ICAC
Independent Commission
Against Corruption
SOUTH AUSTRALIA

Evaluation of
grants administration
**Phase one:
Commercial grants**

Contents

Letter of transmittal

27 November 2023

The Hon. Terence Stephens MLC
President
Legislative Council
Parliament House
North Terrace
ADELAIDE SA 5000

The Hon. Daniel Cregan MP
Speaker
House of Assembly
Parliament House
North Terrace
ADELAIDE SA 5000

Dear President and Speaker

In accordance with sections 40(3) and 41(2) of the *Independent Commission Against Corruption Act 2012* (SA), I present phase one of the Commission's evaluation of grants administration, focussing on commercial grants.

Sections 40(4) and 41(3) of the Act require that you lay the report before your House of Parliament on the first sitting day after receiving it.

Yours sincerely

The Hon. Ann Vanstone KC
COMMISSIONER

COMMISSIONER'S FOREWORD

Commissioner's foreword

The provision of government grants is a primary means by which governments support and enrich communities.

Grant seekers often include sporting, arts, charitable and advocacy groups and multicultural communities, as well as health, wellbeing, and education organisations.

Governments also disburse considerable public funds to the private sector. Governments identify certain industries as strategically important and worthy of public support, and award grants to large and small businesses to support innovation, employment opportunities, and economic growth.

The provision of public funds to the private sector carries with it heightened risks of corruption. Profit motives can obscure the public interest, and increased interactions between public officers and the private sector potentially generate conflicts of interest and opportunities for corrupt conduct; and the misuse of public power for personal gain can occur.

This report of the first stage of the Commission's evaluation of grants administration examines two departments that have significant engagement with the private sector. Both agencies administer various grants programs to commercial, entrepreneurial and research entities. The prospect of significant financial benefits and opportunities and their exploitation is manifest.

Despite the exposure of these two departments to considerable corruption risks, the Commission was encouraged to find many sound features in the practices, policies and procedures underpinning grants management. Recommendations have been made where worthwhile opportunities to improve those processes were identified.

I thank the staff of both departments for their assistance in this evaluation.

This report has been prepared in accordance with sections 40 and 41 of the *Independent Commission Against Corruption Act 2021 (SA)*.

The Hon. Ann Vanstone KC

Commissioner
INDEPENDENT COMMISSION AGAINST CORRUPTION

RECOMMENDATIONS

Recommendations

Recommendations 1 - 15 are addressed to the Department for Industry, Innovation and Science (DIIS) while 16 - 29 are addressed to the Department for Trade and Investment (DTI).

RECOMMENDATION 1

DIIS include references to grants management policy and procedure in the Department's *Fraud Control Plan* activity table.

RECOMMENDATION 2

DIIS provide six monthly reminders to staff of their obligations to declare conflicts of interest and relevant pecuniary interests, and of the need to request approval for outside employment.

RECOMMENDATION 3

Determine an appropriate third party assessment and approval process for acceptance of gifts and benefits by the Chief Executive.

RECOMMENDATION 4

DIIS prioritise implementation of an appropriate system and its use by all staff working in grants administration, including the rollout of staff training, and guidance on document retention; and review staff use of the system one year from full implementation.

RECOMMENDATION 5

DIIS conduct a review of assessment documentation related to grants with a view to standardising the process, including requirements for fulsome justification of decisions and recording of all decisions and decision makers.

RECOMMENDATION 6

Subject to resourcing, DIIS consider the creation of a fully centralised and dedicated grants administration unit.

RECOMMENDATION 7

DIIS Audit and Risk Committee review its processes for overseeing the implementation of audit recommendations in general, and the BDO audit of grants administration in particular.

RECOMMENDATION 8

DIIS more clearly define the budgetary parameters and purposes of the RIF, and set out clear conditions where a publicised grant fund may be used for internal procurements, or disallow the use of the fund for anything other than grants.

RECOMMENDATION 9

DIIS amend all relevant policy and procedure to ensure that any restrictions on open publishing of grants opportunities, or specifically targeted grants calls or invitations, are justified, approved and documented.

RECOMMENDATION 10

DIIS include the following requirements in the *Grants Management Framework*:

- ▶ Assessment panel meeting minutes consistently record any conflict of interest declarations, including no disclosures, at the commencement of each meeting
- ▶ All panel members disclose conflict of interests either via signed paper declaration or electronically, with controls for verification of identity
- ▶ Grant application forms to require the applicant to disclose conflicts of interests

RECOMMENDATION 11

DIIS amend its *Conflict of Interest Procedure* and *Fraud Control Plan* to reflect that all DIIS staff with decision making duties involved in grants administration are required to complete a pecuniary interest declaration form annually.

RECOMMENDATION 12

DIIS implement a 'flag' for any grant applicants identified as public officers, and require grant assessors to ascertain whether any conflicts of interest arise in relation to their public duties and activities for which they are seeking grant funding.

RECOMMENDATION 13

DIIS require employees involved in grants administration to undertake fraud risk training, including conflicts of interest, grooming, gifts and benefits, professional relationships and financial interests, at least every three years.

RECOMMENDATION 14

DIIS consolidate all RIF recipients and publishes the list on its website.

RECOMMENDATION 15

DIIS conduct formal and documented periodic reviews of the RIF to ensure that the program remains relevant to strategic policy objectives, delivers intended outcomes, that appropriate processes are followed, and integrity controls are functioning effectively.

RECOMMENDATION 16

DTI provide periodic training on fraud, corruption and integrity risks relevant to high risk functions conducted by staff at the Department, including grants administration.

RECOMMENDATION 17

DTI amend the Department's Gifts and Benefits Register to include a prompt for recipients to provide detailed information of any relevant connection (current or proposed) between an offeror and the Department, such as procurement or grants activity, or other associations.

RECOMMENDATION 18

DTI issue six monthly reminders to staff regarding their conflict of interest obligations.

RECOMMENDATION 19

DTI amend its *Conflict of Interest Procedure* to require all DTI staff with decision making duties in grants administration to complete a pecuniary interest declaration annually.

RECOMMENDATION 20

DTI create a CRM working group to establish protocols for requesting, using, storing and accessing commercial in confidence information of clients. The working group should assess general information and document security practices in line with State Records requirements and current policy and procedure, with a view to embedding consistent information handling processes at the Department.

RECOMMENDATION 21

DTI periodically audit staff use of the CRM to identify unusual or suspicious patterns of access, downloading and dissemination. Such system access review should also occur in the lead up to any senior staff exiting the agency to take up positions in the private sector.

RECOMMENDATION 22

DTI amend its *Expense Management – Grants Procedure* to stipulate that substantial alteration of a grants program, including changes to scope, purpose or budgets, require an integrity risk assessment before approval.

RECOMMENDATION 23

DTI ensure complex and multi-stage grants programs have mechanisms in place for the final approver to have global visibility over the key points of conflict of interest management, including expression of interest, eligibility review, assessment, selection, as well as processes involving departmental officers working on business strategy or plans with applicants and recipients.

RECOMMENDATION 24

DTI gives consideration to the creation of resources to facilitate ethical industry engagement between agency officers and businesses, as well as protecting their own integrity during those engagements.

RECOMMENDATION 25

DTI ensures that a consistent minimum level of due diligence, business and financial review takes place for all recipients of grants, and documentary evidence is retained in records management systems. It is suggested that the agency consult with the South Australian Government Financing Authority regarding potential provision of due diligence or assurance services, particularly for international applicants or applicants with difficult to ascertain finances or business cases.

RECOMMENDATION 26

DTI review its grants operating procedures to ensure that changes to roles and responsibilities resulting from restructures and operational adjustments are reflected in those procedures, and all roles listed with any discretionary powers are required to make conflict of interest declarations.

RECOMMENDATION 27

DTI standardise its grants assessment scoring documents so panel members can be matched to individual scores, and conflict of interest declaration and management actions are attached to the assessment documentation.

RECOMMENDATION 28

DTI ensure that panel assessment documents for grants programs are attached to approval minutes, to ensure retention of those documents.

RECOMMENDATION 29

DTI undertake a strategic review of SALP participant progress reports to gather insights for program review and evaluation.

THE EVALUATION FUNCTION AND PROCESS

The evaluation function and process

On 25 January 2023, Commissioner Vanstone announced the intention to evaluate the practices, policies and procedures of various public authorities in relation to grants administration.

Shortly after that announcement, the Commission wrote to most public sector agencies seeking details of their grants programs and the processes employed in their administration. Information was requested from most public sector agencies regarding grants programs administered by their agencies over the previous three years (financial years 2019 - 2020 through to 2021 – 2022) and programs to be administered over the coming 12 months (financial year 2022 - 2023).

Agencies were asked to describe:

- ▶ how a grants program was initiated or developed
- ▶ processes for determining eligibility and assessment criteria for grants programs
- ▶ the application and invitation process
- ▶ how application outcomes are communicated to applicants
- ▶ the quantum of funds allocated to a program
- ▶ the quantum of funds disbursed under a program
- ▶ the process by which each application is assessed, determined and documented
- ▶ the grants acquittal process
- ▶ evaluation processes

Large volumes of information about the grants programs were received by the Commission, highlighting the number and variety of grants activities occurring across the public sector.

In view of the scale and complexity of this activity, the Commission decided to progress the evaluation in stages and produce a series of reports to Parliament.

The first stage was announced on 1 May 2023, and focused on commercial, investment, research and entrepreneurial grants schemes. For this stage the Commission elected to evaluate the practices, policies and procedures of the Chief Executives of the Department for Trade and Investment (DTI) and the Department for Industry, Innovation and Science (DIIS).

This stage of the evaluation was conducted by way of:

▶ reviewing inter-jurisdictional reports relevant to grants administration

▶ collecting and reviewing relevant departmental policies, procedures and other documents

▶ inviting and receiving submissions

▶ conducting interviews with departmental staff and other stakeholders

▶ conducting a sample audit of grant recipients for selected programs

▶ reviewing internal Commission holdings relevant to grants administration

The Commission received 12 submissions on a range of matters associated with grants administration.

The Commission conducted interviews with fifteen staff members and interested stakeholders.

The following programs administered by those agencies were also selected for further review, and will be discussed at some length in this report:

Department for Industry, Innovation and Science:

▶ **Research and Innovation Fund** (known as 'the RIF')

A three-streamed grant program to support researchers, entrepreneurs, and businesses to accelerate their progress. Stream one aims to strengthen research capability and the commercialization of new knowledge. Stream two supports innovative early-stage businesses, and stream three develops an innovation ecosystem by supporting activities, events and programs.

Department for Trade and Investment:

▶ **South Australian Landing Pad** (known as 'the SALP')

A grants program to entice early stage interstate and international businesses to establish a presence in South Australia.

▶ **Global Expansion Program** (known as 'the GEP')

A grants program to support South Australian businesses in developing their export capability and capacity.

On 11 October 2023, relevant sections from the draft evaluation report were provided to the Chief Executives of each agency for feedback. Minor amendments to the report were made in response to the comments and clarifications received.[1]

1:    EXH0157, EXH0158.

Structure of evaluation

Grants programs should ideally proceed through the following stages:

1. Planning, design and initiation

2. Promotion and support

3. Assessment, selection and approval

4. Grant execution

5. Review, evaluation and reporting

Commission staff assessed the integrity, controls and due diligence evident at each of these stages of a grants program.

Many agencies also disburse significant one-off grants outside formally established programs. These grants should still be compliant with public financial management processes and demonstrate integrity, probity and due diligence at all stages.

