ▪ performance monitoring and evaluation processes, including Key Performance Indicators; and ▪ corporate governance arrangements. 	<ul style="list-style-type: none"> ▪ objectives for the DAA's financial management systems; ▪ scope and role of financial reporting; ▪ approvals and delegations; ▪ budget development; and ▪ the role of audit.

Source: DAA Business Plan and Financial Management Charter

3.6 The DAA also developed a Strategic Plan in August 2000, which further articulated the objectives and Key Performance Indicators for the DAA. The DAA's performance against these indicators is discussed in the relevant chapters of this report.

3.7 Complementing these documents, in August 2000, the DAA members adopted a set of 'Instructions Issued by the Chair'.²⁵ The instructions address issues such as official travel, procurement and debt management.

3.8 The DAA also established a system of delegations, recording them in the record of resolutions kept by the DAA. The ANAO found that the delegations were consistent with the legislation. However, the delegations were not consolidated into a register. Such a register would facilitate compliance and is recognised better practice. The DAA has now commenced establishing such a register.

3.9 Overall, these documents and arrangements provide an appropriate strategic and financial management and control framework for the DAA. They address objectives, roles and responsibilities, performance management and financial and decision-making controls.

Function and role of DAA members

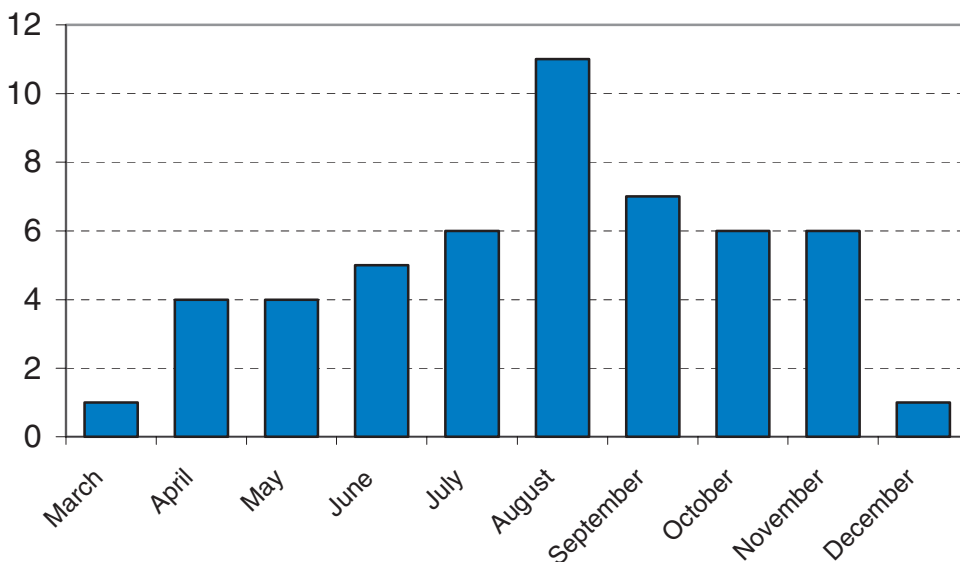
3.10 The operations of the DAA are prescribed by the Dairy Adjustment Authority Regulations, which cover matters such as the convening and minuting of meetings and voting procedures.

3.11 The ANAO found that the DAA operated in accordance with these regulations. Meetings were minuted and decisions recorded as 'resolutions' reflecting the DAA regulations. Appropriate procedures were followed in the holding and conduct of meetings.

3.12 As discussed in Chapter 2, it was originally envisaged that the DAA would be a small, high level strategic body, with little direct involvement in delivery of the bulk of the Package. However, as the implementation of DSAP progressed, the members took a more 'hands on' role (see paragraph 2.40). This was particularly the case for the Chair. The members considered this was necessary because of the tight deadlines placed on them; their accountability for effective delivery; and increasing recognition of the substantial amount of work required to implement DSAP.

3.13 Accordingly, the members were closely involved in establishing the administrative infrastructure to deliver DSAP. For example as Figure 3.2 shows, during 2000 the members met 51 times, either in formal meetings or attending internal workshops held to facilitate delivery. In addition, members performed other duties outside these meetings.

²⁵ These are equivalent to Chief Executive Instructions, as required under the *Financial Management and Accountability Act*.

Figure 3.2**Number of meetings and workshops held by DAA: March to December 2000**

Source: DAA management data

Audit and compliance

DAA Audit Committee

3.14 Audit Committees have an important role in scrutinising agency operations, and providing independent assurance to agency management about the overall control environment in the agency. In July 2000, the DAA approved an Audit Strategy for the DAA, including an audit charter, and established an Audit Committee. The Committee's primary objective was to '...provide independent operational and strategic advice to assist the DAA members in implementing the DSAP'.²⁶ Its responsibilities included: business risk identification and monitoring; risk mitigation; commissioning of internal audit activities; security controls; compliance; and monitoring the financial position of the DAA.

3.15 Establishing the Committee contributed to the overall governance framework in the DAA. However, the ANAO found that the arrangements for the Committee did not sufficiently support its intended independent role. The

²⁶ DAA Audit Strategy, July 2000.

Committee's membership comprised all the DAA members and it was chaired by the Chair of the DAA. It did not have an external independent member.

3.16 The role of the Committee was also different to that usually assigned to Audit Committees in public sector governance arrangements. For example, the Committee had oversight of quality assurance in the DAA. It also made some operational decisions. These included decisions on issues such as: matters to be included in the communication strategy; management of IT security; allocation of salary costs; despatch of notification letters to farmers; and outsourcing arrangements for some services. It also guided and monitored the implementation of key systems. These functions are not usually the responsibility of an independent audit committee.

3.17 The DAA has acknowledged the view that the Audit Committee arrangements were not better practice. However, it advised that alternative arrangements, whereby the Audit Committee included members from outside the DAA, would have necessitated time consuming communication to the other DAA members and would not have been efficient given the short timeframe to implement the Package. This Committee arrangement was reviewed by the DAA members in October 2000, and re-confirmed.

3.18 However, better practice guidance stresses the importance of the ability of audit committees to provide independent advice, and be seen to do so.²⁷ This is achieved, inter alia, by ensuring that the committee is chaired by someone other than the chair of the agency board; by having external representation where practicable; and separating the role of the committee from the decision-making role of the agency board. While there has been more public focus on such matters in the last two years, they are not new principles of good practice.

3.19 The ANAO considers that the environment and challenges facing the DAA did not prevent it from following better practice principles more closely. This would have provided greater transparency and independent assurance to stakeholders about the adequacy of the control environment. For example, inclusion of an independent member, a different chair, or the establishment of another committee for some tasks could have been implemented without creating additional workload.

3.20 In response to the draft audit report, DAA advised that it has now restructured the Audit Committee to be more consistent with better practice.

²⁷ For example: Australian Stock Exchange (2002), *Principles of Good Corporate Governance* (ASX) and Australian Accounting Research Foundation (2001) *Better Practice Guide on Audit Committees*.

Internal audit and compliance

3.21 Consistent with the DAA Audit Strategy, an outsourced internal audit function was established in July 2000, following a competitive tender. The contractors developed an internal audit plan, which was approved by the Audit Committee. The plan used the DAA Fraud Control plan (discussed at paragraph 3.28) as its basis, and identified both discrete audits and ongoing reviews to be conducted and associated resourcing.

3.22 The ANAO found that the plan was implemented and kept under review by the DAA Audit Committee. The internal auditors regularly reported to the DAA Audit Committee on progress against the plan.

3.23 The internal audit program resulted in a substantial volume of work during the peak period of implementation, from July 2000 to October 2001. The cost of internal audit for the year 2000–01 was \$835 000. Seventeen specific reviews were undertaken, addressing: the reliability of key IT systems; accuracy of benefit calculations; and conformance of key processes with legislated or other requirements. Most of these reviews had a focus on quality assurance of key processes. However, some were more typical post-implementation audits, for example, in regard to farmers receiving entitlements greater than \$350 000.

3.24 Reflecting the broader focus of the DAA Audit Committee, much of the DAA internal audit work was, in effect, quality assurance. For example, internal audit conducted reviews of the management of the major IT system; checked benefit calculations before entitlement notices were issued; and monitored the operation of mail house procedures. Notwithstanding the benefit of such activities, such quality assurance is normally undertaken by agency management, rather than internal audit.

3.25 DAA also used contracted legal advice to provide additional assurance that key processes were accurate and consistent with the legislation. During 2000–01, legal costs amounted to over \$1.1 million.

3.26 Overall, the ANAO concludes that the use of internal audit and legal advice contributed to effective delivery of the Package. It provided a high level of assurance to the DAA that decisions were appropriate. However, a clear separation of responsibilities for quality assurance and internal audit, would have been more consistent with better practice public sector governance and clearly identified those who were responsible and accountable for the results.

Risk management

3.27 The DAA was required to implement a large and complex program against tight timeframes. Explicit risk management processes assist decision-making in such an environment.

3.28 The ANAO found that DAA prepared a Fraud Control Plan, finalised in July 2000. The plan addressed both fraud risks and other risks to the DAA and implementation of DSAP. It functioned as an overall risk management plan for the DAA and DSAP. For example, the plan identified, analysed and recommended treatments for risks associated with delivering DSAP, such as the development of key databases.

3.29 The ANAO found that the plan was consistent with better practice, in that it considered the context for the DAA and its major functions, and each of the major areas of risk facing the DAA. The plan considered each risk in its context, and identified its relative impact and likelihood, as well as overall risk and proposed treatments.

3.30 The plan guided the development of systems and processes within the DAA. For example, the plan guided development of guidelines for the implementation of DSAP. The plan was used by the internal auditors to develop the audit plan for the DAA, and to report to DAA management on the treatment and status of risks identified in the plan.

3.31 Overall, the DAA established a robust risk management framework.

Reporting and performance monitoring

3.32 The collection of performance information provides agency management and external stakeholders with the ability to monitor progress in implementing programs. It also assists in assessing whether outcomes, outputs and targets are achieved.

3.33 The DAA Business Plan identified 12 objectives, focussed on the delivery of DSAP. The objectives included: the despatch of applications to all farmers by 17 August 2000; Notices of Decision sent to all eligible entities; and that payments are made on due dates.

3.34 The DAA developed 25 KPIs addressing these objectives. The indicators are set out in Appendix 1. The DAA included targets for each KPI. For example, that 99 per cent of all dairy enterprises submit applications by 17 August 2000; and that 100 per cent of owner/operator Notices of Decision (NoD) would be despatched by 25 September. The performance of the DAA against the measures, where data is available, is discussed in Chapter 4.

3.35 Collectively, the objectives and KPIs addressed the key aspects of effective and timely delivery of DSAP. However, the ANAO found that use of

the KPIs by the DAA for internal and external reporting was limited. For example, the KPIs were not used in the DAA operations report to the DAA members. This report included important data, such as the number of forms processed, but did not compare this data with the KPIs.

3.36 Some KPIs were subsequently reported in the DAA Annual Report. For example, the percentage of farmers who had submitted applications by the closing date. However, other KPIs were not reported, such as whether the register of entitlements was operating with accuracy and timeliness. The ANAO also notes that presentation of KPIs in the Annual Report was not undertaken in a way which facilitated easy comparison against targets. For example, the Annual Report contained information on the timeliness of the DAA's despatch of Notices of Decision to farmers. However, it did not report on the extent to which the KPI target—that 100 per cent of owner operator notices be despatched by 25 September—was met.

3.37 The Chair of the DAA had weekly teleconferences with senior staff in DAFF to discuss progress with implementation.

3.38 Overall, the DAA established a number of objectives and associated KPIs for the delivery of DSAP. However these were not used consistently for internal management reporting nor for the DAA's Annual Report.

4. The Dairy Structural Adjustment Program

This Chapter examines the delivery of the Dairy Structural Adjustment Program by the Dairy Adjustment Authority.

Introduction

4.1 The Dairy Structural Adjustment Program (DSAP) is the largest part of the Dairy Industry Adjustment Package. It came into effect on 3 April 2000. DSAP was established by the *Dairy Industry Adjustment Act 2000* and is governed by a Scheme formulated by the Minister in accordance with section 10 of the Act—the *Dairy Structural Adjustment Program Scheme 2000*.

4.2 DSAP's purpose is to assist the dairy industry make the transition to a deregulated environment. It provides payment rights totalling \$1.63 billion to some 30 000 farmer entities associated with dairy farms. In this report, the term 'farmers' is used to refer to these entities. They may be owner-operator, share farmer, lessee or lessor of a dairy farm.²⁸

4.3 Rights are paid quarterly over eight years, commencing in the 2000 financial year.²⁹ The bulk of payment rights are *standard payment rights*, based on milk deliveries in 1998–99 (the base year). They are calculated at a rate of 46.23 cents per litre for market milk and 8.96 cents per litre for manufacturing milk.³⁰ The audit examined the payment of standard rights. Two other payment rights are available, for *exceptional events* or *anomalous circumstances*.³¹ These constitute only 0.3 per cent of payments.