Common corruption pressure points in grants administration

There are several areas of general corruption vulnerability related to the administration of grants. These are:

▶ conflicts of interest between public officers administering grants and grant recipients

▶ public officers with secondary employment or financial interests in grant recipients

▶ public officers obtaining employment with grant recipients post separation from their public position

▶ public officers accepting gifts or benefits from entities receiving or seeking grants

▶ public officers accepting or soliciting bribes to influence the award of a grant or show favour to an applicant

▶ improper relationships or associations developing between public officers and clients receiving or seeking grants

▶ the misuse of sensitive information received from grant clients by public officers

As well as assessing the governance of different stages of grant programs, it was also sought to assess the way the two agencies manage and control these risks.

THE RISK OF CORRUPTION IN COMMERCIAL GRANT PROGRAMS

The risk of corruption in commercial grant programs

The primary corruption risk in grants administration is the potential for public officers to allocate grants to parties in which they have personal interests. This risk is heightened in grants to commercial entities due to the potential for significant financial gains or business opportunities to be generated.

The Commission has encountered improprieties of this sort in past investigations.

In one instance the Commission investigated allegations that a public officer was involved in awarding government grants to a commercial firm in which they later invested by acquiring shares through a trust. The public officer remained in a position to secure further government benefits and support for the company and did not adequately declare their conflict of interest.[2]

In another instance the Commission investigated allegations that a grant of almost half a million dollars was improperly disbursed to a start-up company without any due diligence being conducted. It was alleged that due diligence would have established that the company was not financially viable or able to fulfill the terms of the grant deed. It was also established that the officer assigned to the business had loaned its director almost $50,000 to meet living expenses. The investigation uncovered evidence that the officer was negotiating a shareholding agreement with the company director. The matter was unable to be progressed due to the historical nature of the allegations and health issues of key witnesses.[3]

The risk of public officers exploiting intellectual property or other proprietary information is heightened in agencies engaging significantly with business and industry. The two public authorities discussed in this report had access to commercial information and opportunities that could be put to improper use for commercial gain.

Apprehension about such misuse was highlighted in 2019 when a former public officer centrally involved in the former Office of Industrial Hemp and Medicinal Cannabis was appointed to a senior position at a medicinal cannabis company. Stakeholders in the industry held legitimate fears that his knowledge of the commercial interests, budgets and business plans of competitors, as well as inside knowledge of regulatory and political priorities, would result in unfair advantage for his new employer.[4]

This risk is anticipated in the *Code of Ethics for the South Australian Public Sector* ('the Code of Ethics') in relation to outside employment:

> *Public sector employees who leave the public sector to work with a non-Government employer will avoid situations which would result in an unfair advantage for their new employer. This holds particularly in the case where the employer is bidding for a government contract or is competing for a grant or similar disbursement of public moneys.*[5]

2:   Internal holdings.
3:   Internal holdings.
4:   Bension Siebert, InDaily, 4 September 2019, "Former top bureaucrat 'knows our commercial secrets'". See, Former top bureaucrat "knows our commercial secrets" (indaily.com.au).
5:   *Code of Ethics for the South Australian Public Sector*, pg 8. Office of the Commissioner for Public Sector Employment.

REVIEW OF GRANTS ADMINISTRATION AT THE DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE

Chapter one:
Review of grants administration
at the Department for Industry,
Innovation and Science

The Department for Industry, Innovation and Science (DIIS) describes its purpose in the following terms:

> *Our purpose is to support sustainable economic growth by assisting South Australian industries and businesses to succeed in a local and global environment.*
>
> *Our objectives are to:*
>
> - *Grow creative, innovative and productive industries and businesses*
>
> - *Improve the state's industrial capability and capacity*
>
> - *Develop a high performing research and innovation system*
>
> - *Support industry to get the skilled workforce it needs* [6]

DIIS's grants programs and activities facilitate those aims. Grants activity at DIIS is relatively significant, with overall grants expenditure across the Department for the 2022-2023 financial year amounting to $24,828,058.[7]

6: See, https://www.diis.sa.gov.au/department/about-the-department.
7: EXH0141.

General integrity policies and procedures

DIIS has a suite of policies and procedures to guide staff in general corruption and fraud control. These include:

▶ Fraud Control Policy[8]

▶ Fraud Control Procedure[9]

▶ Fraud Control Plan[10]

▶ Gifts and Benefits Framework[11]

▶ Conflict of Interest Procedure[12]

▶ Outside Employment Procedure[13]

▶ Records Management Policy and Procedure[14]

These documents are sound, mostly clearly written, and provide links to related internal documents and broader government guidelines.[15]

FRAUD CONTROL

The *Fraud Control Plan* contains a detailed table of fraud controls in place, the frequency of their implementation, and relevant policies setting out each control responsibility, while the *Fraud Control Procedure* details the process for reporting suspicions of misconduct, maladministration and corruption.[16] There is scope for the *Fraud Control Plan* to include a dedicated grants management component in the *Fraud Control Table*.

> DIIS include references to grants management policy and procedure in the Department's *Fraud Control Plan* activity table.
>
> **RECOMMENDATION 1**

8: EXH0025.
9: EXH0024.
10: EXH0023.
11: EXH0015.
12: EXH0031.
13: EXH0019.
14: EXH0022 and EXH0020.
15: One policy was clearly inspired by another organisation's policy in that references to that organisation had not been removed. Another policy asked the reader to read the policy in conjunction with itself.
16: EXH0024; EXH0023.

CONFLICT OF INTEREST AND OUTSIDE EMPLOYMENT

The Department's *Conflict of Interest Procedure* and *Outside Employment Procedure* refer to the obligations of public officers contained in the Code of Ethics. These procedures require 'particular employees' to annually declare 'pecuniary interest via shareholdings in companies, property trusts or similar organisations.'[17] The staff to whom this obligation relates are not identified in the procedure.

The low number of entries in the Department's conflict of interest and outside employment registers for the past three years could suggest staff are not regularly updating their interests or requesting approval for their outside employment.

DIIS provide six monthly reminders to staff of their obligations to declare conflicts of interest and relevant pecuniary interests, and of the need to request approval for outside employment.

RECOMMENDATION 2

GIFTS AND BENEFITS

The DIIS *Gifts and Benefits Framework* requires all gifts received or offered over $50[18] to be reported to the employee's line manager, approved (or not approved) by a Director or Executive Director, and recorded on the DIIS *Gifts and Benefits Register*. The *Framework* provides guidance on what is considered to be 'token' or 'non token' and about the disposal of gifts and benefits.

Disclosure of gifts and benefits, both received and offered, is required. Examples of policies where only gifts and benefits received require disclosure have been observed in previous evaluations. The requirement to disclose offerings assists the Department to identify businesses repeatedly offering gifts and benefits and seeking influence, to observe patterns of gift giving behaviour, and educate staff.

Those interviewed were knowledgeable about DIIS's gift and benefit disclosure requirements.[19] One staff member explained they declined an awards night dinner offered by a grant recipient.[20] That staff member said it was widely accepted that staff would not accept an invitation to a free dinner.

In another example, tickets to a music festival from a recipient were declined. The intended recipient noted: "Declined for personal reasons, however, I consider that it is a non-token offer, and there is no business benefit to me attending".[21] This provides evidence of an integrity-minded approach at the agency.

17:   EXH0031.
18:   Or where the cumulative value of the gift or benefit is over $50.
19:   INT010; INT013; INT012.
20:   INT013.
21:   EXH0016.

However, the gift and benefits register does disclose that numerous gifts have been accepted by staff from external businesses, including football tickets.[22] One of the reasons provided for accepting an event ticket includes that there were "no procurement activities involving the vendor" but that "the department will be working with them for the next couple of years".[23] Here, the Commission questions the appropriateness of accepting the gift in circumstances of known future engagement with the business.

There is an opportunity for DIIS to strengthen its *Gifts and Benefits Register* to require detailed information of any relevant connection or business (past, present, or future) between a client and the Department, and detail the business purpose in accepting a gift.

Review of the *Gifts and Benefits Register* indicates that the Chief Executive is approving his own acceptance of gifts and hospitality.[24] It would be more appropriate for an Audit and Risk Committee or a senior finance or governance officer to evaluate and approve any acceptance of gifts and benefits by the Chief Executive.

Rigour surrounding the acceptance of gifts and benefits by senior staff is necessary, as it has been observed that senior staff across public administration are both more likely than other staff to be targeted with offerings and more inclined to accept.

> Determine an appropriate third party assessment and approval process for acceptance of gifts and benefits by the Chief Executive.
>
> **RECOMMENDATION 3**

INFORMATION AND RECORDS MANAGEMENT

Accurate, accessible and comprehensive information is relied upon by decision makers at all levels of public administration. Corrupt practices emerge more readily in environments where inaccurate, insufficient or missing information compromises information integrity, and information systems are not fit for purpose. Decision making is corroded by such inadequacies.

DIIS has a records management policy[25] and procedure[26] providing staff with appropriate guidance, including roles and responsibilities, and legislative obligations on retention, management and disposal of official records. The *Grant and Subsidy Policy* sets out the responsibility of staff involved in grants administration to manage records in line with the *Records Management Policy*.[27]

22: EXH0016.
23: EXH0016.
24: EXH0016.
25: EXH0020.
26: EXH0020.
27: EXH0026.

However, the evaluation team was informed that the records management system currently used by the agency for grants administration was inadequate in a number of respects.[28] Interviews revealed that the official electronic document and records management system, Content Manager, did not allow for the collaborative work necessary to administer grants programs[29], and was not suited for creating, editing and saving contracts.[30] Staff understood that key grants documents must be stored in Content Manager (notably assessment decisions, ministerial recommendations, and contracts) but were unsure what other documentation, such as client correspondence, should be included.[31]

Records are also created, developed and stored on other systems including SharePoint, OneDrive and Teams, and held on individual desktops. Time consuming processes to transfer documents between systems and a lack of administrative support made maintaining sound records management challenging.[32] Version control issues, exemplified by difficulty locating correct and current documents, were also reported by staff.[33] Errors in record keeping, such as retention of blank documents and misfiling, were apparent in information supplied to the Commission.[34]

DIIS has procured the SmartyGrants software and this will assist in coordinating grants administration. The full implementation of that system and provision of staff training as a priority is encouraged.

It was also noted that the quality of assessment panel meeting minutes was variable, with some thorough and rigorous,[35] while others lacked important details like panel membership or provided only cursory justifications for panel decisions.[36] Accurate recording of this information is important to the integrity of the grants administration process.

> DIIS prioritise implementation of an appropriate system and its use by all staff working in grants administration, including the rollout of staff training, and guidance on document retention; and review staff use of the system one year from full implementation..
>
> **RECOMMENDATION 4**

> DIIS conduct a review of assessment documentation related to grants with a view to standardising the process, including requirements for fulsome justification of decisions and recording of all decisions and decision makers.
>
> **RECOMMENDATION 5**

28: INT008, INT014.
29: INT008-013.
30: INT009.
31: INT009; INT012; INT013.
32: INT012.
33: INT009.
34: See EXH0122.
35: For example: EXH0124; EXH0128.
36: For example: EXH0116.

Policy and procedure context – grants specific policies

DIIS has an overarching grants framework comprising a *Grant and Subsidy Policy*[37] and a *Grant and Subsidies Procedure*.[38] The policy conforms with *Treasurer's Instruction 15*,[39] outlines record keeping and risk management requirements for different grants and provides links to relevant documents such as the Code of Ethics, Treasurer's Instructions, Premier and Cabinet Circulars, and internal policy and procedure.

The *Grants and Subsidies Procedure*[40] provides more detail about how grants programs should be created and reviewed, applications received and assessed, and successful grants awarded, monitored and acquitted. The policy and procedure appear to be clear and appropriate.