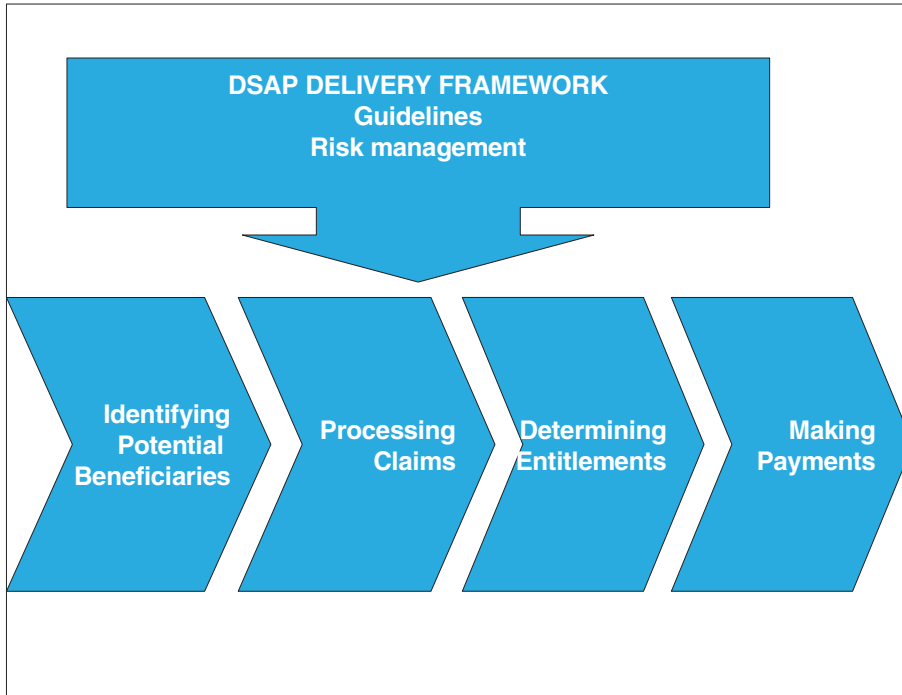
4.4 Figure 4.1 shows the major governance and program delivery processes discussed in this Chapter.

²⁸ An entity may be an individual, a body corporate or a trustee.

²⁹ Some farmers negotiated agreements with financial institutions to borrow against these quarterly payments, in order to realise benefits immediately. However, these arrangements were negotiated privately between the farmer and the financial institution.

³⁰ These rates were set to allocate the total quantity of assistance agreed by the Government to match levels of milk production.

³¹ *Exceptional events supplementary payment* were available where, because of exceptional events, the volume of milk deliveries in 1998–99 is less than 70 per cent of the average milk deliveries in the three previous financial years. *Anomalous circumstances payment* were available where because of a change in ownership or arrangements farmers did not receive a standard payment right. Some farmers were eligible for the standard payment right and exceptional events payment right. However, only those farmers ineligible for standard payment rights could claim anomalous payment.

Figure 4.1**DSAP delivery framework and processes**

Source: ANAO based on DAA documentation

Program delivery framework**Program guidelines**

4.5 The DAA Fraud Control Plan (see paragraph 3.28) identified inconsistent decision-making as a high risk (see Table 4.2). Accordingly, the DAA developed a series of detailed guidelines to support administration of DSAP, as summarised in Figure 4.2. The guidelines were supported by a series of flow-charts to guide staff in processing claims. As discussed in Chapter 3, the DAA also established a system of delegations to guide decision-making by staff.

Figure 4.2

Coverage of DSAP Guidelines

- Definition of legislated terms such as: 'dairy farm enterprise', 'livestock', 'carrying on the enterprise'.
- Assessing production, ownership and deceased estates.
- Handling late applications.
- Business Process Rules for handling missing, conflicting or inaccurate information in application forms.
- Business rules for the Register of Units.

Source: DAA files

4.6 The ANAO found that the guidelines were prepared with extensive input from DAA internal audit and legal advisors. For example, the DAA's legal advisers developed drafts of some guidelines, including those on the definition of key terms and the handling of late applications.

4.7 The ANAO reviewed the guidelines and found that they addressed the major aspects of program management and were consistent with the legislation. Combined with associated flow charts, they provided a clear and usable framework to assist staff process claims appropriately.

Risk management

4.8 The DAA Fraud Control Plan addressed risks to the effective delivery of DSAP from July 2000 onwards. The ANAO found that the plan recognised the context for risk management of the program and identified, analysed and prioritised key risks. The ANAO also found that recommended risk treatments in the plan were implemented. However, due to the timing of the plan, it was not able to assess some important early risks, such as those posed in the development of the claim form. The ANAO notes that the plan, not surprisingly, could not assess the earlier risks of implementation, such as those posed in the development of the claim form in May 2000.

4.9 Table 4.1 lists key risks relating to DSAP identified in the plan and their recommended treatment. The recommended risk treatments were implemented.

Table 4.1**DSAP key risks and treatments**

Risk	Recommended Treatment
Inconsistent treatment of claims.	Finalise development of formal policies, procedures and business rules.
Risk of fraudulent claims.	Finalise development of formal policies, procedures and business rules.
Double dipping may occur.	Establish formal links with Centrelink and DAFF.
Outsourcing may reduce the level of control by the DAA, increasing the risk of fraud.	Establish service level agreements with service providers outlining expectations and detailed reporting requirements.
Privacy may be breached, leading to possible legal action.	Ensure legal advice is sought on the issue and acted upon.
Payments may be made to someone who is no longer eligible.	Finalise development of formal policies, procedures and business rules relating to the unit register.

Source: DAA Fraud Control Plan

4.10 The DAA addressed fraud risks at several points in the program. For example, the DAA used the milk production database developed by the ADC (see paragraph 4.16) to verify payment calculations of total deliveries attributable to particular farms. The DAA also undertook extensive crosschecking of entity claims as part of the processing of applications and controlled access to the key databases. The DAA also ran fraud awareness workshops for staff.

4.11 Although not specifically mentioned in the Fraud Control Plan as a key risk treatment, internal audit activity was aimed at addressing risks identified in the Plan. This included 17 major reviews of aspects of DSAP delivery (see Appendix 2). As part of an ongoing quality assurance role, DAA internal audit also conducted smaller scale investigations of DSAP processes. These included, inter alia, the capacity and functionality of key IT systems; the validity of system calculations; and the processing of forms in the mail house. DAA internal audit reported to the DAA Audit Committee on the status of identified risks, current action and the effectiveness of treatments.

4.12 The DAA also made extensive use of legal advice. Topics on which legal advice was sought included various guidelines, the consistency of the IT system with the legislation, review of procedures in processing of forms, documentation management systems, and processes for reviewing decisions.

4.13 The cost of audit and legal advice accounted for around 15 per cent of the agency's budget in 2000–01.

4.14 Overall, the ANAO found that the DAA appropriately identified risks, developed treatments for these risks and allocated substantial resources to managing risks, including extensive use of audit and legal advice.

Identifying potential beneficiaries

4.15 To facilitate access to DSAP, and to provide assurance that entitlements were allocated appropriately, the ADC and DAA:

- developed a database of dairy farms and their production of milk;
- sent out application forms and information to those associated with the farms identified in the database; and
- conducted a public information program to make dairy farmers aware of the program.

Developing the milk production database

4.16 As part of planning for DSAP, DAFF and the ADC identified that a database of farm enterprise deliveries was needed (see Table 2.1) to:

- set an independent 'benchmark' for individual farm deliveries that could be used to verify subsequent claims by farmers;
- enable the DAA to assist farmers completing their application by providing details of their relevant eligible production entitlements; and
- facilitate the mail-out of information and application forms to farmers.

4.17 The database would include details such as: the address of the farm; its state license information; and details of the various types of milk produced by farms in 1998–99.

4.18 The ADC requested from milk processing companies details of the volume and type of milk purchased and details of the farms that had supplied the milk. The ADC also gathered information on dairy farms from state dairy authorities, including the farms' dairy licence numbers. This data was delivered to the ADC from February to April 2000.

4.19 To provide assurance of the accuracy of this data, the ADC reconciled the farm milk production data with publicly released state-level data on milk production. Once verified, this information was adjusted by the ADC to make

it consistent with definitions used in DSAP,³² and entered into a *Milk Production Database*. In addition, given the importance of the data in determining entitlements, the DAA had the milk data independently audited. Notwithstanding efforts by the ADC and DAA to verify the data, some changes were later required in the light of claims lodged by farmers. This is discussed further at paragraph 4.38.

4.20 The available data did not identify the ownership arrangements for each farm, such as whether the farm was run by an individual, by two or more members of a family, or through partnership, share-farming leasehold or combination of arrangements. Accordingly, this information would have to be sought from farmers in the application process. The information on the ownership arrangements would determine the share of DSAP entitlements allocated to each entity.

Despatch of application forms and initial contact with farmers

4.21 One of the first tasks of the DAA was to develop an information pack and claim form for the program. The form was initially drafted by the ADC over the period February to March 2000. Subsequently, the DAA took over its finalisation.

4.22 The DAA spent substantial time reviewing the draft form, which needed to address complex matters, in the period April to May 2000, and ensuring that it was consistent with the legislative provisions. The DAA piloted the form with a small number of dairy industry officials. However, it did not pilot it with farmers more broadly, on the grounds of lack of time. As noted below, a large number of farmers did not complete their application form accurately, leading to substantial processing delays and extra costs.

4.23 The ANAO considers that the development of the form was an important early stage in delivery of DSAP. Notwithstanding that the form had to be consistent with the requirements of the legislation, earlier and greater emphasis on its usability would have assisted in identifying obstacles to timely implementation that later emerged. This could have been achieved by testing with a more representative sample of farmers, possibly in parallel with finalisation of the form. The time pressure on the development of the form would have been eased if there had been earlier attention given to the importance of the form during planning by DAFF.

4.24 The DAA mailed out information packs and claim forms to around 13 000 dairy farms on 18 May 2000. The forms were sent to the addresses on

³² The ADC advised that some 20 adjustments were required to enable the data to be consistent with DSAP definitions. These were required, for example, to adjust unequal market milk pool distributions within States.

the ADC's *Milk Production Database*. As the forms were sent to farm addresses, only those immediately associated with the farm had direct access to the application form. Farmers were therefore asked to declare in the form all those who might have an interest in the farm, and to identify the shares of that interest.

The public information program

4.25 Section 14 of the *DSAP Scheme* required the DAA to conduct a public information program about DSAP. Because of the complexity of ownership arrangements (see paragraph 4.20) there was also a need for a communication campaign to explain the requirements of DSAP and encourage those who might have an interest to apply for payments. In particular, there were an unknown number of entities that were either no longer associated with a particular dairy farm, or that may otherwise not have been aware of their potential entitlement to a DSAP payment right.

4.26 It was also important to encourage farmers to submit applications by 17 August 2001, the closing date specified in the *DSAP Scheme*.

4.27 The DAA therefore undertook a number of public information activities summarised in Figure 4.3.

Figure 4.3

Public information program activities by DSAP May 2000 to August 2000

- Preparation of a series of ten 'Fact Sheets'.
- Establishment of a Call Centre to take enquiries from farmers.
- Establishment of a website for the DAA.
- Holding industry seminars for farmers, attended by members of the DAA Board.
- Conducting a newspaper and magazine advertising campaign encouraging farmers to apply during June 2000 in regional and national press.
- Publishing a series of newsletters for dairy farmers.

Source: ANAO analysis of DAA files

4.28 However, by July 2000, the DAA considered that the rate at which applications were being submitted indicated that many farmers may miss the August 17 deadline. The DAA therefore took additional steps to encourage farmers to apply on time. These included:

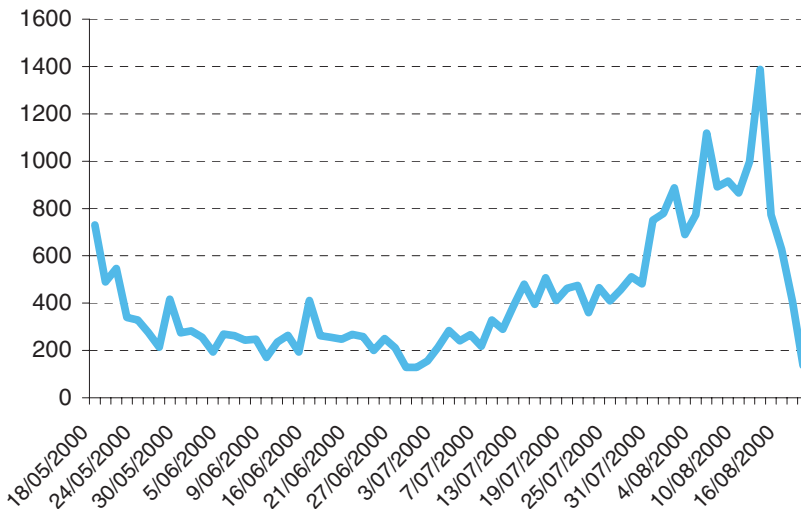
- in late July to early August, the DAA writing to, or telephoning, all farmers who had been sent an application form but who had not yet lodged a claim. The farmers were encouraged to lodge promptly;

- arranging for dairy companies and dairy farmer organisations to advise farmers to apply;
- placing additional advertisements in regional newspapers in early August; and
- distributing additional publicity material and program information to farms.

4.29 The publicity activity, and looming deadline, generated a substantial number of inquiries to the DAA. The Call Centre took over 31 000 calls in the period May to August 2000. As Figure 4.4 shows, the calls peaked at over 1200 per day in the lead up to the end of the claims period on 17 August 2000.

Figure 4.4

Calls per day to the DAA call centre, May to September 2000



Source: ANAO analysis of DAA data

Note: Reporting intervals are not evenly spaced, as reporting intervals varied from four to six days.

4.30 The DAA’s efforts were successful in encouraging eligible farmers to submit claims during the claim entitlement period. Only 13 farmers sought to submit a claim after the claim period closed, and none of these claimed they had been unaware of the closing date. The DAA’s handling of these late claims is discussed in the following section.

Processing claims

Handling of claims received after 17 August

4.31 Farmers submitted 30 520 claims for payment rights. Only those claims submitted before 17 August 2000 could be considered by the DAA. In August 2000, the DAA asked its legal advisors to prepare guidelines on the handling of late applications—that is, applications arriving at the DAA after 17 August. In summary, these guidelines allowed four working days from 17 August for applications to arrive (that is, claims would be accepted automatically up to 23 August). In regard to applications received after 23 August, the DAA would seek a statutory declaration from the applicant that the application had been submitted (i.e. despatched) before 17 August. The legal advice was that the statutory declaration should be accepted unless there was evidence contradicting it.

4.32 The ANAO found that 13 applications were identified by the DAA as late. Of these:

- nine were rejected on the grounds that they had been submitted by the applicant after the due date; and
- four were accepted on the basis of a statutory declaration from the applicant that the application had been despatched before 17 August.

4.33 Overall, the number of claims accepted on the basis of a statutory declaration was very small—four out of some 30 500 submitted.

4.34 However, the ANAO found some inconsistencies in the handling and reporting of these late claims. For example, one of the four late claims was accepted on the basis of a statutory declaration, notwithstanding that evidence showed it had not been despatched on time. The DAA advised the ANAO that it accepted the application on ‘compassionate grounds’. This was to ensure that the farmer did not suffer detriment due to an error on the part of their accountant, notwithstanding that the Act does not make provision for such a decision. The DAA advised the ANAO that it accepted that the decision was not fully in accordance with the Scheme. In another case, the DAA chose to accept a Statutory Declaration despite legal advice that the case should be investigated further. The DAA judged this decision as reasonable in the circumstances.

4.35 In this context, the ANAO notes that the DAA reported in its 2000–01 Annual Report that 100 per cent of all identified claimants submitted claims by the closing date. However, reporting to the Parliament and stakeholders would have been more accurate if it had indicated that 13 applications were submitted after the deadline.

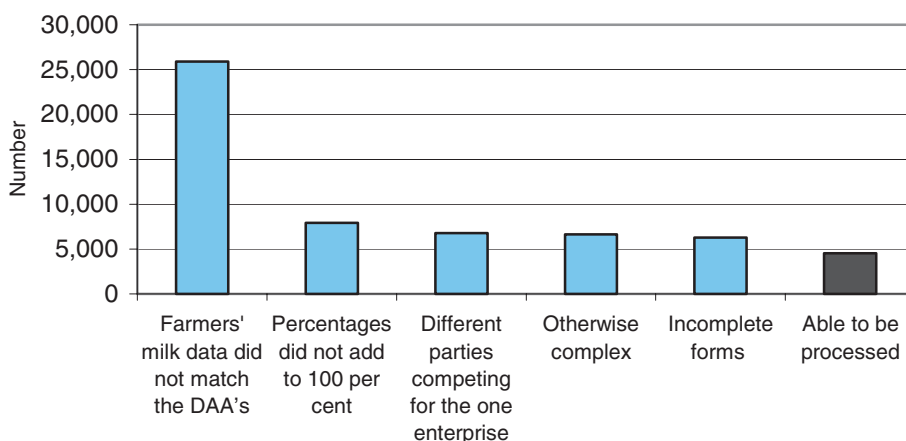
4.36 Overall, consideration of late claims was supported by clear operational procedures. However, handling of late claims would have been strengthened by more consistent application of guidelines, and more precise reporting of performance.

Verification of claims data

4.37 Once claims were accepted, the first step in processing was to confirm that the ownership and production data in the claim were correct. The DAA had expected this to be a relatively straightforward task. However, in practice it was complex and demanding. Only some 14 per cent of some 30 500 claims submitted were processed without further investigation by the DAA. The bulk had some form of data error or were inconsistent with the DAA's records (see Figure 4.5).

Figure 4.5

DSAP claims categorised by type of data entry error or dispute



Source: DAA management reports

Note: In many cases, claims had several of these errors. Accordingly, the total adds to more than the total number of claims.

4.38 The largest category of data inconsistencies was where farmers submitted milk production data that were inconsistent with the *Milk Production Database* (see paragraph 4.19). These claims were known as 'milk disputes'. These disputes occurred for a number of reasons, including:

- farmers not understanding why the adjusted data contained in the application form (4.19) did not match their own, raw production data;

- errors in the original data supplied to the ADC by processors and state dairy authorities; and
- farmers not understanding what data should be inserted in the application form.

4.39 Some of these disputes were quickly resolved. For example, the DAA advised the ANAO that some one-third of milk disputes resulted from farmers in one state consistently entering data incorrectly. These errors were easily corrected and required little investigation.

4.40 However, many other claims required more complex investigation and follow-up of additional information by the DAA. The scale and complexity of disputes increased costs and delayed processing of some claims. Additional staff had to be recruited. The DAA advised the ANAO that between one-third and one-half of its 96 staff were employed to investigate and resolve claims data. For example, in order to resolve these disputes, the DAA established a team to review production claims against data held on the *Milk Production Database* (see paragraph 4.19).³³ In turn, because of the risks caused by the changes to the data, the DAA then considered it necessary to audit these changes. One particular data problem, relating to the dairy farm license numbers, affected around 10 per cent of farmers and delayed processing.

4.41 Overall, the delay in processing claims was due to several factors. These included inaccurate information provided by farmers, the complexity of the form, the variation and complexity in farm ownership arrangements, and the variation between the States in their regulatory arrangements.

Determining payment rights

4.42 Once data submitted by claimants was verified, the next step was to calculate payment rights. This was done automatically by the DAA's Dairy Entitlement System (DES). The ANAO found that, prior to their use, the DAA sought legal advice to confirm that formulae used in DES to calculate entitlements were consistent with provisions in the legislation. In addition, DAA internal audit reviewed batches of the entitlement calculations for the various types of farmers (ie owner operators, lease holders and similar) and verified that DES was, in practice, producing the correct entitlement .

4.43 The ANAO examined the accuracy of entitlement calculations for a sample of claims data using formulae from the legislation. The ANAO found no material errors in the DAA's calculations. The DES system accurately calculated entitlements.

³³ At this time, the remainder of DAA staff dealt with issues such as records management, management of processes and maintaining the register of entitlements. Once farmers were notified of their entitlements teams were also established to conduct internal reviews.

4.44 Farmers could seek a review of entitlement decisions by the DAA. The DAA established a KPI for such reviews with a target of no more than 10 per cent of decisions being subject to a review. The ANAO found that 1542 claims (or some 5 per cent of claims) were subject to internal review. Of these, 440 (28 per cent) were amended by the DAA, mainly in response to additional information provided by the claimants. There have been 106 appeals to the Administrative Appeals Tribunal. None of these appeals were ultimately successful.³⁴

4.45 The ANAO concluded that the DAA obtained appropriate assurance that the DSAP entitlement calculations were accurate. The DAA has, in practice, accurately calculated payment rights for farmers.

Making payments to farmers

Progress/timelines in finalising payment rights

4.46 Once calculations were complete, the DAA sent farmers a Notice of Decision (NoD), stating their entitlement to a payment right. Under section 40 of the *DSAP Scheme*, a payment must not be made within 30 days of the end of the claims period. Thus, the earliest the DAA could notify farmers of their entitlements was 17 September 2000, known as the 'DSAP payment start day'. The DAA established a KPI for the sending of Notices of Decisions, with a target of 100 per cent of all NoDs being sent by 9 October.

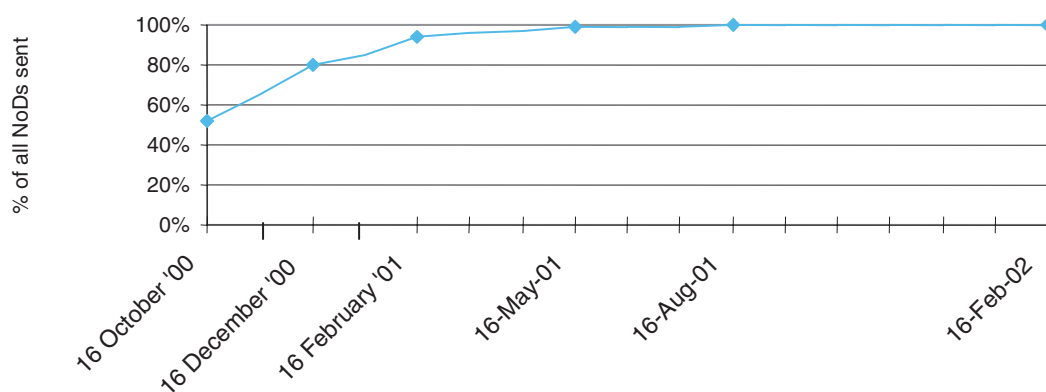
4.47 However, this KPI was not monitored or achieved. Only 52 per cent of all NoDs were despatched by 16 October.³⁵ DAA despatched the remaining NoDs progressively, 80 per cent by mid-December, and 95 per cent by mid-February 2001 (see Figure 4.6). The DAA advised the ANAO that the remaining applications took some time to complete due to: their complexity; overlapping claims; or the impact of deceased estate considerations.

³⁴ One decision was set aside by the Administrative Appeals Tribunal, but the DAA successfully appealed to the Federal Court.

³⁵ Data on the number of NoDs despatched by the KPI target date of 9 October was not available from the DAA.

Figure 4.6

DAA progress in sending DSAP Notices of Decision to farmers



Source: DAA management reports

4.48 Farmers could not be paid until they had indicated to the DAA their acceptance of the Notice of Decision and declare that they had not received some other types of Commonwealth assistance.³⁶ Following receipt of these declaration forms, the DAA confirmed the decision and transferred the payment right decision to the DSAP Register,³⁷ which triggers payments.

4.49 The ANAO found that one-third of those decisions were reported to the Register within one day of the receipt of the declaration forms. Around half were reported within seven days. However, some 4000 (or 15 per cent) of cases took over 15 days to transfer. This was due to the Register being closed for a number of days each quarter while payments were processed.

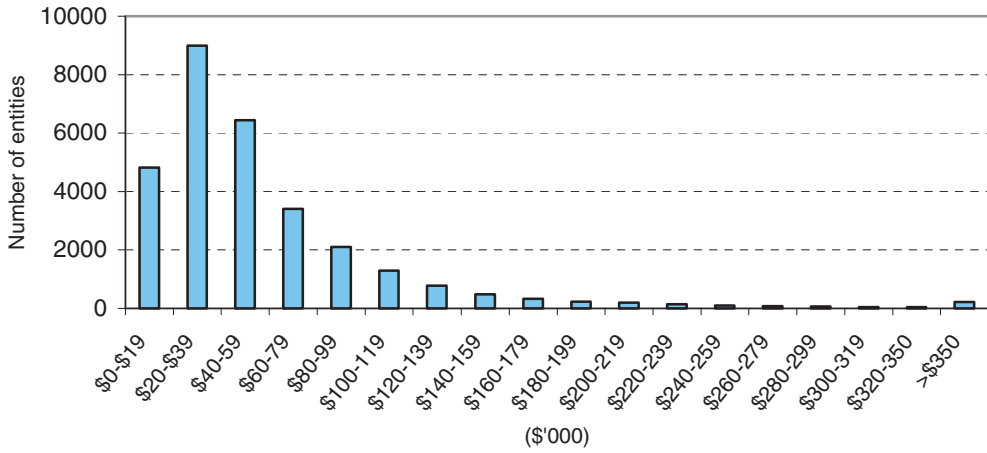
4.50 Some 30 000 farmers were granted DSAP payment rights in this way. The rights are paid quarterly over eight years and varied in size from less than \$100 to over \$1 million. The average payment right was \$54 300. The range of payment rights is shown in Figure 4.7. The distribution of rights between States/Territories is shown in Figure 4.8.

³⁶ In particular, farmers had to declare if they had applied for or been granted a re-establishment grant under the Farm Family Restart Scheme (now called Farm Help) or a re-establishment grant under the Rural Adjustment Scheme or a rural partnership program. The DAA considered the risk of an undetected false declaration to be low, as had the farmer been granted a DEP payment, the DAA would have been asked by Centrelink to cancel the farmers' DSAP entitlements, and therefore would have been aware of its DEP application. The DAA also considered that its legislation prevented it from contacting other agencies to confirm whether farmers had received a grant.

³⁷ The DSAP Register holds details of farmers entitlements, which are then paid quarterly by Dairy Australia. The Register is managed under contract by ComputerShare Registry Services.