INTERNAL AUDIT OF GRANTS ADMINISTRATION AT DIIS

In 2022 DIIS subjected its grants function to an internal audit conducted by private consulting firm BDO.[41 42] The BDO audit found that DIIS deployed a decentralised approach to grants administration, with minimal overall supervision or guidance provided. While DIIS relies on the *Grant and Subsidy Policy* and related *Procedure* to coordinate its grants activity, the audit found four grants program managers were unaware of how those requirements applied to their program. The absence of centralised supervision was identified in the audit as a high risk.[43] This lack of awareness, consistency and supervision was corroborated by information provided during interviews with some DIIS staff.[44]

The Department's response to this finding of the BDO audit was to nominate its Finance and Investment Services Unit as a 'central support team' for grants administration.[45]

While allocating a grants support team is a significant reform, it is suggested that consideration be given to developing a dedicated central grants administration function in the Department. It was divulged to the evaluation team that disparate practices may still be prevalent amongst teams and individuals with responsibility for grants administration.[46] A support unit may rectify such divergent practices to some degree but a dedicated central administration (with appropriate separation of duties) would provide greater consistency in applying the management framework.

> Subject to resourcing, DIIS consider the creation of a fully centralised and dedicated grants administration unit.
>
> **RECOMMENDATION 6**

37: EXH0026.
38: EXH0027.
39: Government of South Australia, Department for Treasury and Finance *Treasurer's Instruction 15 – Grant Funding* 2019 https://www.treasury.sa.gov.au/__data/assets/pdf_file/0009/516960/TI15-1-January-2019-u.pdf.
40: EXH0027.
41: EXH0132.
42: The internal audit included grants programs and areas which transferred to the Department for Education on 1 July 2022. However, the general policy recommendations applicable to DIIS remain the same.
43: EXH0132.
44: INT007; INT014; INT009.
45: INT014.
46: INT007.

Meaningful action on several recommendations from the BDO audit was dependent on the Department completing a new grants management framework and the implementation of the SmartyGrants system.[47] These two actions are reported as 'complete' in DIIS's response to the audit.

However, the evaluation team was informed that both measures are in fact incomplete. At the time of writing, the new grants management framework had not been finalised and was still in development.[48] The application of the SmartyGrants system appeared incomplete, and was utilised by a limited number of employees, with many yet to receive training on its use.[49]

The BDO audit also found deficiencies in grant contract disclosure even though this was a requirement of the grants policy and procedure, and recommended that managers ensure compliance. Ironically, the evaluation team found that DIIS had marked implementation of this audit recommendation as 'complete', stating that contract disclosure is required by the policy and procedure. It appears that the failing here is staff compliance with policy. An appropriate remedy would be to improve compliance through staff training, supervision and audit. Disappointingly, a further instance of a failure to disclose contracts was observed during the evaluation.[50] DIIS has advised that since this incident, guidance on contract disclosure requirements has been provided to relevant staff. There is an intention to incorporate this into regular training.[51]

Internal audits are vital activities to identify governance deficiencies and improve operations. Premature sign off and inadequate implementation of the internal audit recommendations may provide false assurance regarding administration of the grants function. Efforts made to improve the function are acknowledged, but the Department is encouraged to revisit its response to the BDO audit and reassess the status of actions and to implement the recommendations.

DIIS Audit and Risk Committee review its processes for overseeing the implementation of audit recommendations in general, and the BDO audit of grants administration in particular.

RECOMMENDATION 7

47: EXH0133.
48: INT014. In response to the draft evaluation report DIIS advised it had since completed and provided training regarding the new Grants Management Framework. This has not been reviewed by the evaluation team. EXH0157.
49: INT007; INT014.
50: EXH0150.
51: EXH0157.

The Research and Innovation Fund

The Research and Innovation Fund (RIF) is a grants program designed to support researchers, entrepreneurs, innovative start-up businesses and the ecosystems that support and facilitate these activities. RIF grant expenditure for 2022-2023 financial year was $4,254,456.[52]

The Commission reviewed the RIF by examining policy documents and assessing a random selection of 17 successful and unsuccessful applicants across its three streams.

The streams have differing corruption risk profiles.

Stream one is primarily disbursed to large, well established research entities, such as universities, industry groups and cooperative research centres. Their organisational maturity, as well as funding often being matched and administration scrutinised by the Australian Government, lowers the risk of corruption in such grants.

Stream two was regarded by DIIS as the most vulnerable to failure, with applicants drawn from small innovative start-up businesses.[53] The stream is also more vulnerable to corruption with recipients advancing precarious but potentially highly lucrative commercial endeavours. It also has higher potential for DIIS case officers to develop relationships over time with grant recipients. Those increased risks are mitigated by lower levels of discretion in decision making, more detailed and robust guidelines for applications, assessments and selection, and an external agency, the South Australian Government Financing Authority, managing and monitoring grant payments and milestones.

Stream three focuses on grants to organisations providing training, professional development, and other forms of support for start-up companies to generate entrepreneurial ecosystems. This stream also demonstrated detailed guidelines and documentation, and robust application, assessment and decision making processes.

While stream one appears the least susceptible to corruption, it was observed that three funding contracts from this stream were consultancy procurements, rather than grants. Two of those consultants were individual researchers whose specific expertise was needed for internal departmental business. These procurements were justified on the basis the work procured from the consultancies was aligned with the principles of the RIF.[54] Both procurements were undertaken in line with DIIS' procurement framework and Treasurer's Instruction 18, and were appropriately authorised and documented. However, based on past Commission investigations, consultancy procurements involving individuals with unique or highly specialised qualifications can be more prone to exploitation and corruption.

52: EXH0141.
53: INT0011, INT0012.
54: INT008.

A senior DIIS manager reported that the RIF was viewed as a 'budget line' rather than solely as a grants fund, and thus had flexibility to fund projects other than grants.[55] Such an approach needs to be carefully managed. If the purpose of the funding is flexible, there is a risk of public officers exploiting such flexibility and discretion to use money allocated for grants for other purposes.

> DIIS more clearly define the budgetary parameters and purposes of the RIF, and set out clear conditions where a publicised grant fund may be used for internal procurements, or disallow the use of the fund for anything other than grants.
>
> **RECOMMENDATION 8**

PLANNING AND DESIGN

Good planning, design and initiation of grants programs helps to mitigate corruption by providing consistency and transparency, and setting goals, responsibilities and accountabilities for all involved.

In general, the RIF demonstrated sound planning and design, including broad investment principles[56] together with more detailed guidelines[57] and a dedicated *Standard Operating Procedure*.[58] Although the guidelines and procedure were devised under the program's previous iteration (the 'Research and Commercialisation Startup Fund') they appear to remain relevant.

It is noted that the RIF received $20 million in the latest state government budget.[59] In circumstances where a major grant fund has been subject to previous iterations and amendments and is retained with significant new funding, a systematic review is advised.

55: INT014.
56: EXH0007.
57: EXH0011.
58: EXH0010, the Standard Operating Procedure is in schedule 2.
59: See https://indaily.com.au/news/2023/06/15/state-budget-housing-health-and-20-million-pumped-into-startups/.

PROMOTION AND ADVERTISING

Open and competitive grants opportunities should be advertised in a transparent manner, to ensure that all potential recipients have the same information and opportunity.

Overall, the RIF is promoted in an open and inclusive manner, with guidance on advertising and calls for applications contained in the overarching *Grants and Subsidies Procedure*,[60] and the specific RIF guidelines and *Standard Operating Procedure*.[61] Grants guidelines, frequently asked questions, deed terms and conditions, claim and acquittal processes, expression of interest and application forms are made publicly available to all applicants.[62]

However, the *Grants and Subsidies Procedure*[63] states that the requirements of some programs 'may preclude the wide publishing of its guidelines and program materials'. The guidelines state that while expressions of interest are open for streams two and three at any time, specific initiatives and calls for proposals can occur.[64] *Ad hoc* strategic research grants and grants outside specific calls can be allocated in stream three.[65]

If circumstances justify excluding the open publishing of guidelines and program materials, or specific initiatives or calls for submissions occur outside formalised grants process, then those decisions should be justified, approved and documented.

> DIIS amend all relevant policy and procedure to ensure that any restrictions on open publishing of grants opportunities, or specifically targeted grants calls or invitations, are justified, approved and documented.
>
> **RECOMMENDATION 9**

60: EXH0027.
61: EXH0010, schedule 2.
62: EXH0010, schedule 2.
63: EXH0027.
64: EXH0011.
65: INT008, EXH0011.

ASSESSMENT AND SELECTION

Identification and management of conflicts of interest

DIIS staff that were interviewed were quick to identify that Adelaide is a 'small place'[66] and is 'hyperconnected',[67] and recognised conflict of interest as a corruption risk.[68] However, they thought it would be difficult for an employee to conceal a conflict of interest with a grant applicant at any point in the grant lifecycle.

Nevertheless, it was observed that practices to identify and manage relevant conflicts of interest in the RIF were not always compliant with relevant policies and procedures.

Conflicts of interest in the grant assessment stage

The 2022 BDO audit of the grants function at DIIS identified a conspicuous absence of conflict of interest documentation, contrary to requirements in the Department's *Grants and Subsidies Procedure*.[69] The audit reviewed 15 grant disbursement samples and identified that 14 had no evidence of conflict of interest declarations. The audit recommended that a conflict of interest form be completed for each person involved in grant processes, and that declared conflicts are managed according to documented procedures.

Irregularities regarding conflict of interest declarations were noted in the administration of the RIF. The RIF *Standard Operating Procedure* obliges all public sector panel members to complete a conflict of interest declaration before being provided with an application, while external panel members need only complete a declaration if they are aware of an actual, potential or perceived conflict of interest.[70]

However, the evaluation team observed different practices in relation to its sample of RIF applicants:

▶ Only conflict of interest declarations submitted by external panel members could be located,[71] and in some cases there were missing declarations,[72] or no declarations at all[73]

▶ There was evidence in panel meeting minutes that conflicts of interest were considered,[74] but not all documentation was in final form[75] and some disclosures included no information about who made the disclosure or how it related to the matter discussed[76]

66: INT012.
67: INT011.
68: INT008; INT012., INT011; INT014.
69: EXH0027.
70: EXH0010, schedule 2; INT010.
71: For example: EXH0119, EXH0120, EXH0124.
72: For example: EXH0122, EXH0123.
73: For example: EXH0121, EXH0130.
74: For example: EXH0119; EXH0123.
75: For example: EXH0120, EXH0121, EXH0124.
76: For example: EXH0128.

Interviews revealed that in practice only external panel members were required to submit a conflict of interest form and this was not required from internal DIIS employees.[77] This is contrary to both the DIIS *Grants and Subsidies Procedure* and the RIF's *Standard Operating Procedure*. One staff member offered the explanation that if declarations were required for every application, this may require 400-500 declarations per year, which would be too onerous.[78]

While the administrative burden is appreciated, the process of grants administration has close parallels to those of procurement, especially regarding conflict of interest management. Procurements over $55,000 commonly require declarations to be in place for potential suppliers, and for all participants in a procurement prior to commencing evaluation, even where there are no interests to declare.[79]

Those obligations are also appropriate for grants management.

Like all public officers, DIIS employees have obligations to disclose any conflicts of interest that arise in the course of their duties 'as required'.[80] However, it is recommended that staff with significant roles in grants decision making should be required to annually declare any pecuniary interests, if they do not already do so.

DIIS include the following requirements in the *Grants Management Framework*:

▶ Assessment panel meeting minutes consistently record any conflict of interest declarations, including no disclosures, at the commencement of each meeting

▶ All panel members disclose conflict of interests either via signed paper declaration or electronically, with controls for verification of identity

▶ Grant application forms to require the applicant to disclose conflicts of interests

RECOMMENDATION 10

DIIS amend its *Conflict of Interest Procedure* and *Fraud Control Plan* to reflect that all DIIS staff with decision making duties involved in grants administration are required to complete a pecuniary interest declaration form annually.

RECOMMENDATION 11

77: INT010; INT014; INT011.
78: INT011.
79: GEXH0048 p 8 and 13.
80: EXH0023, page 2.