Figure 4.7

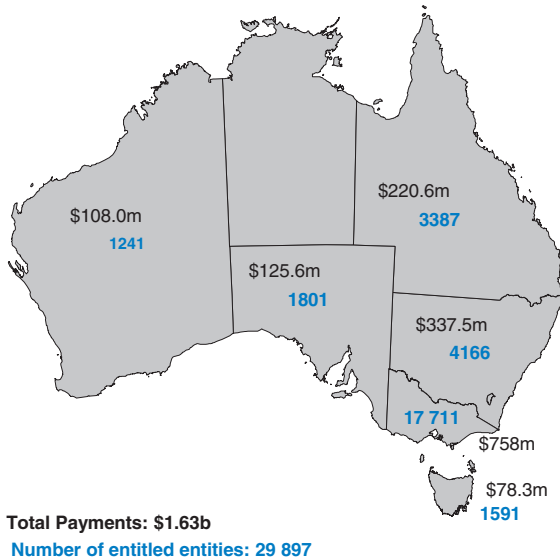
Distribution of DSAP rights to farmers, by value



Source: DAA management reports

Figure 4.8

Distribution of DSAP entitlements, by State/Territory



Source: DAA management reports

Conclusion

4.51 Overall, the ANAO concluded that the DAA developed appropriate program delivery processes for DSAP. It identified and communicated with farmers and calculated payments rights accurately. There were substantial efforts by the DAA to process claims in a timely manner. However, processing took longer than expected, substantially exceeding the DAA's targets. Processing also incurred greater than expected costs. More detailed planning and identification of key risks to implementation (see Chapter 2) would have contributed to more effective management of the processing tasks. Fuller testing of the form could have facilitated effective management action, such as changing the form or additional guidance to farmers, to avoid the data errors.

5. The Supplementary Dairy Assistance Package

This Chapter examines the delivery of the Supplementary Dairy Assistance package by the Dairy Adjustment Authority.

Introduction

5.1 The Supplementary Dairy Assistance (SDA) package was announced on 21 May 2001, and came into effect on 1 August 2001. The SDA was established by the *Dairy Produce Amendment Act 1986* and is governed by a Scheme formulated by the Minister in accordance with section 37B of the Act—the *Supplementary Dairy Assistance Scheme*.

5.2 The SDA targeted those in the dairy industry who were most severely affected by price movements following deregulation, and those whose entitlement for Dairy Structural Adjustment Program (DSAP) payment rights was unintentionally limited by that Scheme's eligibility criteria. It comprised:

- up to \$119 million in Market Milk Payments to dairy farmers who were heavily dependent on market milk³⁸ production;
- up to \$20 million in Discretionary Payments to dairy farmers who were excluded from DSAP, because of extraordinary circumstances, or whose DSAP entitlements were significantly lower than expected; and
- a \$20 million expansion of the Dairy Regional Assistance Program (Dairy RAP).

5.3 This audit focuses on the Market Milk and Discretionary Payments, which accounted for the bulk of the SDA.³⁹

5.4 The SDA package was funded by the Dairy Adjustment Levy. DAFF estimated that the levy would need to continue for an additional 10 months to fund the SDA, and that an additional \$74 million in interest would be incurred on loans to cover shortfalls.

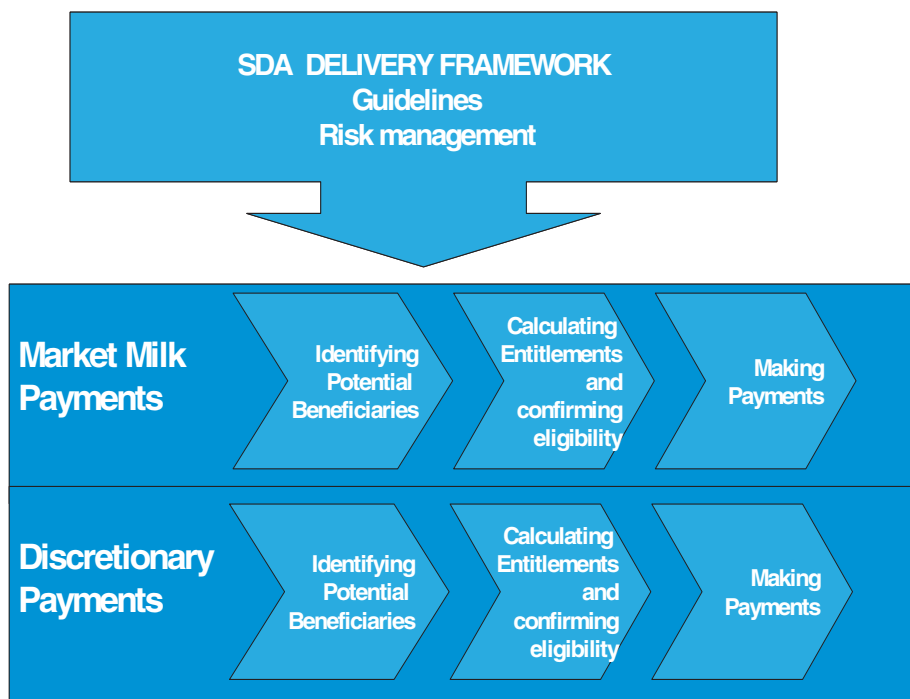
5.5 Figure 5.1 provides an overview of the SDA delivery framework and processes discussed in the rest of this Chapter.

³⁸ 'Market milk' is milk sold for consumption eg. drinking milk, UHT milk. 'Manufacturing milk' is milk used in producing dairy products such as cheese, butter and dairy desserts.

³⁹ The Dairy RAP is not covered by this audit, see paragraph 1.15.

Figure 5.1

SDA delivery framework and processes



Source: ANAO based on DAA documentation

Program delivery framework

Risk management

5.6 The DAA developed a risk management plan specifically for the SDA, addressing both Market Milk and Discretionary Payments. The plan was finalised in July 2001, some six weeks before the Scheme was gazetted.

5.7 The ANAO found that the risk management plan addressed key risks to the program and was reviewed and updated regularly. The plan considered the context of the SDA package, such as the need to identify and pay farmers quickly. It also identified the need to apply legislation consistently and to ensure systems facilitated appropriate management of work flows. Key risks were assigned priorities and mitigation strategies were identified. For example, DAA internal audit conducted a number of reviews of SDA processes and the DAA developed guidelines for both elements of the SDA.

5.8 Table 5.1 summarises the high risks to effective delivery identified in the plan, the DAA’s proposed treatment. These risk treatments were implemented.

Table 5.1**Selected risks and their treatment from the SDA risk management plan**

Risk	Risk Treatment
Case file documentation may be inconsistent or insufficient.	Development of business rules, documentation standard policies and checklists.
System functionality may not be adequate and properly tested.	Internal audit to review system specifications and testing processes and security functionality. SDA processes designed concurrently with system development.
DAA may not be able to identify all eligible applicants consistent with legislative requirements.	Development of business rules to identify possible entitlement farmers. Internal audit review of Market Milk selection criteria and procedures. Re-check of databases and manual files for likely candidates.
Credibility of the DAA may be impacted if criteria appear to be unfair or inconsistently applied.	Development of business rules. Legal advice to be sought on complex claims. Development of quality assurance procedures. Provision of staff training. Complete documentation of entitlement decisions.

Source: DAA and ANAO analysis

Guidelines

5.9 As noted above, the use of business rules and guidelines was an integral part of the DAA's risk mitigation. The DAA developed flowcharts and guidelines for Market Milk and Discretionary Payments, which were adopted in August and September 2001.

5.10 The ANAO found that the flowcharts and templates identified critical steps in processing and determination procedures, together with the legislative reference for the decision point. They were consistent with legislation and applied appropriately in assessing eligibility.

5.11 Overall, the ANAO concluded that the DAA developed a robust guidance framework to support decision-making and delivery of the SDA payment rights. The following sections examine the DAA's administration of the two types of payments.

Market Milk Payments

5.12 The decline in the price of Market Milk after deregulation was greater than anticipated by the industry, particularly in New South Wales, Queensland

and West Australia. The Market Milk Payment was, therefore, introduced to enable affected producers to better adjust to deregulation. The payments were in addition to those already granted under DSAP and could be taken as a lump sum or paid quarterly over eight years.⁴⁰

5.13 The eligibility criteria for Market Milk Payment are shown in Figure 5.2.

Figure 5.2

Eligibility criteria for Market Milk Payment

Dairy farmers⁴¹ had to:

- have been granted a DSAP payment right;
- have an interest in a dairy enterprise which relied on market milk production for at least 25.1 per cent of total milk deliveries in 1998–99;
- hold an eligible interest in their dairy farm enterprise at 6.30pm on 21 May 2001; and
- declare that they had not applied for, or received payment from, the Dairy Exit Program (DEP).⁴²

Source: Supplementary Dairy Assistance Scheme (2001)

5.14 Implementation of the Market Milk Payment required the DAA to:

- identify potential beneficiaries;
- calculate entitlements and confirm the beneficiaries' eligibility; and
- pay entitlements promptly and accurately.

Identifying potential beneficiaries

5.15 Section 12(1) of the *Scheme* required the DAA to identify, for each farmer that had been granted a DSAP payment right, that farmer's eligibility for payment. The DAA held sufficient information on the Dairy Entitlement System (DES) to identify whether farmers met the first two criteria in Figure 5.2. They did this shortly before the Scheme was gazetted and identified 8496 such farmers.

⁴⁰ Quarterly payments were backdated to 1 July 2000 in order to retain consistency with DSAP.

⁴¹ As noted in Chapter 1, the term 'farmers' is used to summarise the various types of entities eligible for assistance under the SDA.

⁴² As the Dairy Exit Program was an exit payment to farmers wishing to leave the dairy industry, any SDA entitlement was to be repaid from the total DEP entitlement. However, farmers could repay DEP and take an SDA entitlement.

5.16 The ANAO checked the DAA's results, replicating the data extraction process. The ANAO found that the DAA had accurately identified all farmers potentially eligible for a Market Milk Payment.

Calculating entitlements and confirming eligibility

5.17 Having identified those farmers potentially eligible for Market Milk Payment, the DAA was then required to calculate their potential payment right. It was able to do this on the basis of information on market milk deliveries already collected as part of the farmers' applications for DSAP.

5.18 The ANAO checked the benefit calculations and found that, apart from some minor rounding differences, they were accurate and consistent with the legislative provisions.

5.19 The DAA then notified farmers potentially eligible by sending them a Notice of Decision (NoD). The ANAO found that, by 6 August 2001, five days after gazettal of the Scheme, 8015 (or 94 per cent of farmers identified) had been notified of their potential entitlements.⁴³

5.20 The DAA established a KPI for despatch of market milk NoDs, which set a target of 100 per cent of such notices being sent to farmers within three months of the announcement of the *Scheme*. In practice the DAA largely met this target, despatching 99.9 per cent of NoDs within the required timeframe.

5.21 In order to confirm that farmers met the latter two criteria in Table 5.2, the Notice of Decision required farmers to complete a Statutory Declaration. This confirmed that they held an eligible interest in their dairy farm enterprise on 21 May 2001, and established whether they had applied for, received, or repaid, a Dairy Exit Payment. These declarations were accepted as evidence that the farmer met all criteria for payment.⁴⁴

5.22 Once farmers returned their declarations, the DAA was then able to finalise their claims.

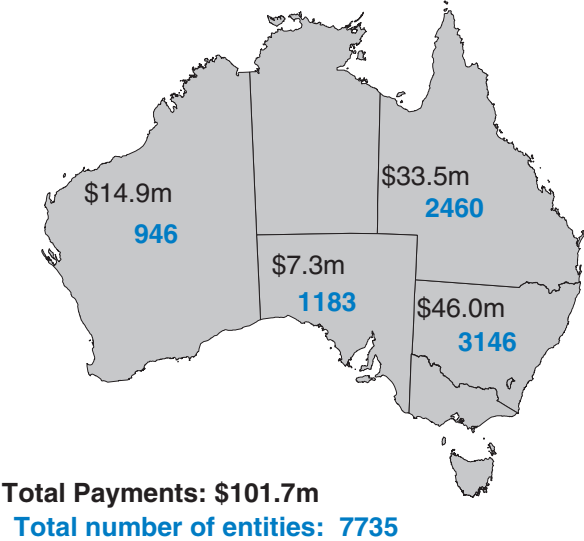
5.23 In total, 7735 farmers were allocated payment rights (either as a lump sum or quarterly payments to June 2008) to the value of \$101.7 million.⁴⁵ The average payment was \$13 150. The distribution of payment rights by State is shown at Figure 5.3, and by level of payment in Figure 5.4.

⁴³ The remaining farmers were either still awaiting a DSAP entitlement, or had been found to be ineligible. The DAA notified all farmers who had been found ineligible for market milk payments.

⁴⁴ The risk of an undetected false declaration was low as had the farmer been granted a Dairy Exit Payment, the DAA would have been asked by Centrelink to cancel the farmers' DSAP entitlements, and therefore would have been aware of the farmers' Dairy Exit Payment application.

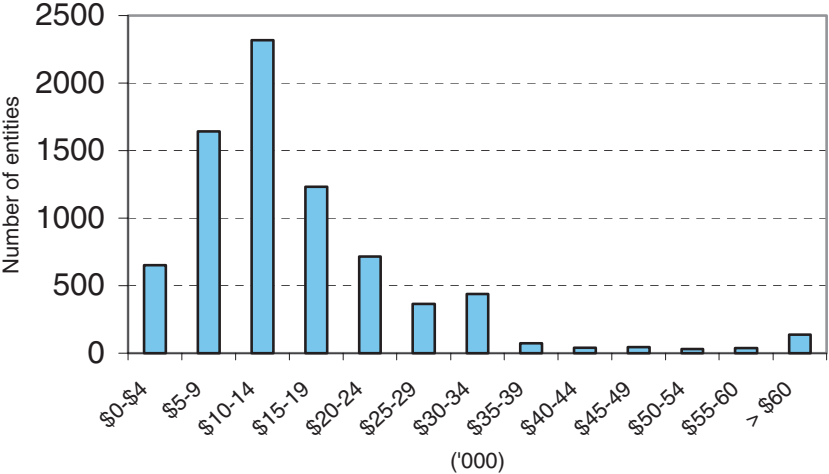
⁴⁵ There are no unprocessed discretionary payment right cases remaining. The AAT is reviewing a small number of discretionary payment right decisions.