Public officers applying for commercial grants

The evaluation team observed instances of public officers from other government agencies applying for RIF grants in their capacity as a private business owner. In circumstances where public officers have private businesses in the same areas as their public employment, questions regarding conflicts of interest and intellectual property ownership are raised.

Employees interviewed at DIIS were alive to these risks. DIIS staff explained that these applications were closely scrutinised and enquiries made with the employing agencies about how any conflicts would be managed if the grant application were successful.[81]

The evaluation team was provided with three examples of this situation, two resulting in no grant being awarded, and one successful. Unfortunately, for the successful applicant no evidence of enquiries to the relevant agency, or acknowledgement of the potential for conflict was apparent.[82] While DIIS may well have made the enquiries with the agency employing the applicant, it is important that records are created detailing the consideration and management of potential conflicts.

DIIS implement a 'flag' for any grant applicants identified as public officers, and require grant assessors to ascertain whether any conflicts of interest arise in relation to their public duties and activities for which they are seeking grant funding.

RECOMMENDATION 12

Conflicts of interest developing after grant approval

While staff interviewed acknowledged the risk of conflicts of interest, many were surprised at the suggestion of improper relationships potentially forming over time between an employee and a grant recipient.[83] Although several employees said it was possible,[84] all employees interviewed agreed it would be very difficult to conceal given the number of individuals involved in grants administration.[85]

The view expressed is common but does not consider that incentives for financial gain can develop gradually; or the potential threat posed by a dishonest employee.

Public officers can be well positioned to seek financial gain from the success of a company in receipt of government grants, especially in circumstances where a business may continue to have significant dealings with the agency for years.

An area of significant risk identified during the evaluation involved agencies dealing with companies listed, or about to be listed, on the Australian Stock Exchange. Risks of public officers misusing commercially valuable information and insider trading arise in such circumstances.

81:   INT011; INT013.
82   EXH0119; EXH0102.
83:   INT009; INT010.
84:   INT010; INT014.
85:   INT008; INT014; INT013; INT012.

Of interest, DIIS's conflict and pecuniary interest register includes a disclosure from an employee regarding their purchase of shares in a company when it listed on the Australian Stock Exchange. The disclosure notes that the company had received significant grant support from DIIS, but the employee was not involved in those grants, and would refrain from any ongoing interactions between the company and Department.[86]

That disclosure is encouraging, as is the awareness of the potential for conflict. However, careful risk management is needed of employee access to, and potential exploitation of, commercial information held internally about such businesses.

> DIIS require employees involved in grants administration to undertake fraud risk training, including conflicts of interest, grooming, gifts and benefits, professional relationships and financial interests, at least every three years.
>
> **RECOMMENDATION 13**

Due diligence

Performing appropriate due diligence checks on applications is necessary to reduce the risk that grants will be awarded to fraudulent, unsuitable or ineligible applicants. Public officers are also more likely to exploit grant programs for personal benefit if they know due diligence on applicants and recipients is likely to be limited or non-existent.

During the evaluation, submissions were received from the public complaining of other agencies conducting poor due diligence on grants applicants, resulting in monies being disbursed to ineligible or unworthy recipients and projects. That lack of due diligence was also reported as depriving potentially more deserving applicants the opportunity to fund their projects.[87]

The RIF has significant due diligence checks in place for various aspects and streams of the program. A service level agreement with the South Australian Government Financing Authority outlines financial assurance services to be applied to grants of high risk and value.[88] DIIS staff conduct financial and non-financial due diligence for all other grants. Non-financial checks include analysis of competitors and the commercial environment, assessment of applicant's business claims, supporting evidence, scientific and technical details. That analysis helps to filter out weaker applications at the preliminary stages of an application.[89]

DIIS provided numerous examples of due diligence checks that appeared detailed and appropriately conducted. However, this was not the case for all applications audited. One example was provided of a grant for less than $100,000 where it was unclear what due diligence had been conducted.[90] Another application for over $100,000 lacked evidence of financial due diligence, although it was a longstanding grant to a group of large, well-established companies.[91]

86: EXH0134.
87: SUB001, SUB002.
88: EXH0010.
89: INT013.
90: EXH0128.
91: EXH0130.

Overall, it appeared that the level and quality of financial due diligence undertaken in the RIF was consistent, appropriate and comprehensive, but potentially variable when conducted internally. There may be scope for DIIS to develop clearer expectations and processes for any due diligence checks conducted internally.

REVIEW, EVALUATION AND REPORTING

It is important that grant outcomes are publicly available, both to promote transparency and fairness of decision making, and to inform potential applicants of the program's outcomes against its objectives. Although it is possible to find public information on RIF recipients, this can be difficult.[92] It was suggested to the evaluation team that a full list of recipients should be maintained on a webpage.[93] This would be helpful for further promoting transparency, integrity and success for the program.

> DIIS consolidate all RIF recipients and publishes the list on its website.
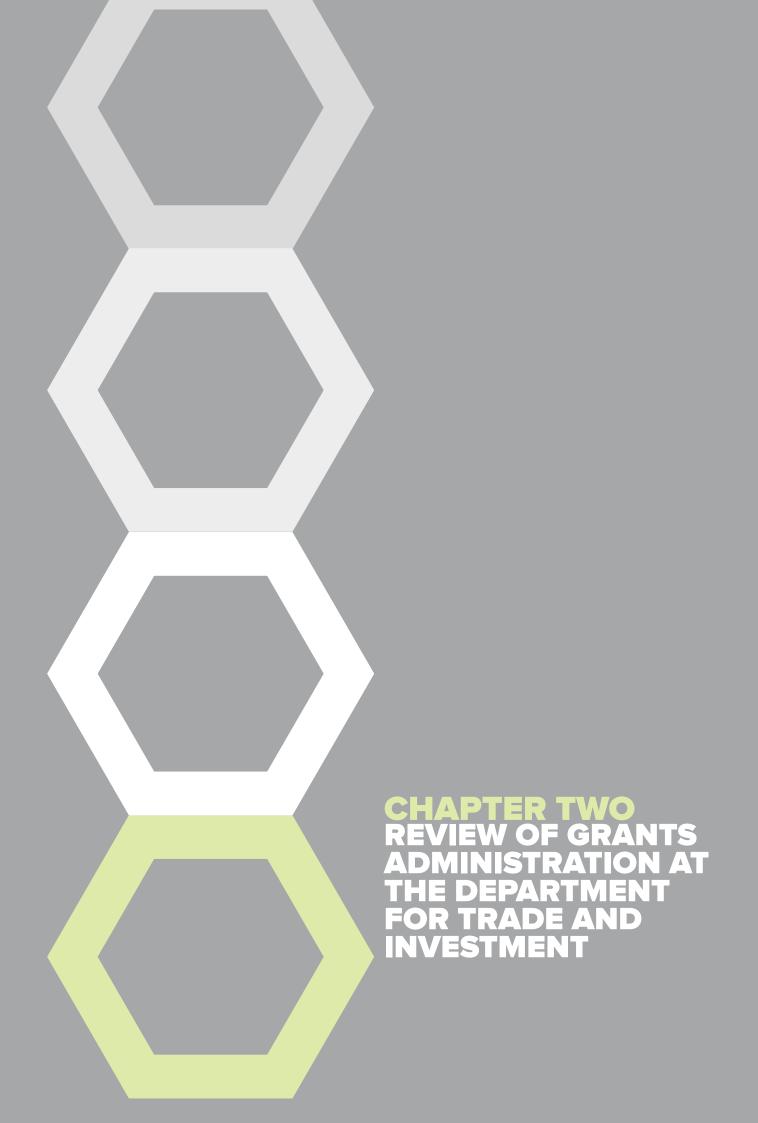>
> **RECOMMENDATION 14**

The evaluation team was not provided with evidence that any formal reviews or evaluations of the RIF had been undertaken. While a recent audit of DIIS's grant function was undertaken by BDO, it is important that individual programs are subjected to formal planned periodic review, particularly for large, long running, and complex funds such as the RIF. This is especially the case as the program that has been injected with new and significant funding.

While no formal evidence of program review was provided, in response to the draft evaluation report DIIS advised that it evaluates the performance of the RIF and the impact of investments on an ongoing basis. The business case to support the increase in budget to the RIF in the 2023-34 State Budget also considered the RIF objectives and impact of performance since its launch. An internal audit of grants management is included in the 2023-25 internal audit program.

> DIIS conduct formal and documented periodic reviews of the RIF to ensure that the program remains relevant to strategic policy objectives, delivers intended outcomes, that appropriate processes are followed, and integrity controls are functioning effectively.
>
> **RECOMMENDATION 15**

92: INT013.
93: INT013.

CHAPTER TWO
REVIEW OF GRANTS ADMINISTRATION AT THE DEPARTMENT FOR TRADE AND INVESTMENT

Chapter two:
Review of grants administration at the Department for Trade and Investment

The Department for Trade and Investment (DTI) describes its purpose in the following terms on its website:

> *The Department for Trade and Investment (DTI) helps industry ecosystems and businesses identify and capitalise upon opportunities for job creation and economic growth in South Australia. A strong economic future depends on growing exports and investments. DTI works with South Australian businesses and stakeholders to boost exports, attract investments and grow the state's international engagement and showcase South Australia to the world…*
>
> **Our vision and mission**
>
> *We facilitate South Australia's strong, effective and sustainable growth by:*
>
> - *identifying and promoting our state's competitive advantages*
>
> - *driving local, national and international investment*
>
> - *increasing, diversifying and facilitating the export of our goods and services*[94]

The two grants programs audited during this evaluation assist the department in achieving those purposes.

Following appraisal of the wider integrity and administration governance arrangements within the agency, two programs administered by the Department were reviewed - the Global Expansion Program and the South Australian Landing Pad.

94: See, https://dti.sa.gov.au/about-us.

General integrity policies and procedures

FRAUD AND CORRUPTION CONTROLS

The Department for Trade and Investment (DTI) implements a range of corruption and general integrity policies, including:

- ▶ Fraud, Corruption, Misconduct and Maladministration Policy[95]
- ▶ Fraud, Corruption, Misconduct and Maladministration Procedure[96]
- ▶ Conflict of Interest Procedure[97]
- ▶ Outside Employment Procedure[98]
- ▶ Gifts and Benefits Policy[99]
- ▶ Information and Records Management Policy and Procedure[100]
- ▶ Complaints Management Policy and Procedure[101]

It is the responsibility of Directors, Managers and Team Leaders to include fraud risks specific to their business units on a risk register.[102]

The *Fraud, Corruption, Misconduct and Maladministration Policy* states that the education of employees is paramount to preventing, detecting, and reducing the incidence of corruption. However, some employees interviewed reported that no specific or ongoing corruption prevention and awareness training was provided by the Department[103], or training specific to risks in grants administration.[104] The majority of integrity training, such as Code of Ethics Awareness, occurs at employee induction.

It is suggested that DTI consider periodic training on corruption, fraud and integrity matters including conflict of interest, post-separation employment and gifts and benefits relevant to high risk functions such as grants administration and client relations.

> DTI provide periodic training on fraud, corruption and integrity risks relevant to high risk functions conducted by staff at the Department, including grants administration.
>
> **RECOMMENDATION 16**

95: EXH0050.
96: EXH0049.
97: EXH0047.
98: EXH0048.
99: EXH0057.
100: EXH0054 and EXH0053.
101: EXH0039 and EXH0040.
102: EXH0050.
103: INT006.
104: INT002.

OUTSIDE EMPLOYMENT

DTI's *Outside Employment Procedure* states that "employees must obtain written permission from the delegate before engaging in an outside employment".[105] Approval for outside employment is for a 12 month period and must be renewed annually. It is a requirement to declare secondary employment in the induction process. All approvals for outside employment exist in the employee's personnel file.[106]

Review of the Department's Outside Employment Register demonstrated that staff were complying with the procedure. The Outside Employment form includes a requirement for the employee to "outline any risks to DTI (incl. but not limited to conflicts of interest, wellbeing, etc) and proposed strategies to manage these effectively".[107] It indicates a culture of awareness of the risks posed by secondary employment. One staff member remarked during an interview that the Department was considering the application of an employee seeking to conduct consulting work, and this was likely to be declined due to the subject area and nature of the consultancy.[108] This approach suggests an encouraging culture of awareness of the risks posed by secondary employment.

GIFTS AND BENEFITS

Accepting even the smallest or most inconsequential gift or benefit can create a sense of obligation.[109] The Department's *Gifts and Benefits Policy* acknowledges this, stating:

> *Accepting any gift, regardless of monetary value, implies or may imply a relationship which may interfere with objectivity or independence. An employee must not compromise or appear to compromise their integrity and impartiality or create a conflict of interest or perception of conflict of interest by accepting gifts.*

The Department does not formally advise against accepting or offering gifts. Instead, it recommends employees only accept or provide a gift if the following circumstances exist:

- *there is no actual or perceived influence on the recipient*

- *it will not benefit, or be seen to improperly benefit the provider of the gift*

- *it is not involving money, or cannot be readily converted to money (e.g., gift cards / vouchers), free travel or accommodation for individual use*

- *it is a one-off occasion*[110]

105: EXH048.
106: INT002.
107: EXH0143.
108: INT003.
109: Integrity-Spotlight-Gifts-and-Benefits-13-December-2022.pdf (icac.sa.gov.au).
110: EXH0057.

Of note, token offers and samples of a company's product are not considered gifts in the Department's policy, and are exempt from the requirement to be recorded on the Gifts and Benefits Register. However, they are required to be declared to the recipient's line manager. Such items may include promotional items, modest hospitality and items under $50.

An employee interviewed stated the Department has zero tolerance for gifts and benefits.[111] One interviewee also noted that the paperwork involved made it easier to simply decline gifts or benefits rather than registering every gift over $50 in value.[112]

The Department's Gifts and Benefits Register[113] displayed no obvious irregularities. However, there is an opportunity to improve the register by including a column allowing recipients to detail any connection that the client has with the Department. This would allow DTI to monitor whether entities they are interacting with, or will interact with, are targeting or grooming the agency and its staff for influence.

DTI amend the Department's Gifts and Benefits Register to include a prompt for recipients to provide detailed information of any relevant connection (current or proposed) between an offeror and the Department, such as procurement or grants activity, or other associations.

RECOMMENDATION 17

CONFLICTS OF INTEREST

The Department's *Conflict of Interest Procedure* requires employees to formally declare an actual or potential conflict of interest that may arise through the normal course of their involvement in a work project, tender evaluation or other work related decision making. It is the responsibility of directors, chairpersons and managers to, "monitor compliance with the procedure and evaluate and manage the conflict identified by the employee and ensure it has been added to the conflicts of interest register".[114]

In addition to these general controls, employees involved in the assessment of grant applications are required to declare any conflict of interest prior to opening any applications form on the grant portal system, OmniStar.[115] Conflicts of interest are also a standing agenda item in the grants administration team weekly meeting.[116] A further process control is provided by the requirement for applicants to declare any conflict of interest they may have with any staff member in the agency in their initial application.[117]

111:   INT003.
112:   INT004.
113:   EXH0136.
114:   EXH0047.
115:   INT006.
116:   INT006.
117:   EXH0061.

The Department's conflicts of interest register has no active declarations, while three declarations are archived.[118] That is a low declaration rate for an agency of DTI's size. It may be that conflict declarations are not being recorded in line with the policy, employees are not making declarations, or employees simply have no conflicts. Regardless, it would be beneficial for the Department to issue periodic reminders to staff of their obligations in this regard.

As well as the obligation to declare specific conflicts as they arise, there is also a requirement for executives to declare their pecuniary interests annually.[119] The *Conflict of Interest Procedure* states that:

> *Pecuniary interest via shareholdings in companies, property trusts or similar organisations may be requested from particular employees for disclosure to the Chief Executive on an annual basis.*[120]

DTI should consider making such standing declarations a requirement for staff with assessment, selection and decision making duties in grants administration.

DTI issue six monthly reminders to staff regarding their conflict of interest obligations.

RECOMMENDATION 18

DTI amend its *Conflict of Interest Procedure* to require all DTI staff with decision making duties in grants administration to complete a pecuniary interest declaration annually.

RECOMMENDATION 19

118: EXH0137.
119: INT003.
120: EXH047.

INFORMATION AND RECORDS MANAGEMENT

DTI staff widely acknowledged the sensitivity of the commercial information they obtain in their roles, and the need for its protection during and following employment with the agency.

One senior staff member stated that employees are drilled prior to their departure on the sensitivity and confidentiality of information to which they have had access during their employment, describing the exiting process as "sheep dipping staff on their way out". An example was given of a wine industry Business Development Manager who had exited to become CEO of a spirit manufacturer. However, it was also observed that few staff at DTI were seeking employment opportunities in the private sector.[121]

DTI's *Information and Records Management Procedure* outlines employee responsibilities for the creation, receipt, maintenance, use, archiving and disclosing of records, including processes for capturing and maintaining evidence of, and information about, business activities and transactions.[122] This is mirrored in the *Expense Management – Grants Procedure* requiring employees to ensure documentation is filed appropriately in the Department's record management system at all stages of the grant life cycle. Key decisions, recommendations, and comments are to be recorded as file notes or minutes, and conflicts of interest and confidentiality of information should be considered.[123]

DTI primarily uses the OmniStar system for grants administration, although alternate systems such as Cognito and Tactive have been used for some programs, and some had transitioned between systems over the lifespan of the program. DTI reported that the agency is considering moving to use of SmartyGrants software.[124] DTI is encouraged to establish a coordinated approach to grants information management and mandate its use for all current and future programs.

DTI utilises the Microsoft Dynamics 365 platform as its Client Relationship Manager (CRM) which is reportedly open to all staff, though it can be audited and access restricted. This CRM system is not integrated with the information systems used to manage grants programs, and only selected grants information relevant to clients appears to be uploaded onto the CRM.

Interviews with staff revealed a level of discretion in determining appropriate content to be recorded in the CRM, with varying approaches. Some enter general information into the CRM and only request from clients what they require. Some staff store sensitive information obtained on their desktop to avoid its wider availability, while others store all information received on the CRM.[125] One employee noted that they instruct clients not to provide them with sensitive information as they cannot guarantee its integrity.[126] Correspondence with clients was reported as being saved to DTI's SharePoint system.[127]

121: INT002.
122: EXH0053.
123: EXH0044.
124: INT015.
125: INT001, INT006.
126: INT001.
127: INT015.

Staff awareness of information integrity risks was evidently high. Some staff were of the view that an open and relatively unrestricted CRM provided some protection against misuse. All staff being able to observe everyone else's entries and activity on the system was thought to decrease the likelihood of someone abusing the system.[128]

A level of staff discretion and judgement regarding the management and security of client information is unavoidable. However, it is suggested that a more consistent approach to the types of information that should or should not be placed on the CRM is warranted.

DTI create a CRM working group to establish protocols for requesting, using, storing and accessing commercial in confidence information of clients. The working group should assess general information and document security practices in line with State Records requirements and current policy and procedure, with a view to embedding consistent information handling processes at the Department.

RECOMMENDATION 20

DTI periodically audit staff use of the CRM to identify unusual or suspicious patterns of access, downloading and dissemination. Such system access review should also occur in the lead up to any senior staff exiting the agency to take up positions in the private sector.

RECOMMENDATION 21

128: INT001.

Policy and procedure context – grants specific policies

Grants activity is regulated at DTI with the *Expense Management – Grants Procedure*.[129] The procedure outlines employee roles and responsibilities and defines grants in a manner relevant to the agency and consistent with *Treasurer's Instruction 15* it outlines how unsolicited proposals are to be processed.

The *Expense Management – Grants Procedure* also outlines the major steps in a grant process, including:

1. Establishing or Revising a Grant Program

2. Receive Applications or Funding Requests

3. Assess Applications or Funding Requests

4. Authorisation and Award (seek approval)

5. Prepare and Execute Funding Agreements

6. Report, Monitor and Payment of Funding

7. Program review

The *Procedure* contains detailed instructions and considerations to fulfill each step. It requires that at:

> *...all stages of the grants process, employees must ensure that documentation is filed appropriately in the Department's records management system and that any conflicts of interest and the confidentiality of information is considered throughout the process.*[130]

The two grant programs reviewed by the evaluation team appeared to be administered in line with the expectations set out in the *Expense Management – Grants Procedure*.

Programs at DTI are administered centrally by a dedicated grants team. Separate trade and investment teams manage client liaison, business assessment and development aspects of grants.

Senior staff interviewed felt that knowledge of policy and procedure was tiered, and on a "need to know" basis. Most staff would know the policies relevant to their role, while the central grants team could probably 'recite policy'.[131]

As noted, the grants team primarily uses the OmniStar software program to support the administration process. Employees outside of the team do not have access to this system, although individual access can be allowed if required.[132]

129: EXH0044.
130: EXH0044.
131: INT002.
132: INT006.

DELEGATIONS

A senior staff member observed that DTI was a significant connection point between government and business. In recognition of the responsibility and risks associated with public investment in this context, grant approval delegations for the GEP and SALP rest with the Chief Executive. That separation is a deliberate protection measure for staff in less senior positions, assisting in preventing them being targeted by overzealous clients. Managers with responsibilities for those grant programs could be given the relevant delegations, but the agency does not consider this to be effective risk management.[133]

This approach to staff protection and risk management is commended.

RELATIONSHIP WITH AUSTRADE

As the contracted delivery partner in the TradeStart network, DTI maintains a strong partnership with Austrade, the Australian Government's trade and investment arm.[134] A considerable number of employees at the Department are Austrade/TradeStart representatives or have previously worked with Austrade. This connection and depth of employee experience provides the Department with a heightened alertness to corruption vulnerabilities related to their work.[135]

The Austrade representatives interviewed demonstrated a deep awareness of the corruption risks relevant to public officers, acquired from significant induction and training provided by the national agency. These staff have conspicuous engagements with the business, trade and investment community. Their presence appeared to have an effect on integrity awareness and culture across the organisation. One employee noted the department's relationship with Austrade provides DTI employees access to "two toolkits, they can pull from state and federal resources".[136] Staff remarked that affiliation with Austrade meant many staff were 'indoctrinated' on corruption and integrity matters, such as malicious foreign actors, risks of overseas travel, grooming and attentiveness of those seeking improper connections.[137]

133: INT002.
134: INT001.
135: INT002.
136: INT001.
137: INT001.

Global Expansion Program

OVERVIEW OF GRANTS PROGRAM

The Global Expansion Program (GEP) is a grants program administered by the Department for Trade and Investment intended to support high-growth, export-ready South Australian businesses to develop their export capability and capacity.[138] The program is allocated $2.28 million over 4 years concluding in June 2024. Individual applicants are eligible for up to a total of $50,000 over a 12-month period.

Eligibility is defined in terms of being a South Australian based business in operation for at least 36 months, from one of nine identified growth sectors: Tourism; International Education; Defence Industry; Food, Wine, and Agribusiness; Hi-tech; Health and Medical Industries; Energy and Mining; Space and Creative Industries.