Figure 5.3
Distribution of Market Milk Payment rights by State



Source: DAA management reports
 Note: Dairy farmers in Victoria and Tasmania were not eligible because the farmers in these States had relatively low income from market milk. Northern Territory figures are included in Qld, and ACT figures are included in NSW due to the small numbers of producers.

Figure 5.4
Market Milk Payments to entities, by value



Source: DAA management reports

5.24 The ANAO concludes that the controls for Market Milk Payments were operating effectively. DAA took appropriate steps to identify eligible farmers, and farmers were paid the correct entitlements in accordance with DAA target timeframes.

Discretionary Payments

5.25 The Discretionary Payments provide assistance to those who had been unintentionally limited in, or denied, a payment right under DSAP. The eligibility criteria for Discretionary Payments are shown in Table 5.2.

5.26 In contrast to the Market Milk Payments, calculation of a Discretionary Payment was complex, requiring careful consideration of the individual circumstances of each claim. It was not amenable to system based calculations of entitlement.

Table 5.2

Eligibility criteria for Discretionary Payment

To qualify for a Discretionary Payment, farmers had to show they held an interest in a dairy farm enterprise at 28th September 1999; and to have experienced:

- a significant event or significant crisis that significantly reduced⁴⁶ the amount of milk the enterprise delivered during the 1998–99 financial year; or
- other significant anomalous circumstances⁴⁷ having the affect of significantly and adversely affecting eligibility for, or significantly and adversely reducing, DSAP entitlement to a lower level than expected.

Source: Supplementary Dairy Assistance Scheme (2001)

5.27 Some examples of significant events or significant crisis include: illness; incapacity to work due to injury; a person's death; disease or death suffered by dairy animals kept by the dairy farm enterprise; or an exceptional event. An exceptional event could be: drought, storm, flood or other natural event (e.g. fire, insect, plague, or pasture disease).⁴⁸

⁴⁶ Section 8(4) of the *SDA Scheme* states that if the volume of milk delivered by an enterprise was less than 70 per cent of normal milk production, then that reduction could be defined as significant. Following legal advice, the DAA defined 'significant' as a reduction to less than 80% of normal milk production.

⁴⁷ Significant anomalous circumstances are defined as those unusual or irregular farm circumstances that adversely affected a farmer's payment right under DSAP.

⁴⁸ Source: *SDA Scheme* and the DAA

5.28 In addition to these categories of assistance, land lessors could claim a separate discretionary payment where they met specific criteria in regard to a fall in lease income.

Identifying potential beneficiaries

5.29 The DAA identified those potentially eligible for Discretionary Payment in two ways, depending on the extent of information held by them on farmers. Firstly, during 2001–02 the DAA searched existing databases and files to identify farmers:

- who had applied for DSAP but had been assessed as ineligible;
- who sought a review of the original DSAP decision; or
- identify other farmers who experienced circumstances that may have affected milk production.

5.30 This process took several months, due to the need to review a large number of individual files. Once identified, farmers were notified immediately of their potential entitlement, if sufficient information was already held by the DAA to confirm their circumstances. Alternatively, they were sent an information package and invited to submit additional information to support a claim.

5.31 The second part of the DAA's approach was to appropriately encourage applications from farmers for whom it did not have sufficient information to identify whether they were potentially eligible. It did this by sending newsletters about the SDA to all dairy farmers who had applied for DSAP and, in addition, encouraging farmers to ring the DAA Call Centre. In response to farmer inquiries generated by this information, the DAA sent an introductory information package and an invitation to apply to 2699 farmers.

5.32 The DAA Business Plan specified a KPI that 90 per cent of potentially eligible entities would be identified within three months of the SDA commencing. The ANAO found that this target was met.

5.33 In total, 1361 farmers (including those identified by the DAA) were assessed for Discretionary Payment, with 110 of these being new farmers who had not previously been entitled to DSAP.

5.34 Overall, the ANAO concluded that the DAA's review of its own files and data, combined with its publicity campaign, were appropriate steps to identify potentially eligible farmers.

Determining entitlements and continuing eligibility

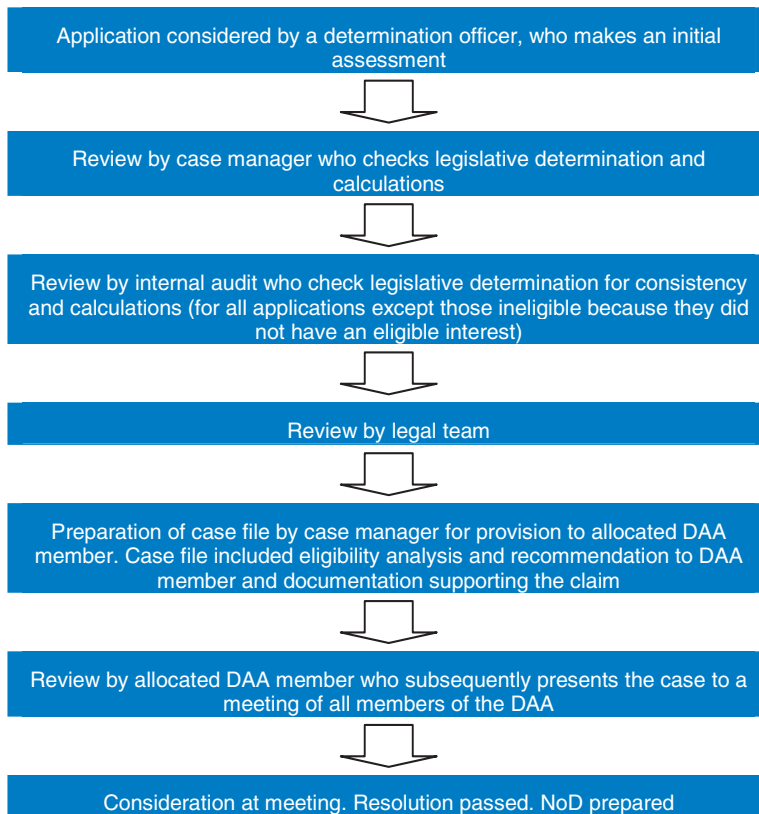
5.35 Primary delegation for the approval or rejection of Discretionary Payment claims rested with the Minister for Agriculture, Fisheries and

Forestry. The Minister delegated this power to the DAA, but reserved the right to make decisions. In practice, all claims were determined by the DAA members.

5.36 The ANAO found that claims went through an extensive investigation, documentation, development and review process. This included review by both DAA internal audit and the DAA's legal review team. These steps are shown in Figure 5.5 below.

Figure 5.5

Steps followed in determining applications for Discretionary Payments



Source: ANAO based on DAA information

5.37 In total, 1361 farmers had applied for a Discretionary Payment right. Of these, 641 farmers (some 47 per cent) were granted a payment.

5.38 The ANAO found the claims assessment process was rigorous and well documented. Case files showed evidence of the DAA seeking confirmation from independent sources of assertions made by farmers. For example, the DAA sought veterinary advice in regard to the impact of illness in stock on production, advice from local councils on the extent and severity of flooding,

and meteorological advice on rainfall conditions cited by farmers. Files also clearly set out the steps taken in consideration of circumstances. They also demonstrated that the various levels of sign-off and review summarised in Figure 5.5 occurred.

5.39 Under the Scheme, a reduction in milk production of 30 per cent or more may be taken as significant. However, the Scheme does not limit a significant reduction to this amount. The DAA decided, on the basis of legal advice, to accept a reduction of greater than 20 per cent as significant. The ANAO found that the DAA systematically reviewed milk production data to confirm that the required reduction in production had occurred. In a small number of cases, the DAA made its own estimates of normal production based on known data.

5.40 The DAA advised that it implemented a rigorous approach to the assessment process as:

- the legislative powers under the Scheme precluded cancellation of an entitlement if the DAA had made an error and the farmer had been paid in good faith;⁴⁹ and
- a commitment to consistency in decision-making was paramount. For this reason all DAA Members participated in the decision-making process. Internal audit and legal reviews were conducted to provide assurance that decisions were in accordance with the legislation and were correctly calculated.

5.41 The ANAO notes that it is unusual for an agency not to be able to recover moneys paid out over and above entitlements for benefit, to the detriment of the Fund. Rigour in decision-making was therefore advisable. However, the DAA approach was risk averse. An example of this was the use of internal audit and legal reviews in *all* cases where a payment was being made, notwithstanding that the SDA Risk Plan suggested legal review only for more complex cases. A more risk-based process would have focussed internal audit involvement and legal review to those claims assessed as higher risk. Such an approach would have been consistent with the assessment processes of other agencies engaged in similar programs and would have reduced the administrative cost of the program. The ANAO notes that the DAA was not able to separately identify the cost of processing Discretionary Payment claims. In these circumstances, the ANAO could not identify the full costs of processing each claim.

⁴⁹ Section 22 (5) of the *SDA Scheme* states that, '*The DAA must not cancel an SDA unit under this section if: (a) one or more SDA payments in respect of the SDA unit are made before the DAA becomes aware of the error; and (b) the DAA is satisfied that the entity, or each of the entities, that received the payment or payments, acted in good faith.*'

5.42 The DAA set a service standard that each application would be finalised within two months of receipt. The DAA met the standard for just 74 per cent of cases. The DAA advised the ANAO that the time taken to consider applications was often substantial, as:

- it had to undertake careful verification of data; and
- there were often delays in farmers submitting information.

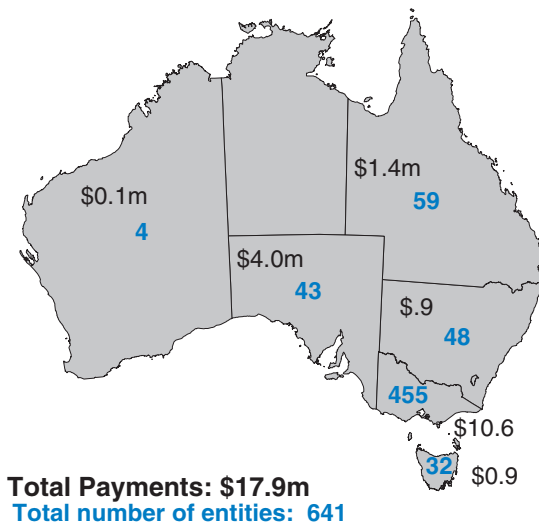
5.43 The ANAO found that processing did, on occasion, have to await further information from farmers. Accordingly, also measuring DAA’s consideration of claims, and excluding time awaiting information, would have offered additional insight into the DAA’s own performance.

Making payments to farmers

5.44 Discretionary Payments totalling \$17.9 million will be paid to eligible farmers over the period to June 2008. The average payment is \$27 900, which is in addition to any DSAP entitlement. Figure 5.6 below shows the total amount of funding by State.

Figure 5.6

Distribution of Discretionary Payment rights by State



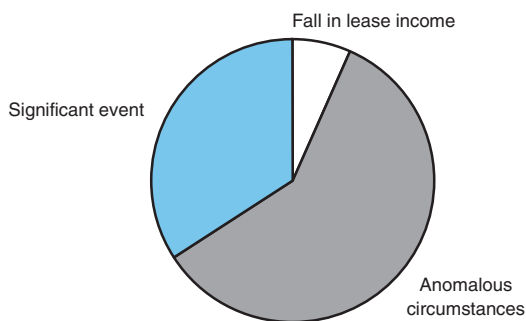
Source: DAA management reports

* Note: Northern Territory figures are included in Qld, and ACT figures are included in NSW due to the small numbers of producers.

5.45 Figure 5.7 shows the distribution of Discretionary Payment by category of payment, and Figure 5.8 shows the distribution of payment rights by value.

Figure 5.7

Distribution of entitled farmers in each Discretionary Payment category

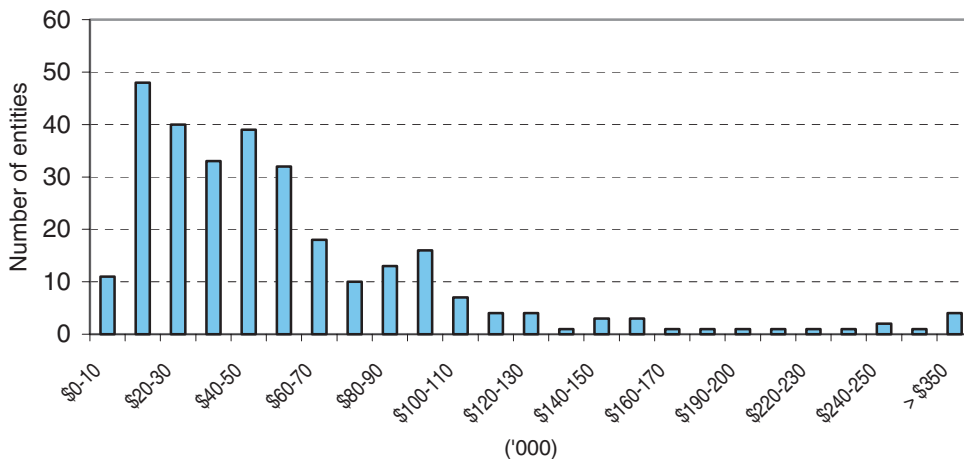


Source: ANAO from DAA data

Note: See Table 5.3 and paragraph 5.27 for an explanation of these categories.

Figure 5.8

Distribution of Discretionary Payment, by value



Source: DAA management reports

6. Management of the Dairy Structural Adjustment Fund

This Chapter examines the administration of the Dairy Structural Adjustment Fund by Dairy Australia Limited.

Introduction

6.1 The Dairy Structural Adjustment Fund (the Fund) was established in May 2000 by section 77 Schedule 2 of the *Dairy Produce Act 1986* (the Act). The Fund holds moneys appropriated to DAFF for payments under the Dairy Industry Adjustment Package.⁵⁰ In accordance with section 83 of the Act, DAFF deposits into the Fund from a special appropriation an amount equal to the levies collected under the Dairy Adjustment Levy.⁵¹

6.2 The Fund was initially vested in and administered by the Australian Dairy Corporation (ADC). The ADC was required to manage the Fund in accordance with the Act and the *Commonwealth Authorities and Companies Act 1997*.⁵² On 1 July 2003, the ADC was privatised and became Dairy Australia Limited. Dairy Australia now manages the Fund in accordance with the Act and a funding agreement between it and DAFF. Dairy Australia pays claims under the various elements of the Package using moneys from the Fund.

6.3 Under section 94 of the Act, the levy will be terminated when all core funding obligations are met. These obligations include all program payments, administration costs and interest costs associated with the Package. Total expenditures from the Fund are currently estimated at \$2.01 billion.⁵³ The third type of payment is interest costs, which account for seven per cent, or \$142 million.

6.4 Figure 6.1 shows the flow of funds from dairy consumers to the Fund.

6.5 There are three types of payments made from the Fund. By far the largest type are program payments under the Dairy Structural Adjustment Program (DSAP), Supplementary Dairy Assistance (SDA), Dairy Exit

⁵⁰ These funds are drawn from a special appropriation for the Dairy Industry Restructure Package which is due to terminate on 30 June 2008.

⁵¹ These deposits are made twice a month.

⁵² The *Commonwealth Authorities and Companies Act 1997* applies to the Fund as though the Fund were money of the Corporation.

⁵³ Comprises over \$1.8 billion payments to farmers, plus interest costs and administrative costs (see paragraphs 6.26 and 6.32).

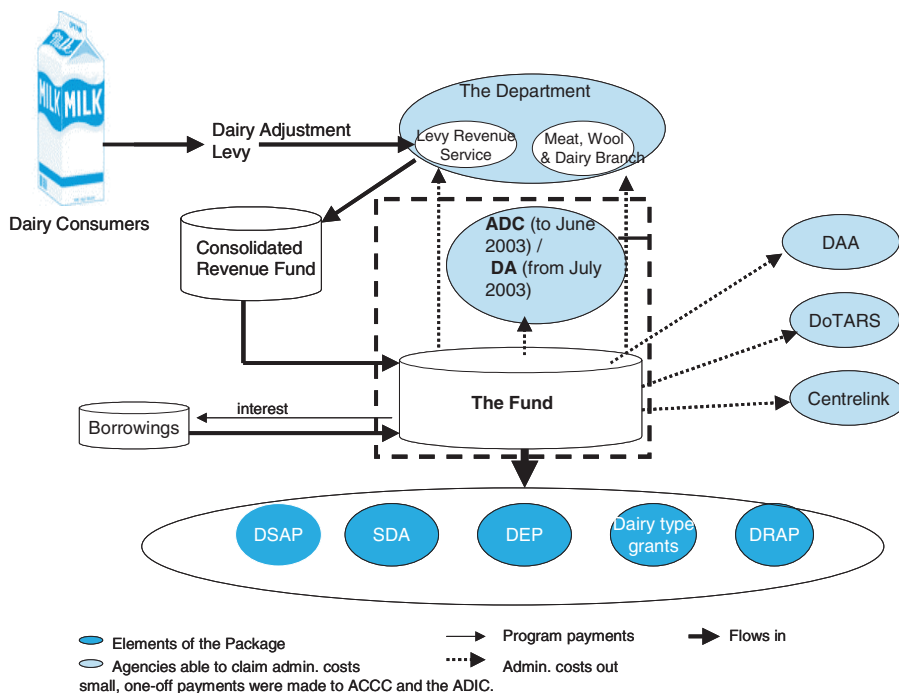
Program⁵⁴ and Dairy Regional Assistance Program (DRAP). They account for 90.6 per cent of payments. The second type of payments is reimbursements to various agencies for administrative costs incurred in delivering the Package, which account for 2.4 per cent of costs, or \$47.3 million. The third type of payment is interest costs, which account for seven per cent, or \$142 million.

6.6 Figure 6.1 shows the agencies either contributing to, or drawing from, the Fund.

6.7 Outflows from the Fund significantly exceed income for most of the life of the Package. This is due to levy proceeds being less than payments made. To ensure sufficient funds are available, the Act allows for borrowings to make up for any levy shortfall. The third type of payment is interest costs, which account for seven per cent, or \$142 million.

Figure 6.1

Overview of the money flows into and out of DSAF



Source: ANAO based on analysis of Dairy Australia documentation

⁵⁴ The legislation provides for farmers with entitlements under the DSAP or SDA schemes to access exit assistance through dairy type grants which forms part of the Farm Help Re-establishment Grant Scheme, following the ending of the Dairy Exit Program on 30 June 2002.

6.8 This chapter examines the:

- administrative framework for the Fund;
- management of cash flow and interest rate risk exposure; and
- control over payments.

6.9 The DAA does not have a direct role in managing the Fund. It is, however, required by the Act to conduct a review on the adequacy of the Levy. The findings of this Review are discussed in relevant sections of this chapter.⁵⁵

Administrative framework for the Fund

Policies and procedures

6.10 The ADC established a number of policies and procedures relating to management of the Fund, which have been continued by Dairy Australia. Table 6.1 summarises the key policies set out in the *DSAF Policy and Procedures* manual. In addition, there was a Dairy Australia *Treasury Policy Statement* that applied to all funds managed, and instruments of delegations specifying the authorisation of staff who could manage the Fund.

Table 6.1

Dairy Australia's key policy documents in relation to the Fund

DSAF Policy & Procedures	Treasury Policy Statement	Delegations
Roles & responsibilities of the entities involved with the Fund	Objectives of the Treasury section	Delegations to the Managing Director
Administration, Policy and Compliance	Roles & responsibilities of the board, senior officers and key staff	Authorised signatories for agreements and contracts under seal
Treasury and Finance	Code of conduct for Treasury staff	Authorised signatories for cheques and securities
Accounting & Reporting	Segregation of duties	Delegations to staff
Information Technology	Investment policy	
Human Resources	Financial risks	
	DSAF interest rate management	
	Credit risk	
	Operational risk	
	Legal risk	
	Breach resolution process	

Source: ANAO analysis of ADC and Dairy Australia documentation

⁵⁵ Dairy Adjustment Authority, *Review of the Dairy Adjustment Levy*, November 2002.

6.11 In addition, Dairy Australia has service level agreements with a number of organisations. These are the DAA, Centrelink and the Department of Transport and Regional Services. These agreements complement the Dairy Australia policies, by specifying, inter alia, arrangements for the processing and payment of claims made by these agencies.

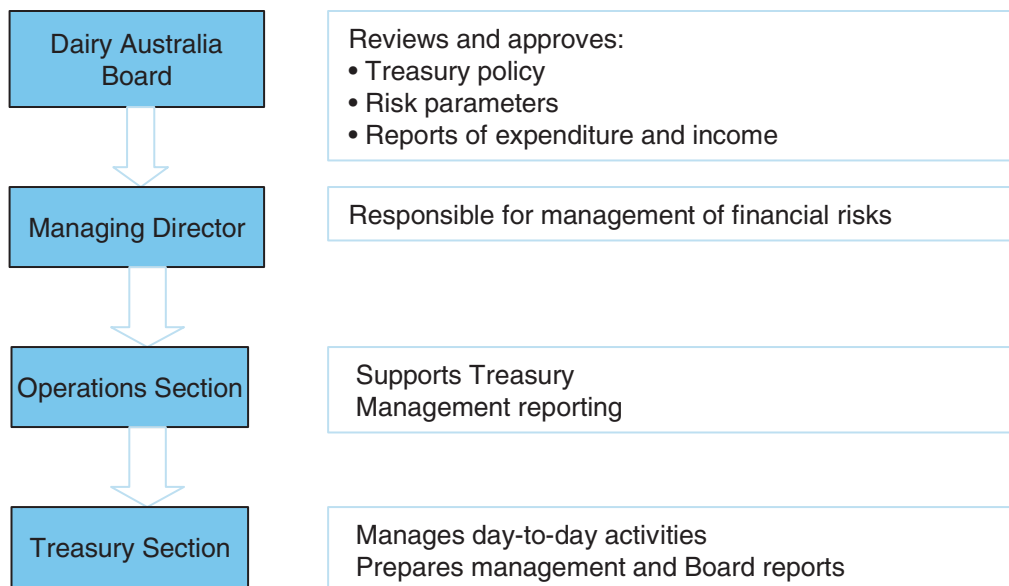
6.12 Collectively, the above policies and arrangements address the major aspects of Fund management, including roles and responsibilities, financial controls, risk management, delegation and authorisation. The ANAO found that the requirements of the policies were adhered to. For example, there was clear evidence of appropriate use of delegations and authorised signatories. In addition, there were structured reporting arrangements and controls over the transfer of funds.

Roles and responsibilities

6.13 The Dairy Australia *Treasury Policy Statement* specifies that its Treasury Section is responsible for the day-to-day management of the Fund on behalf of its Board. Figure 6.2 illustrates the roles of Dairy Australia’s Board, the Managing Director, the Operations section and of the Treasury section in managing the Fund. These arrangements continue the prior arrangements in the ADC.

Figure 6.2

Roles and responsibilities for managing the Fund



Source: ANAO analysis of Dairy Australia documentation

Reporting

6.14 Effective governance requires regular reporting to management and other relevant stakeholders on key trends in performance. The ANAO found that Dairy Australia provided monthly revenue and expense statements, balance sheets, cash flows, expense schedules and variance analysis to senior management and the Dairy Australia Board.

6.15 Dairy Australia also provided quarterly and monthly statements to the DAA on the Fund. These reports detailed money paid to the credit of the Fund; money expended from the Fund; and expected expenditure of money for the remainder of the relevant financial year. Dairy Australia staff attended DAA meetings for discussion of this report.

6.16 The ANAO found that the monthly reports, quarterly statements and annual reports submitted by Dairy Australia to the DAA were accurate, consistent with the agreed reporting requirements, and submitted on a timely basis.

Managing cash flow and interest rate risk

6.17 Section 80 of the Act states that Dairy Australia and the Minister must take all reasonable steps to ensure that there is sufficient money in the Fund to make program payments and meet any other calls as they fall due. In practice, the responsibility for managing solvency rests with Dairy Australia. Ensuring solvency requires:

- managing cash flows and borrowings to ensure commitments can be met. This includes ensuring that sufficient borrowings are in place to maintain medium-term liquidity; and
- managing interest rate risk exposure.

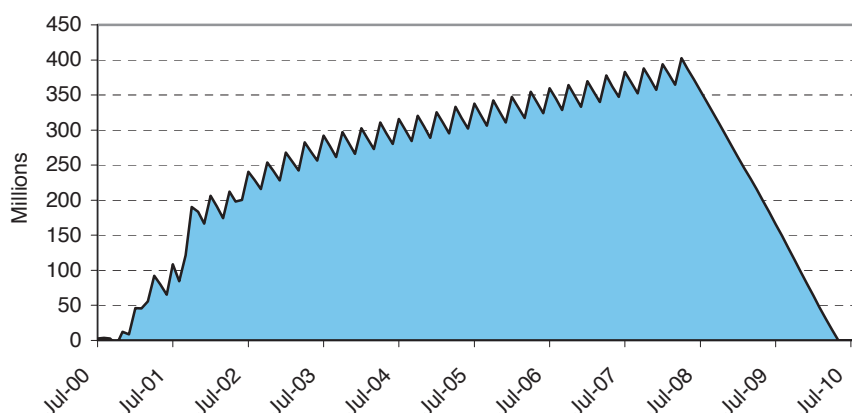
Cash flow management

6.18 Cash flow management requires reliable monitoring and forecasting of current and future payments. The ANAO found that Dairy Australia maintained close communication with DAFF's Levy Revenue Service in order to estimate the likely pattern of levy inflows. Similarly, Dairy Australia monitors the likely outflows through communication with the DAA (which authorises payments under DSAP and SDA).

6.19 The Fund's average borrowing requirement over its life is approximately \$250 million. As Figure 6.3 shows, borrowings are expected to peak in April 2008 at around \$400 million, and then decline rapidly as program payments end and levy income is applied to reducing debt.