Applications open annually and are promoted publicly via a database of over 1,200 exporting clients as well as through social media, the Department's website, and industry stakeholders. Guidelines for the GEP specify the program's purpose, eligibility requirements and assessment criteria and are readily available on the Department's website, along with a comprehensive frequently asked questions page.[139]

The GEP has a three-stage assessment process. The first stage involves the creation of an assessment panel to shortlist 20 applicants against the assessment criteria. Those selected progress to Stage Two, where an independent business review is conducted by the Australian Industry Group of the 20 applicants progressed. At this point applicants are assessed on their export status and three year growth path. Once business reviews are completed, a second assessment panel is created to recommend and progress ten applicants. The recommended ten applications are sent to the South Australian Government Financing Authority to conduct due diligence reviews. The applicants who pass the review are referred to the Chief Executive via an internal briefing for consideration and approval. Stage Three involves notifying those applicants of their selection.

Successful applicants are required to work with Department Case Managers to complete an Action Plan based on recommendations contained in the Stage Two business reviews. Case Managers are matched to the grant recipient by region.[140] The Action Plan outlines how the successful business intends to expend the grant monies by obtaining quotes from professional service providers. The successful applicants' action plans are then approved, a funding agreement is executed, and the first payment is transferred. Grant funding is to be approved and formally awarded by officers with appropriate financial authorisations.[141]

138: See, Global Expansion Program | Department for Trade and Investment (connectplus.sa.gov.au).
139: See, https://connectplus.sa.gov.au/global-expansion-program-faqs.
140: INT006.
141: EXH0044.

The value of the GEP for recipients is only partially related to the financial benefits on offer. Both the Department and recipients consider the program's most valuable elements to be the business review of operations, development of an export plan, the support and guidance of Case Managers, and the resulting Action Plan.

Applicants who do not progress to Stage Two are notified via email and can request feedback, while applicants unsuccessful at Stage Three are automatically provided with feedback. If applicants are dissatisfied with the process, they may lodge a complaint in accordance with the Department's *Complaints Management Policy and Procedure*.[142]

To verify the applicant is upholding the funding agreement, applicants must submit quarterly reports against their Action Plan to their Case Manager and provide paid invoices or bank statements to evidence that funding has been used for approved purposes. Once the grant monies have been expended in accordance with the funding agreement, a signed financial acquittal is executed.

To assist in evaluating business outcomes against each participant's Action Plan and Key Performance Indicators, the Program Manager prepares review questions annually for use by the Department's Case Managers. This process involves conducting interviews and capturing data. A formal independent review of the GEP is planned for the 2023-2024 financial year.

142: EXH0039, EXH0040.

PLANNING AND DESIGN

The design, planning and mechanics of the GEP are well considered and developed. Some staff commented that grants programs at the Department verged on being over-engineered.[143] However, in general those interviewed were unanimous that the GEP's success was largely attributable to it being tightly administered, rigorous in assessment, and ambitious in its goal setting and support for recipients.

While the GEP is a thoroughly planned and well-designed grants program, there was evidence that its parameters were flexible and liable to rapid change based on economic circumstances.

The GEP budget allowed for $750,000 to be allocated for cohort one. However, an additional $250,000 was injected into this first cohort from the Department's own budget to disburse to five applicants. This was an urgent measure to support a specific export industry suddenly impacted by international tariffs. Additional funding could be provided for extra businesses on the endorsement of the assessment panel. This endorsement was sought in an 'out of session assessment' pending the approval of DTI's Executive Team.[144]

This increase in funding and extension of grant recipients was appropriate and properly endorsed and approved. However, there are integrity risks involved in sudden alteration to grants programs. Agencies are most vulnerable to corruption during times of disruption and restructure.[145]

Agility and responsiveness of government departments and the programs they administer is both necessary and desirable. But this is a balancing act. Disruption and urgency can introduce risks into grants programs such as budgetary looseness, role and responsibility confusion, and truncating of assessment, selection and due diligence processes.

Sudden or anticipated changes to grants programs should be accompanied by an integrity risk assessment.

DTI amend its *Expense Management – Grants Procedure* to stipulate that substantial alteration of a grants program, including changes to scope, purpose or budgets, require an integrity risk assessment before approval.

RECOMMENDATION 22

143: INT004, INT005.
144: EXH0097.
145: See the New South Wales Independent Commission Against Corruption's publication *Keeping it Together: Systems and Structures in Organisational Change*.

PROMOTION AND ADVERTISING

The GEP is well promoted and relies upon the Department's sizeable database of export clients, social media and industry stakeholders. Each round of the GEP attracts hundreds of applicants that are narrowed down to a top ten. In terms of departmental support for applicants, the whole process is designed as one where the primary value in participation (for successful and unsuccessful applicants alike) is deep engagement with departmental resources and advice. The program rewards export ready recipients and can generally be said to lift the export maturity of all who engage in the process.[146]

Information about the program is readily available on the Department's website, with eligibility, frequently asked questions, contacts, guidelines, key dates, case studies and full lists of recipients prominent and easily accessible.[147]

The GEP Guidelines detail the management of conflicts of interest, including:

▶ identification and declaration of (actual or perceived) conflict of interest the applicant may be aware of related to themselves, their employees or any DTI employees

▶ outlining a comprehensive variety of relationships and interests that could compromise the integrity of the grants program

▶ highlighting that conflicts of interest may arise over the course of the grant, and applicants must inform DTI of any changes in relationships/interests that arise

▶ that DTI will maintain a register of notified conflicts of interest throughout the application and assessment process

▶ that DTI reserves the right to reject any application that fails to satisfy these arrangements[148]

This approach signals a responsible approach to management of the integrity of the program and is commendable.

146: INT001.
147: See, https://connectplus.sa.gov.au/programs/global-expansion-program.
148: EXH0061

ASSESSMENT AND SELECTION

As previously mentioned, the assessment process for the GEP is a comprehensive three stage process involving independent business review, due diligence checks by the South Australian Government Financing Authority, and the development of an action plan in consultation with Departmental subject matter experts.

One staff member who had been involved in a GEP assessment panel observed the process as being thorough, involving robust discussion, utilising a comprehensive scoring system, and decision making being soundly documented.[149] The evaluation team reviewed a variety of GEP panel assessment and selection documentation and also found it to be detailed, diligent and well structured.

The GEP is organised into cohorts, allowing for assessment and selection processes to be applied consistently to all relevant applicants at one time and place. This mitigates the risk of disparities in assessment approach and methodology.

Signed hard copy *Confidentiality and Conflict of Interest Declaration* forms from assessment panel members were supplied to the evaluation team for all three cohorts of the GEP.[150] Appropriately, these forms included:

▶ acknowledgment of access to confidential information, and an undertaking not to disclose, reveal, use, copy or distribute that information other than is necessary for the project

▶ that all information, records or documents in an employee's possession will be relinquished on expiry or termination of duties

▶ the requirement to declare any real, potential or perceived financial interests in the project (as well as those of immediate relatives and close friends), any personal bias, inclination, obligation, allegiance, loyalty which would affect decision making

▶ an undertaking to declare any conflicts of interest which arise over the course of the project

▶ confirmation not to accept any gifts, incentives, benefits or hospitality from any respondent during the evaluation process[151]

Screenshots of the OmniStar system were also provided, demonstrating that staff accessing GEP applications were required to declare if they had any conflicts of interest before doing so. The evidence supplied suggests DTI manages conflicts within the GEP responsibly and systematically.

However, it is observed that the multiple stages and complex management of the GEP may make conflict of interest monitoring and management challenging. The GEP has a three step assessment process involving multiple parties, as well as the development of Action Plans between the businesses and Case Managers based on recommendations from external business reviews. The process appears to utilise both manual hard copy and electronic conflict of interest management approaches. Multiple systems are utilised to support program administration, and changes in scope, personnel, methodology or management system could disrupt the supervision of integrity within the lifecycle the program.

149: INT002.
150: EXH0154, EXH155, EXH156.
151: EXH0147, EXH0148, EXH0149.

While strong governance and multi-stage processes can be a deterrent, corruption can take root in complicated systems and processes where supervision is interrupted or incomplete. Complexity needs to be offset with clarity. DTI is encouraged to review its grants programs with a view to ensuring that any final approver of funding has visibility and that conflicts of interest have been consistently managed throughout the grants process.

> DTI ensure complex and multi-stage grants programs have mechanisms in place for the final approver to have global visibility over the key points of conflict of interest management, including expression of interest, eligibility review, assessment, selection, as well as processes involving departmental officers working on business strategy or plans with applicants and recipients.
>
> **RECOMMENDATION 23**

Client relations

As has been noted, much of the value of the GEP lies in the "intangibles of the program" rather than its monetary support.[152] Access to the Department and the knowledge and support of Case Managers are key drawcards for the program. The Department's Case Managers are the "businesses connection point to government, where DTI courts the businesses and vice versa".[153]

A prior relationship between Case Managers and applicants is not uncommon. Applicants will often seek assistance, as they may have an established relationship from prior business dealings.[154] Review of correspondence between applicants and those involved in the administration of grants also suggests frequent interaction on sensitive commercial matters.[155]

The scale of client engagement is considerable. Two employees told of having 170 and 280 clients respectively, though only 40 of those would be active at any one time. Ninety-five percent of those clients contact the Department, with little need for departmental officers to actively seek clients.[156]

The depth and extent of client relationships established by DTI officers is evidenced by the fact that the agency works with both successful and unsuccessful applicants.[157] In one instance, an unsuccessful GEP applicant was still offered support from a Case Manager, including access to expert export advice, an overseas Agent General's Office, and Austrade's Global Network.[158]

It is accepted that familiarity and involvement with business clients is a core component of the Department's functions. However, the corruption risks of close connections, developing relationships and exploitable commercial opportunities requires careful management.

152: INT002.
153: INT002, INT001.
154: INT001.
155: EXH0097.
156: INT001.
157: INT002.
158: EXH0099.

The agency is alive to these integrity risks and actively seeks to mitigate them. There is a clear separation of responsibilities between those employees processing the administrative side of grants and those involved in the networking and facilitation of client business development. Case Managers are not involved in the administration of the grant program and only become aware of the applicants once they reach the stage two assessment. Initial contact with applicants is made only once they are narrowed to the final ten.[159] The Case Managers have no delegations or authority, only provide their time and knowledge to recipients, and are unaware of the composition of assessment panels. An employee commented that the "separation of responsibilities is a protective mechanism to keep the positions from being targeted".[160]

The existence of the separations described are encouraging. However, the sheer volume and depth of staff engagement with industry and businesses requires vigilant risk management.

One staff member remarked that the prospect of conflicts of interest emerging between officials and businesses was greater when a business was listed, or about to be listed, on the Australian Stock Exchange. The prospect of misuse of information and insider trading was a possibility when agencies worked with such clients. It was estimated that about five percent of DTI's clients were listed on the Australian Stock Exchange.[161] This risk was also identified in the Commission's evaluation of the Department for Industry, Innovation and Science, where it was noted a staff member had declared a conflict of interest due to purchasing of shares in a company in receipt of significant grants from that agency.

Another staff member noted that high value industries needed to be assessed for their corruption risks. Defence and mining were put forward as industries likely more vulnerable to corrupt behaviours and actors.[162]

It is observed that a training program or written guideline on ethical industry engagement may be beneficial to the work of departmental staff.

> DTI gives consideration to the creation of resources to facilitate ethical industry engagement between agency officers and businesses, as well as protecting their own integrity during those engagements.
>
> **RECOMMENDATION 24**

159: INT001.
160: INT002.
161: INT006.
162: INT001.

GRANT EXECUTION

Grant execution for the GEP appeared robust and complied with the *Expense Management – Grants Procedure*. Documents were reviewed for three grants which outlined its purpose, the financial arrangement and payment schedules, and progress reporting requirements. Quarterly reports and acquittal documents were also reviewed for two recipients.

Expectations surrounding payment schedules demonstrated the need for flexibility. The GEP Guidelines anticipated a payment structure of an initial 60 percent and a final 40.[163] However, the GEP Management Plan outlines a potential initial 90 percent payment, with 10 percent paid on acquittal.[164] Individual agreements revealed more flexibility regarding payment schedules. One applicant's payment required variation to 10, 50 and 40 percent instalments as quotes from service providers could not be provided, although this was a condition of the grant being awarded.[165]

Ensuring recipients are accountable for the funding they receive is an important integrity measure. However, the commercial operating environment is not always amenable to standardised administrative approaches. There seems little utility in predetermining payment structures when execution requires flexibility to reflect the individual circumstances of an applicant. Risk assessment and adjustment are more appropriate approaches.

DTI was able to demonstrate solid risk management processes in the execution of contracts. One applicant had to seek an extension due to unforeseen circumstances delaying their activity and causing shortfalls. This was in spite of due diligence assessing the recipient as highly likely to achieve their export objectives.[166] The extension was granted according to policy, and the Department's *Risks, Actions and Decisions Log* duly recorded the recipient's failure to meet targets, experience of delays and receipt of an extension as a moderate risk to the Department.[167] Grant programs can afford structural flexibility when risk management is well embedded in the processes.

DTI is encouraged to review its grants programs to ensure recipients have the flexibility to fully benefit from the support on offer and are accountable through active risk management rather than prescriptive conditions.

163: EXH0061.
164: EXH0060.
165: EXH0095.
166: EXH0095.
167: EXH0056.

REVIEW AND EVALUATION

The GEP is scheduled to conclude in 2024. It was reported that DTI is seeking further funding from Government for a new export orientated grants program.[168]

The *Expense Management – Grants Procedure* requires in *4.12 Step 7 – Program Review* that:

> *Directorates managing Grant Programs should review the program against the Department's Business Plan at least every two – three years. This is to assess whether the grant program is still relevant with the departments goals/objectives and it has delivered what it intended.*
>
> *In addition, the review should also include whether the correct grant processes have been followed, any issues arising from the process and how they can be addressed and the achievement of project objectives and Key Performance Indicators (KPIs).*[169]

The GEP reportedly has funds set aside for an economic review of its efficacy but the approach to be taken to any review has not been settled as yet.[170]

Grants program reviews are encouraged and should not be too narrowly focused on economic benefits or outcomes. All program reviews should have some element of integrity assessment included.

Some staff indicated that the programs at the Department may be over-engineered, involving arduous governance requirements disproportionate to the amount of money offered.[171] Another staff member regarded the GEP as an admirable example of an effective program, noting that around nine out of ten recipients achieve better export results than anticipated. That staff member believed that the GEP should be a model for other trade and export programs around the country.[172]

It is appreciated that onerous governance and administration in programs may be taxing on limited resources. However, well-considered, constructed and controlled programs are encouraged. An appropriate balance in approach is required in the construction of programs.

168: INT002, INT003.
169: EXH0044.
170: INT015.
171: INT004.
172: INT001.

Premier and Cabinet Circular 44 – South Australian Funding Policy for the Not For Profit Sector[173] includes principles for grants programs in common with the *Commonwealth Grants Rules and Guidelines*[174]. These are:

- *Robust planning and design*

- *Collaboration and partnership*

- *Proportionality*

- *An outcomes orientation*

- *Achieving value with relevant money*

- *Governance and accountability*

- *Probity and transparency*

- *Community development principles*[175]

It would be beneficial to apply these principles to all grants programs, including those aimed at profit seeking entities and industries. The principles could easily guide any review of the GEP, or other program. The principle of proportionality would offset excessive regulation and inefficiency, while principles of governance, accountability, probity and transparency provide security and confidence the public interest will be served.

However, across the lifecycle of grants administration, it is observed that the GEP is a well planned and tightly administered program.

173: See, https://www.dpc.sa.gov.au/__data/assets/pdf_file/0008/19889/PC-044-SA-Funding-Policy-for-not-for-profit-updates-4-Aug-21.pdf.
174: See, https://www.finance.gov.au/sites/default/files/2019-11/commonwealth-grants-rules-and-guidelines.pdf.
175: This is unique to Premier and Cabinet Circular 44.

South Australian Landing Pad

OVERVIEW OF GRANTS PROGRAM

The South Australian Landing Pad (SALP) is a program intended to attract early stage interstate and international businesses to establish a presence in South Australia. The SALP provides financial support to access working spaces or accommodation and for the purchasing of eligible professional support and advice for businesses seeking to establish a presence in the local market. The program offers around $80,000 in financial support for the accommodation and professional services per applicant. However, a range of non-financial supports are also offered, including:

▶ Partnering opportunities

▶ Networking with key contacts in government

▶ Grant eligibility

▶ Market research

▶ Event and networking

▶ Training and mentoring

▶ Friendly referrals to business providers[176]

In this regard, the SALP has similarities to GEP in that significant value of the program is generated from in-kind and adjunct support services.[177]

Being an investment orientated program, the SALP exists in a challenging and economically competitive environment. One staff member noted that while trade was 'very transactional', investment was a 'slow burn', with different skillsets required for each.[178] Underlining these distinct approaches, the agency's current Chief Executive effected a restructure of the Department that separated the trade and investment teams. These had previously been largely integrated, with staff often having a dual role in both areas. Review of the SALP program requires understanding of the nuance of the investment operating environment.

Interviews with staff revealed the Department was attempting to compete for business attraction in interstate and international jurisdictions. Other jurisdictions were considerably better resourced, funded and economically situated to attract businesses. Accordingly, the SALP was regarded as a modest tool with only nominal financial 'pulling power' in attracting businesses. DTI staff interviewed suggested that the SALP's financial benefits would rarely be a deciding factor in a business choosing to set up an office in the state.[179]

176: EXH0068.
177: INT004.
178: INT005.
179: INT004.

Staff prioritised developing substantial partnerships with businesses by establishing trust, connections and garnering opportunities. In these efforts the SALP figured as a gesture of goodwill, or a strategically useful tool to get businesses 'over the line'.[180] One staff member remarked that, "we never lead with SALP".[181] Another staff member commented that it could take two years to establish a fruitful relationship with a potential business before an invitation to the SALP would be made.[182]

Staff commented that occasionally businesses would approach DTI to ascertain what financial support was available. This was sometimes a cultural aspect of businesses, where the securing of government financial support was regarded as a sign of prestige and relationship building, or sometimes a 'box ticking' exercise in a business strategy. Staff reported it was their practice to politely dissuade businesses from these approaches, arguing it would ultimately not be in their or the state's interests. Staff often assessed businesses as to whether they were 'coachable' to successfully navigate the business environment of South Australia. It was the experience of staff that businesses which do not listen and learn from agency staff would generally struggle.[183]

The evaluation team formed the impression that the SALP was not necessarily conceived as a distinct grants program. Rather it was integrated into the broader strategies and activities of investment attraction activities at DTI. Those functions are perhaps better characterised as being a flexible art rather than an exacting science. Where trade and export can focus on the raw calculus of selling more, investment attraction is characterised by evolving discussions, confidence building and slow persuasion.

Accordingly, it needs to be appreciated that the SALP is in many respects a speculative venture. While planning, due diligence and professionalism are required for success of the program and its recipients, there is inherent uncertainty in investment attraction. In short, attracting businesses can be a gamble. This was observed in reviewing some of the documentation for SALP recipients. It is accepted that ascertaining the efficiency, effectiveness and integrity of the SALP must contend with the complexities of investment attraction.

180: INT004.
181: INT005.
182: INT004.
183: INT004.

PLANNING AND DESIGN

Overall, the SALP demonstrates excellent levels of planning and design.

The financial aspects of the program are limited to the provision of accommodation solutions and business services. The business services available to purchase are sourced from pre-approved service providers from 13 categories. Any business services sought by an applicant outside these pre-approved lists must be accompanied by a conflict of interest declaration from the recipient.[184]

The program is also clear in its intent to:

▶ attract investment opportunities that will increase investment into South Australia and grow the existing and emerging industries and increase employment

▶ attract skilled and business migrants

▶ grow and support economic opportunities in the South Australian regions

▶ advance industrial capabilities for global competitiveness and business growth

Priority is given to applicants related to the following strategically important sectors for the state: food, wine and agribusiness; international education; tourism; energy and minerals; defence and space industries; the hi-tech sector; health and medical industries; and creative industries.[185]

Conditions for eligibility include the business generating revenue for at least 12 months, being an interstate or international business with no employees or office presence in South Australia, and being willing to commit to at least 12 months of operating presence. Seed stage companies are not eligible for the program.[186]

The stated purpose of the program and its design provides adequate focus and flexibility.

Interviews with DTI staff gave further insight into the genesis of the SALP. The program originated when DTI had a sizeable investment fund at its disposal aimed at attracting large established businesses. At the time it was found that small, medium and start-up businesses were not well catered for. For example, many downstream businesses aligned to large scale industries such as submarine construction were difficult to entice to the state. The SALP was designed to attract such boutique but useful companies to support development of an industry ecosystem.[187]

184: Business strategy, capital structure, accounting, taxation, migration advice, grant eligibility, legal and regulatory, HR advisory, back-office services, Import and export, IT, facilities, communication. EXH0068 South Australian Landing Pad Guidelines, June 2019.
185: EXH0068.
186: EXH0069.
187: INT004.

INVITATION AND DUE DILIGENCE CHECKING

SALP applications are by invitation only. Businesses can register their interest in SALP using an online form or make contact with a DTI Business Development Manager or overseas office representative. Due diligence checking begins almost immediately.

Once registered, a Business Development Manager or Business Development Officer is assigned to conduct initial due diligence and eligibility checks, and a preliminary business case review. Eligibility is then confirmed, and a financial due diligence report is produced by a Program Manager using the Equifax online platform. Once these initial checks are processed the Program Manager then formally invites the company to apply to SALP.

The SALP *Operating Procedures* are clear and prescriptive as to the initial due diligence steps and the reporting activities required.

Business development managers must confirm program funding availability with the program manager and gain endorsement from a relevant sector director in order to formally invite a company to apply.

As part of the review of the SALP, records related to a total of nine applicants (both successful and unsuccessful) were requested and reviewed. For the majority of applicants reviewed the due diligence checks and business case assessments were available and provided an appropriate, and sometimes high level of confidence in supporting the business.

However, for some applicants the due diligence reports or business case reviews were either missing or insubstantial.[188] More detailed and better quality due diligence documents may have existed but were unable to be provided by the agency. Due diligence and business intelligence could also have occurred informally between clients and business development managers.

For a minority of applicants, it was difficult to see how assessments could have proceeded with confidence on the basis of the due diligence and business review documents supplied. Some of those businesses' six month and twelve month activity reports were disappointing, adding weight to the view that vetting was possibly insufficient.

It is accepted that the SALP is a relatively small financial offering and it is difficult to attract certain businesses by subjecting them to onerous and time consuming due diligence. That would be a hindrance and barrier to investment, not an attraction. It is also accepted that for some of the applicants involved, limitations during COVID-19 were a mitigating factor. However, minimum standards of assurance should be sought, recorded and saved on an applicant's file.

DTI ensures that a consistent minimum level of due diligence, business and financial review takes place for all recipients of grants, and documentary evidence is retained in records management systems. It is suggested that the agency consult with the South Australian Government Financing Authority regarding potential provision of due diligence or assurance services, particularly for international applicants or applicants with difficult to ascertain finances or business cases.

RECOMMENDATION 25

188: EXH0087, EXH0091, EXH0086, EXH0085, EXH0089.

ASSESSMENT AND SELECTION

Assessment and approval delegations

There was some inconsistency regarding the personnel who were reported as being involved in assessment and selection processes for the SALP.