Figure 6.3

Borrowing requirement for DSAF 2000–2010



Source: Dairy Australia

6.20 Fund borrowings are made through a \$380 million debt facility from two commercial banks and through a medium term note facility of \$100 million.⁵⁶

6.21 To assist in planning cash flows, Dairy Australia uses a computer model, which is updated as projected inflows and outflows change. This allows Dairy Australia to minimise borrowings while ensuring that sufficient funds are available for payments.

6.22 The ANAO found that all calls on the Fund had been met. No payments had to be declined or deferred.

6.23 The ANAO concluded that the ADC, and subsequently Dairy Australia, had effectively managed cash flows and borrowings to ensure the Fund was solvent and thus able to meet all claims for payment.

Managing interest risk exposure

6.24 The level of borrowings for the Fund creates substantial interest rate exposure. One of the main findings in the DAA Review of the Dairy Adjustment Levy was that the most sensitive expenditure variable relating to the Fund was interest payments.⁵⁷ The Review found that each one per cent change in interest rates would vary the termination date of the Fund by about two months.

⁵⁶ A medium term note is a debt security that matures in 5 to 10 years.

⁵⁷ Dairy Adjustment Authority, *Review of the Dairy Adjustment Levy (2002)*.

6.25 The funding agreement between Dairy Australia and DAFF requires Dairy Australia to ‘manage prudently’ the risks associated with the Fund.

6.26 Dairy Australia advised the ANAO that it adopted a conservative approach to interest rate risk management. In 2001, following professional advice, Dairy Australia entered into an interest rate swap arrangement⁵⁸ that fixed the interest rate payments on \$200 million of borrowings at 6.355 per cent per annum until 2008. The use of interest rate swap arrangements was an appropriate response to the obligation on Dairy Australia to manage the Fund prudently. Notwithstanding this, shortly after the arrangement was entered into, interest rates declined. Dairy Australia currently estimates that total interest costs will be some \$142.2 million.

Managing payments

Program payments

6.27 Over the life of the Package, over \$1.8 billion in program payments (i.e. payments to farmers or communities as part of the Package) will be authorised. Table 6.2 lists the estimated program payments as at 30 June 2003, as well as up to June 2008, when the last DSAP and SDA payments will be made.

⁵⁸ A swap arrangement is an exchange of one security for another to change the maturity (bonds), quality of issues (stocks or bonds), or because investment objectives have changed. For example, one firm may have a lower fixed interest rate, while another has access to a lower floating interest rate. These firms could *swap* to take advantage of the lower rates.

Table 6.2**Program payments from the Fund**

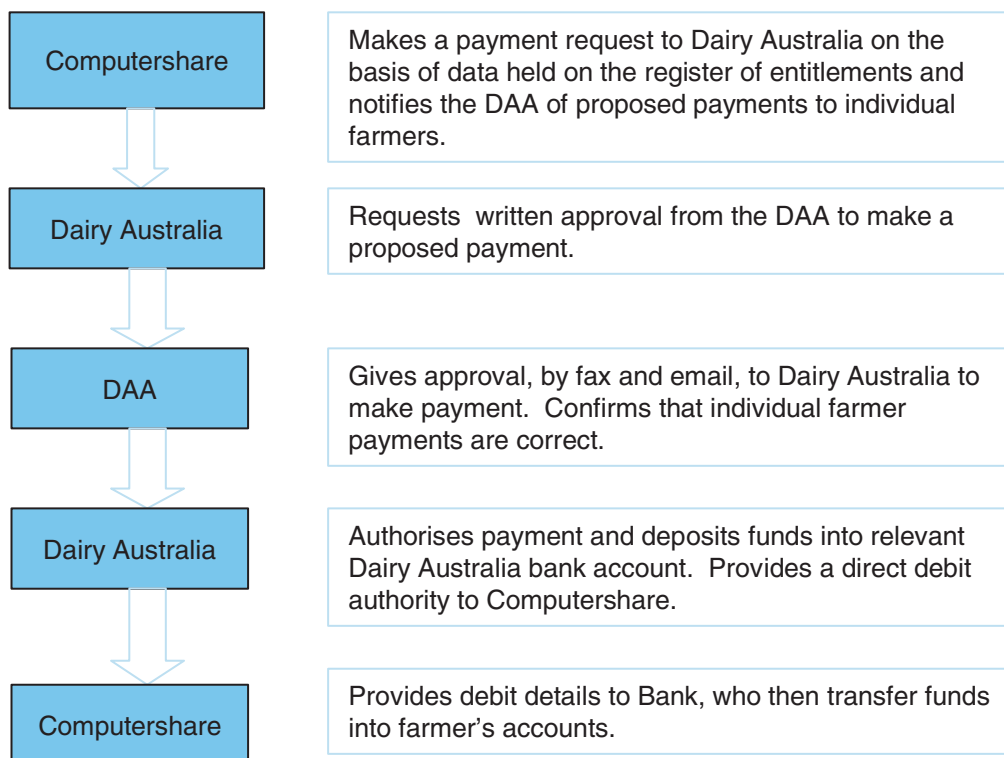
Payments to Farmers and Communities	Funds paid to 30 June 2003 (\$ million)	Total forecast expenditure until June 2008 (\$ million)
DSAP	610	1626
SDA	102	120
Dairy Regional Assistance Program	59	65
Dairy Exit Program/dairy type grants	6	7
Total	777	1818

Source: Dairy Australia

Note : Numbers on the table are individually rounded.

6.28 As shown in Table 6.2, the great majority of program payments made from the Fund are quarterly payments to dairy farmers under the DSAP or SDA program. Authorisation of program payments requires communication between the DAA, Computershare Registry Services, who manage the DSAP and SDA register of entitlements,⁵⁹ and Dairy Australia. The procedures governing these payments are set out in the *DSAF Policy and Procedures* and are summarised in Figure 6.4. Similar procedures are in place for payment of Dairy Exit Payments and DRAP funds to relevant agencies.

⁵⁹ Computershare Registry Services manage the registers of farmer entitlements under DSAP and SDA under contract to Dairy Australia and the DAA.

Figure 6.4**Procedures for making quarterly DSAP and SDA payments to farmers**

Source: ANAO analysis of Dairy Australia documentation

6.29 The ANAO found that the above procedures were followed. There was appropriate documentation on the decision-making for each payment, and on the actual transfer of moneys.

6.30 The ANAO found that, consistent with ADC Treasury practice, transfers of funds between internal accounts were 'rounded up' for administrative convenience. Detailed reconciliations of each payment were prepared for all transactions from the commencement of the Fund so that transfers that did not exactly match the Computershare withdrawals were identified. For example, the ANAO found that, during 2001, the amount transferred by Dairy Australia in some transactions did not exactly match those requested by the DAA. After discussions with DAA, management control was strengthened by ensuring that details of any fund excess were separately documented and signed by the treasurer, so that the audit trail of fund transfers was clear and unambiguous. These procedures were in place at the time of audit fieldwork.

6.31 Overall, the procedures in place for control of program expenditures from the Fund were effective.

Management of expenses of administration

Dairy Australia's processing

6.32 Section 79 of the Act provides that the agencies involved in delivering the Package can be reimbursed for their expenses in developing or implementing the Package. Three bodies incur the bulk of such expenses, DAFF, the DAA and Dairy Australia.⁶⁰ Table 6.3 summarises the actual and forecast amounts.

Table 6.3

Administrative expenses reimbursed from the Fund

	Amounts paid to 30 June 2003 (\$ million)	Forecast to June 2010 (\$ million)
DAFF		
Meat Wool & Dairy Branch	1.0	1.7
Levies Management Unit	0.5	2.4
Dairy Adjustment Authority	24.4	30.6
Dairy Australia Limited*	4.3	9.5
Other agencies	2.0	3.1
Total	32.2	47.3

Source: Dairy Australia

*Note : Expenses for the ADC are included.

6.33 The procedures for bodies claiming expenses for their administration are set out in the *DSAF Policy and Procedures*, and in the service agreements that the DAA has with Dairy Australia. The procedures involve:

- the claiming agency issuing an invoice or directions to pay to Dairy Australia identifying the cost incurred and a verification that the cost is in accordance with the Act;
- Dairy Australia reviewing the invoices and its compliance under the Act and, if necessary, seeking further information from the agency on the purpose of the expense; and
- Dairy Australia then making payments.

⁶⁰ Other bodies include DoTARS, Centrelink, Australian Dairy Industry Council and the Australian Competition and Consumer Commission.

6.34 The ANAO found that these procedures are consistent with provisions of the legislation. The ANAO reviewed a sample of claims and found that they were appropriately certified, for example, citing the section of the Act under which they were made.

6.35 Overall, the procedures provided appropriate assurance that costs claimed were for purposes consistent with the Act. The ANAO also found no evidence that agencies had inappropriately claimed expenses from the Fund. However, the ANAO notes that DAFF's original provision for expenses incurred in administering the Package over its life was two per cent of total program costs (see paragraph 2.8). This was a conservative estimate, allowing for unforeseen expenses. On the basis of current estimated program costs, this provision represents some \$38.5 million. However, the ANAO found that such expenses are now estimated by Dairy Australia to be \$47.3 million (see Table 6.3). This is some 2.4 per cent of total costs.

Extent to which the arrangements promote value for money

6.36 Commonwealth programs usually have explicit arrangements for the control of expenses incurred in developing and administering programs. They will usually require an approving delegate to ascertain and confirm that expenditure is value for money for the Commonwealth. There will usually be a defined budget limit for costs of administration. This is set internally or, where the services are delivered on behalf of another agency, by the funder or purchaser of services, and cannot be exceeded without authority. There is regular monitoring and reporting of trends in these expenses to internal and external stakeholders. Larger programs are also likely to be subject to scrutiny of these expenses by central agencies.

6.37 The arrangements in regard to the Fund are somewhat different. Although the Fund is vested in Dairy Australia, it does not have the authority to refuse to pay invoices or for directions on the grounds that they do not represent value for money. As long as the claimant is one of the eligible agencies (see Figure 6.1), and the expenditure is consistent with the Act, Dairy Australia must pay the claim.⁶¹ There is no overall budget limit or cap for costs of administration that may be claimed by agencies.

6.38 The agencies are individually responsible for setting their own budgets. The Commonwealth agencies are also responsible under the *Financial Management and Accountability Act 1997* for efficient and effective use of resources. However, they do not require external approval or review for budgets for expenses claimed from the Fund. The risk to be managed in these circumstances, is that agencies may make decisions that are more risk averse,

⁶¹ This approach was confirmed by legal advice from DAFF.

and less cost effective, than might be the case if there were more typical budgetary controls on the costs of administration. Although expenses of administering the Package are now expected to exceed DAFF's original provision of two per cent of total costs, there has been no review or benchmarking of these costs. As well, the increase in these costs for the first year of implementation (see paragraph 2.43) was not subject to external review.

6.39 The Annual Reports of the ADC included an item 'Corporate Operating Expenses'. In fact, this represents the costs incurred by agencies in delivering the Package. However, reflecting the lack of an overall budget for administrative costs, there was no analysis or comparison of this expenditure against budget. This limits the transparency of reporting and accountability to stakeholders.

6.40 The ANAO considers that DAFF could improve accountability by requiring Dairy Australia (through its contract) to improve the information available on the total cost of administration, including over the life of the Package. For example, this might include information on outcomes against annual projected expenditures, the expected total cost of delivering the Package and any other indicators that might provide insight into value for money.

Recommendation No. 2

6.41 The ANAO recommends that the Department of Agriculture, Fisheries and Forestry seek to amend its contract with Dairy Australia to enable the department to require performance measures from all agencies able to draw administrative moneys from the Fund. This would assist the department to justify the value for money of the costs of administering the Package, for greater accountability for performance.

DAFF Response

6.42 Agreed. The department agrees that the transparency of funding arrangements for Australian Government agencies able to draw administrative costs from the Dairy Structural Adjustment Fund could be improved. The department will commence negotiations with Dairy Australia on amending the Statutory Funding Agreement to better articulate performance measures of agencies able to draw administrative costs from the Dairy Structural Adjustment Fund, being mindful of the statutory requirements of the *Dairy Produce Act 1986* and the *Financial Management and Accountability Act 1997*.

Provision of access by the ANAO under the Dairy Australia Funding Agreement

6.43 In 1998, in response to a recommendation⁶² from the Joint Committee of Public Accounts and Audit, the Government stated that:

The Government supports Commonwealth bodies including appropriate clauses in contracts as the best and most cost effective mechanism to facilitate access by the ANAO to a contractor's premises in appropriate circumstances.⁶³

6.44 The Commonwealth Procurement Guidelines state that agencies must consider, on a case-by-case basis, including a provision in contracts to enable the ANAO access to contractors' records and premises to carry out appropriate audits.⁶⁴

6.45 The ANAO found that the funding agreement, between DAFF and Dairy Australia, gives DAFF general access rights to Dairy Australia's records. However, it does not explicitly provide for Auditor-General access to material held by the contractor or access to premises. DAFF advised the ANAO that it had considered, and rejected, including such provisions. This was on the grounds that the general access powers and powers of direction were sufficient to protect the Commonwealth's interest, and would not preclude the ANAO conducting an audit of the company's activities in relation to the Fund.

6.46 However, the ANAO considers that explicitly inserting the standard access clauses would be consistent with current better practice, particularly given the scale of moneys passing through the Fund, and the complexity of the funding arrangements. This would provide greater assurance for all stakeholders.

Recommendation No.3

6.47 The ANAO recommends that the Department of Agriculture, Fisheries and Forestry reconsider amending its contract with Dairy Australia to add standard clauses providing for ANAO access to premises, records, information and assets associated with Dairy Australia's responsibilities under the Dairy Industry Adjustment Package.

⁶² Joint Committee of Public Accounts and Audit, *Report 368, Review of Audit Report No. 34, 1997–98 New Submarine Project*.

⁶³ Letter from the Auditor-General to agency heads, June 2001.

⁶⁴ Department of Finance and Administration, *Commonwealth Procurement Guidelines and Best Practice Guidance*, February 2002, p.7.

DAFF Response

6.48 Agreed. The department will commence negotiations with Dairy Australia to amend the Statutory Funding Agreement to provide certainty that standard clauses providing Commonwealth officers, particularly ANAO, with access to premises, records, information and assets associated with Dairy Australia's responsibilities under the Dairy Industry Adjustment Package are appropriate. However, in agreeing to this recommendation, the department notes that the Statutory Funding Agreement currently requires Dairy Australia to comply with any directions given to it by the Commonwealth in relation to the Dairy Structural Adjustment Fund. Additionally, the Agreement requires Dairy Australia to permit the Commonwealth to inspect any premises of the company and examine and copy the company's accounts and records.

Termination of the levy and closure of the Fund

6.49 Based on current estimates, the levy will be required to continue until June 2010 to meet all payments.

6.50 The legislation requires that the Minister be satisfied that there is no reasonable likelihood of money being paid out 28 days after the Fund has been declared closed. This requires careful monitoring by both Dairy Australia and DAFF that sufficient monies remain in the Fund to ensure that all payments are made, while minimising any remaining surplus funds. At any point in time, around \$50 million of levy funds are in the collection chain from processors to Dairy Australia. Hence, the collection of the levy will need to stop some months before the final payments are made from the Fund.

6.51 DAFF advised the ANAO that any decision on the termination date would be influenced by the need to minimise the risk that there will be insufficient funds for payments. As a result, it is likely that there will be a small surplus (of the order of \$5–10 million) that will remain in the Fund at the end of the levy period.

6.52 The legislation does not specifically provide for the manner in which any surplus funds are to be dealt with. DAFF advised the ANAO that it plans to bring forward options for the Minister's consideration to address this issue at some stage before 2010.

Canberra ACT
25 March 2004


Oliver Winder
Acting Auditor-General

Appendices

Appendix 1: DAA Objectives and KPIs for the delivery of DSAP *

Objective	Key Performance Indicator(s)
<p>1. Applications for DSAP payment posted by all eligible dairy producers by 17 August, and acknowledged and entered on the DAA database.</p>	<p>Key Performance Indicator 1: Applications received from known dairy enterprises at 28 September 1999, as a percentage of all known dairy enterprises at that date. Target: 99 per cent by close of receipts</p> <p>Key Performance Indicator 2: Eligible entities making application, as a percentage of all entities identified. Target: 96 per cent by close of receipts</p> <p>Key Performance Indicator 3: Correct applications from entities entered into database and ready for calculation, as a percentage of all entities making valid application. Target: 75 per cent by Monday 18 September 2000</p>
<p>2. Incomplete, incorrect or uncertain applications identified, applications advised, and properly amended applications received and entered on the database.</p>	<p>Key Performance Indicator: Corrected applications entered into database, as a percentage of applications requiring further written information from applicants. Target: 80 per cent by Monday 30 October 2000</p>

Objective	Key Performance Indicator(s)
<p>3. Notices of Decision for standard payment right sent to all eligible entities.</p>	<p>Key Performance Indicator: Standard Payment Right Decision Notices sent, as a percentage of all entities posting correct applications by 17 August.</p> <p>Targets: 100 per cent Owner/Operators by Monday 25 September 2000</p> <p>100 per cent Share farming arrangements by Monday 2 October 2000</p> <p>100 per cent Lease arrangements by Monday 9 October 2000</p>
<p>4. Register of unit entitlements established and fully compliant with requirements.</p>	<p>Key Performance Indicator: Register of unit entitlements operating with accuracy and timeliness</p> <p>Target: Ready for entries from Saturday 21 October</p>
<p>5. Entities provide bank account details, certification that they have not received other assistance, and Farm Business Assessment declaration form, and entered on register.</p>	<p>Key Performance Indicator 1: Entities on register, as a percentage of correct applications from entities posted by 17 August.</p> <p>Target: 80 per cent by Monday 30 October 2000</p> <p>Key Performance Indicator 2: Entities on register, as a percentage of valid applications from entities posted by 17 August.</p> <p>Target: 90 per cent by Friday 23 February</p>
<p>6. Entities on register receive payments by the date required by the Scheme and, thereafter, receive payments on due dates until the Scheme ends on 30 June 2008.</p>	<p>Key Performance Indicator 1: Entities receiving first payment by specified date, as a percentage of valid applications received by 17 August.</p> <p>Target: 45 per cent by Friday 3 November 2000</p> <p>Key Performance Indicator 2: Entities paid on due dates, after first payment, as percentage of valid applications at each date.</p> <p>Target: 100 per cent</p>

Objective	Key Performance Indicator(s)
<p>Farm Business Assessment Declarations received for all valid applications by specified date.</p>	<p>Key Performance Indicator: All necessary Farm Business Assessment Declarations received by specified date.</p> <p>Targets: 98 per cent by 31 December 2000 100 per cent by Monday 19 February 2001</p>
<p>Applications with special circumstances determined.</p>	<p>Key Performance Indicator 1a: Exceptional Circumstances granted, as a percentage of these requests.</p> <p>Key Performance Indicator 1b: Exceptional Circumstances granted, as a percentage of all valid applications.</p> <p>Key Performance Indicator 2: Anomalous Circumstances granted, as a percentage of these requests.</p> <p>Key Performance Indicator 3a: Exemptions from the \$350 000 cap granted, as a percentage of these requests.</p> <p>Key Performance Indicator 3b: Exemptions from the \$350 000 cap granted, as a percentage of all valid applications.</p>
<p>7. Submissions from entities requesting internal review received within the obligatory 28-day period after their receipt of the decision notice.</p>	<p>Key Performance Indicator 1: Requests for internal review received within obligatory period, as a percentage of correct applications posted by 17 August.</p> <p>Target: No more than 10 per cent by Monday 16 October</p> <p>Key Performance Indicator 2: Requests for internal review received within obligatory period, as a percentage of all valid applications.</p> <p>Target: No more than 10 per cent after last request determined</p>

Objective	Key Performance Indicator(s)
8. Requests for review decided and outcomes advised within 60 days of receipt.	Key Performance Indicator 1: Requests for review decided and advised within 60 days of receipt, as a percentage of all requests received. Target: 100 per cent
9. Notices of Appeal received by the Administrative Appeals Tribunal	Key Performance Indicator 1: Appeals to Administrative Appeals Tribunal, as a percentage of requests for internal review. Target: No more than 10 per cent Key performance Indicator 2: Appeals upheld by Administrative Appeals Tribunal, as a percentage of Appeals. Target: No more than 20 per cent
10. Compliance with decisions of the Administrative Appeals Tribunal, as they are made.	Key Performance Indicator: Time taken to make first payments to entities whose appeals have been upheld, from the date of notice of decision of the Tribunal. Target: 10 working days
11. Register maintained in good order until archived after the Scheme ends 30 June 2008.	Key Performance Indicator: Satisfactory result from annual external audit of the Register.
12. DAA complies with the requirements of the <i>Dairy Industry Adjustment Act 2000</i> and the Dairy Structural Adjustment Program Scheme 2000.	Key Performance Indicator 1: Satisfactory result from annual compliance audit. Key Performance Indicator 2: Satisfactory result from annual external audit of DAA expenditure and the Dairy Industry Structural Adjustment Fund.

* Source: Objectives as identified in DAA Business Plan, September 2000. Key Performance Indicators subsequently identified in DAA Strategic Plan for 2000–2001

Appendix 2: Special reports on DSAP prepared by DAA internal audit—April 2000 to October 2001

Report topic	Date of Report
Evaluation of the accuracy of milk volumes	April 2000
DES project health check	July 2000
Review of DES stage 2 acceptance testing	August 2000
DES program change management plan	August 2000
Proposed DES security model version 2	August 2000
DES stage 3, entitlement calculation review, internal audit opinion	August 2000
Owner operator audit report	October 2000
Claim data process reconciliation	October 2000
Sharefarmer pilot audit report	October 2000
Land leasing audit report	November 2000
Calculation of DSAP entitlements for farms with leasing and share farming arrangements	April 2001
Calculation of DSAP entitlements for farms with quota and land leasing arrangements	April 2001
Calculation of DSAP entitlements for farms with quota leasing arrangements	April 2001
Internal audit review of exemption from the \$350 000 payment cap certification	July 2001
DES MPS Data changes	September 2001
Internal audit status report	October 2001

Source: DAA

Appendix 3: Formal letter of response from DAFF



Australian Government
Department of Agriculture, Fisheries and Forestry

SECRETARY

Mr John Meert
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
PO Box 707
CANBERRA ACT 2601

Dear Mr Meert

I am writing in response to your letter of 30 January 2004 regarding the proposed audit report on the Administration of the Dairy Industry Adjustment Package (DIAP).

The Australian Government Department of Agriculture, Fisheries and Forestry (the Department) welcomes the audit on the Administration of the DIAP. The \$1.94 billion Package was the result of a considerable collaborative effort between industry and government, which resulted in a program of complex legislation and administrative arrangements to be implemented in an extremely short timeframe.

The DIAP remains the largest amount ever provided by the Government for rural adjustment. It has been well received by the dairy industry and is positively assisting industry to adjust to the more competitive commercial environment post deregulation. Without the successful and timely delivery of the DIAP, it is likely farmers' ability to adjust to the states' deregulation of farmgate milk pricing controls would have been considerably more difficult.

While the Department acknowledges the report's comments on effective planning for implementation, in the context of the development of the DIAP it is also important to acknowledge the timeframe in which the DIAP was developed as well as the existence of a number of external pressures. In particular, it is noted that the Australian Government was not the driver of deregulation.

The states, as the jurisdictions responsible for farm gate price regulation, implemented the changes and determined the timeframe in which this was to be achieved. As the states did not make this decision collectively until March 2000, it was not possible for the Department to pre-empt their consideration and eventual determination on this matter. Nevertheless, within these restrictions, the Department developed the framework for the DIAP to ensure the timely delivery of payments to farmers as soon as possible after deregulation took place.

Additionally, I would like to acknowledge the productive cooperative working relationship the Department has had with the Dairy Adjustment Authority since its inception and with the Australian Dairy Corporation in the development and implementation of this extremely important package of measures for the dairy industry.

The Department's responses to the recommendations in the proposed audit report are:

Recommendation 1 – The ANAO recommends that the Department of Agriculture, Fisheries and

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D E P A R T M E N T O F A G R I C U L T U R E , F I S H E R I E S A N D F O R E S T R Y

Forestry's planning for future major new initiatives include better identification and analysis of risks, costs and challenges of implementation, to enable greater assurance of timely and cost effective program delivery.

DAFF response: Agreed. The Department agrees that on-going planning is critical to the successful implementation of new initiatives. The Department is currently examining appropriate mechanisms for establishing more robust planning processes for implementing major new initiatives.

Recommendation 2 – The ANAO recommends that the Department of Agriculture, Fisheries and Forestry seek to amend its contract with Dairy Australia to enable it to require performance measures from all agencies able to draw administrative money from the Fund, that would justify the value for money of their costs of administering the Package for greater accountability of performance.

DAFF response: Agreed. The Department agrees that the transparency of funding arrangements for Australian Government agencies able to draw administrative costs from the Dairy Structural Adjustment Fund could be improved. The Department will commence negotiations with Dairy Australia on amending the Statutory Funding Agreement to better articulate performance measures of agencies able to draw administrative costs from the Dairy Structural Adjustment Fund, being mindful of the statutory requirements of the *Dairy Produce Act 1986* and the *Financial Management and Accountability Act 1997*.

Recommendation 3 – The ANAO recommends that the Department of Agriculture, Fisheries and Forestry reconsider amending its contract with Dairy Australia to add standard clauses providing for ANAO access to premises, records, information and assets associated with Dairy Australia's responsibilities under the Dairy Industry Adjustment Package.

DAFF response: Agreed. The Department will commence negotiations with Dairy Australia to amend the Statutory Funding Agreement to provide certainty that standard clauses providing Commonwealth officers, particularly ANAO, with access to premises, records, information and assets associated with Dairy Australia's responsibilities under the Dairy Industry Adjustment Package are appropriate. However, in agreeing to this recommendation, the Department notes that the Statutory Funding Agreement currently requires Dairy Australia to comply with any directions given to it by the Commonwealth in relation to the Dairy Structural Adjustment Fund. Additionally, the Agreement requires Dairy Australia to permit the Commonwealth to inspect any premises of the company and examine and copy the company's accounts and records.

Overall comment

The audit report's recommendations and general comments on the development and delivery of the DIAP are a useful assessment of the management of this process by the Department, the DAA and the Australian Dairy Corporation. The Department will consider fully this report in the context of future program implementation and is mindful that an appropriate balance needs to be maintained to ensure that policy outcomes are achieved in a timely manner whilst ensuring the appropriateness of administrative processes.

Yours sincerely

Michael J Taylor
SECRETARY

February 2003

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