The SALP's *Operational Procedure* states:

> *The DTI Assessment Panel will comprise the following three DTI officials:*
>
> - *Director, Strategy, Policy & Analytics (permanent member)*
> - *Sector Director #1 (rotating member)*
> - *Sector Director #2 (rotating member)*
> - *Program Manager (secretariat)*
>
> *… Once the Panel report is endorsed, the Program Manager will prepare an internal Minute to the Deputy Chief Executive for review and approval of the Panel recommendations with the Panel report attached.[189]*

However, DTI's response to the evaluation's initial information request outlined the following:

> *Once a formal application is submitted, the Program Manager convenes an Assessment Panel. The Assessment Panel is chaired by the Program Manager as a non-assessing chair. The Assessment Panel includes the Chief Executive, Executive Director, Invest SA and Chief Operating Officer.*
>
> *The BDM working with the SALP applicant briefs the Assessment Panel on the applicant and answers questions to help determine their suitable for SALP.*
>
> *Following the Assessment Panel's endorsement, the Program Manager prepares an internal Minute to the Executive Director, Invest SA and Chief Executive approval.[190]*

It appears the composition of the assessing and approving personnel differ from the *Operating Procedures*, and the latter has not been updated. This may be due to a change in executive leadership and accompanying restructure at the agency. It was reported that when the new executive leadership commenced, SALP assessment processes and funding were reviewed. With funding available for only ten more applicants, the investment team identified ten companies not needing to go through normal assessment processes, although they were still required to go through due diligence processes.[191]

It is noted that this change in approach increased the seniority of assessing and approving staff at DTI. However, it is recommended that any changes in roles and responsibilities at the agency or program level be reflected in updated procedural documentation.

189: EXH0069.
190: PEXH0027.
191: INT015.

This is especially important when procedural documents outline a specific position with discretionary power in relation to a grants program. For example, the SALP *Operating Procedure* outlines the following:

> *The Deputy Chief Executive may ask the Panel to reconsider its recommendations if the Deputy Chief Executive is not satisfied with the Panel's assessment against the criteria. In that case, the Panel will reconvene to discuss the application again and address the concerns raised by the Deputy Chief Executive. An amended Minute to the Deputy Chief Executive will then be prepared by the Program Manager for final approval of the Panel's recommendations.*[192]

Given the information regarding the assessment process supplied by DTI, it is likely that the position of Deputy Chief Executive no longer retains discretionary power in the administration of the program. If changes to roles and responsibilities occur within a program, those changes should be documented, ideally by updating relevant operating procedures.

It is also recommended that if any position holds the discretionary power to ask a panel to reconsider its recommendations, that person should be required to make a conflict of interest declaration in relation to the applicant for which they are seeking reassessment.

DTI review its grants operating procedures to ensure that changes to roles and responsibilities resulting from restructures and operational adjustments are reflected in those procedures, and all roles listed with any discretionary powers are required to make conflict of interest declarations.

RECOMMENDATION 26

192: EXH0069.

Panel assessment process

As has been noted, the SALP operates in a fluid and challenging business environment. Closer review of the applications reveals a grants program subject to dynamic circumstances and requiring judgement and dexterity to manage. Consequently, some irregularities and inconsistent practices were apparent.

The SALP assessment process differs from that employed for the GEP. The assessment of individual applicants is not scheduled into rounds or cohorts. Instead applicants are assessed individually or in small groups on an ongoing needs basis. This practice stems from the program being invitational in nature, and may contribute to more unevenness in the assessment of applicants than seen in the GEP.

It is understood that prior to the panel assessment meeting, panel members complete conflict of interest declarations. Once it is confirmed that no conflicts exist, or conflicts are addressed and managed, panel members undertake individual assessments of the business according to assessment criteria via an online platform. At the ensuing panel meeting the individual assessments and scores are further reviewed.

Unfortunately, DTI could only provide conflict of interest declarations for half the applicants reviewed.[193]

Some panel assessment sheets did not list the names of the individual panel members. Other scoring sheets included panel members names (in pen), but individual scores were not able to be matched against panel members. Some sheets dispensed with providing individualised scores, electing only to record a collective score. There was also some variability in the layout and format of the evaluation panel scoring sheets. Some were displayed in different spreadsheet layouts, and others as documents accompanied by handwritten notes. For example, one scoring sheet included the handwriting, "the risk of it failing is a risk we are clear about and think is worthwhile".[194]

One grant recipient appeared to have no panel assessment documentation attached to their application. Either the documentation did not exist or could not be located. In this case the applicant was a very large global company which for many years had attempted to initiate a substantial and potentially very lucrative development in the state. Correspondence demonstrated that representatives of the company had met with the Premier shortly after the 2022 election to relay their intentions to the government. Correspondence further suggested there was some urgency regarding the grant. The strategic importance of the project, general haste and missing assessment documentation suggested an expedited grant.[195]

Another recipient lacked accompanying assessment panel documentation, and due diligence documentation was also deficient. In this case there was no indication that the market was assessed for any equivalent South Australian based companies providing similar services. The recipient operated a spinoff business with ancillary connection to its primary business. There was little documentation to demonstrate whether this improved or diluted the overall application. Their business website is now inoperative.[196]

On following up these missing documents for the two applicants the Department advised that their absence was likely due to loss of staff and turnover.[197]

193: EXH0153.
194: EXH0087.
195: EXH0086.
196: EXH0085.
197: INT002.

One applicant's assessment demonstrated confusion about whether the applicant would be setting up a head office in the state, or only a sales and marketing hub. The panel elected to defer its decision until this uncertainty was resolved, and an out of session decision was made once the company provided relevant information. Unfortunately, the 12-month progress report notes that after achieving good sales in South Australia, the business decided to relocate and build a head office in Melbourne. The business operated a sales operation and then moved on.

Another application was conspicuous for the considerable liaison that took place between the business and a business development manager before an invitation to apply for SALP was made. The business was identified as moving swiftly and decisively into the Adelaide market, booking a tenancy and hiring a chief executive officer before the SALP application process was properly underway. The business development manager sought guidance on how to accommodate such a rapidly developing business within the parameters of the program. There appeared to be an awareness that the business was investing in South Australia regardless of government support, and the utility of the grant support would be open to question.

These examples are detailed not to unduly interrogate the processes of DTI or the professionalism of its officers in their assessment of SALP invitees. The challenges and difficulties of attracting businesses to the state in the public interest are acknowledged. It is evidently an imprecise and precarious endeavour, where expediency, pragmatism and value judgements are clearly required. It is understandable that review of program processes may expose unevenness and weaknesses, where transparency and accountability become difficult to demonstrate.

Nevertheless, for the sake of the reputation and integrity of DTI and its investment attraction activities, providing evidence of transparency, accountability and integrity management must be foremost.

DTI standardise its grants assessment scoring documents so panel members can be matched to individual scores, and conflict of interest declaration and management actions are attached to the assessment documentation.

RECOMMENDATION 27

DTI ensure that panel assessment documents for grants programs are attached to approval minutes, to ensure retention of those documents.

RECOMMENDATION 28

GRANT EXECUTION

The funding agreement between the Department and participants outlines the eligible accommodation and business services. Grants agreements were in place for all successful applicants reviewed during the evaluation. Eligible services are contained on a service provider list developed through an expression of interest process coordinated through the Industry Capability Network, a private organisation embedded within the Department. Participants who wish to use services not on the list are required to sign conflict of interest declarations.[198] Two declarations were made by recipients reviewed. However, one was not signed.[199]

Some SALP participant grants agreements were subject to delays, extensions and variations that were an understandable consequence of COVID-19 challenges.[200] One acquittal required amendment due to invoices not matching the agreement.[201]

Grants recipients are also required to submit two reports during the funding period at six months and twelve months. The reports highlight their initial aims, achievements to date, how SALP supported the company's growth in South Australia, and how the company is contributing towards South Australia's industry ecosystem and economy.[202]

Some of the progress reports reviewed were highly complimentary about the assistance provided and quality of staff of DTI. Other progress reports demonstrated weak business development and outlined challenging market conditions, including COVID-19 complications. Two SALP recipients appeared not to have submitted progress reports, although an emailed request for a progress report was provided for one recipient.[203]

In general, grants execution for SALP appeared solid but with scope to improve compliance with recipients' progress reporting requirements.

198: EXH0069.
199: EXH0086.
200: EXH0091, EXH0082, EXH0087.
201: EXH0091.
202: EXH0069.
203: EXH0082, EXH0086.

REVIEW, EVALUATION AND REPORTING

Business progress reporting is a vital aspect of business accountability. It also provides important information for DTI to reviewing its grants program and developing wider agency strategy, market knowledge and intelligence. This is anticipated in the SALP *Operating Procedure*, which states:

> The objective is to review the services offered in the program, the realities and needs of the participant, as well as gather information for marketing purposes.[204]

Due to COVID-19 the SALP was subjected to an interim program evaluation in 2021 to ensure the program was still meeting its objectives in the altered business environment.[205]

In accordance with the *Expense Management – Grants Procedure*, it is recommended that the SALP be reviewed to "assess whether the grant program is still relevant with the departments goals/objectives and it has delivered what it intended".[206]

Such a review will remain useful for future investment activities of the department regardless of any decision about the SALP continuing past 2025. It is further recommended that any program review take into account the observations made earlier about the GEP in relation to principles of proportionality, governance, accountability, probity and transparency.

A strategic review of business progress reports against initial business cases and aims would furnish the agency with useful insights for any review and reform of the SALP, or indeed any other investment attraction scheme.

DTI undertake a strategic review of SALP participant progress reports to gather insights for program review and evaluation.

RECOMMENDATION 29

204: EXH0069.
205: EXH0069.
206: EXH0044.

FINAL THOUGHTS

While reviewing the documents of a small selection of SALP applicants revealed some inconsistencies and minor deficiencies, the assessment processes of the program appear to be taken seriously, conducted appropriately, and they provide a sound level of protection against corruption and impropriety.

Grants administration is conducted by a central and separate team. Business development managers liaise and support applicants without having decision making powers, while assessment panels appear independent and objective. Appropriate separation of duties are apparent and were confirmed by staff.

One staff member noted that exploitation of an opportunity for corruption would require co-operation of multiple people 'through the chain', and the reward for any corruption would not be worth the effort of having to coordinate that level of involvement. It was remarked that grants processes were structured with significant protections for staff.[207]

Indeed, several staff said that they felt well protected in the management of grants by the multiple levels of decision making involved. This greatly reduced the discretion any one person could have in the process.[208]

It needs to be acknowledged that the review of SALP involved a small selection of overall recipients. Such a small sample size is not representative of the broader program. DTI publicises numerous SALP success stories on its website.[209] The evaluation was conducted, not to measure or evaluate the efficacy or efficiency of the program, but to gain insight into the inner workings of commercial grants management within the agency. The level of judgement, acumen and persistence required in the challenging area of business attraction is recognised.

This is a challenging area of public expenditure. The risk to reward ratio of investment attraction schemes is difficult to predict. One small grant of $80,000 could attract a business bringing opportunities, market interactions, financial activity, and employment gains worth multiples of the initial investment. Other investments could result in failure. Those are the operating realities that an agency such as DTI must confront and manage.

In grants programs, where outcomes or successes are difficult to quantify, perhaps involving a business that fails to land, suspicions of impropriety and corruption can unfortunately follow. If an attracted business fails to thrive, the merits of the business case and the motives of those involved may be questioned.

There was no suggestion of misconduct or corruption in the SALP program. Rather the evaluation team observed professional, dedicated public officers exercising judgement and considerable expertise in the public interest. Nevertheless, a grants program such as the SALP requires a strong focus on transparency, accountability and fairness to protect it from suspicions of improper motives. It is hoped that this evaluation aids DTI in protecting and improving a grants program that can offer so much value to the state.

207: INT003.
208: INT004.
209: See, https://dti.sa.gov.au/search?keyword=Landing+Pad.