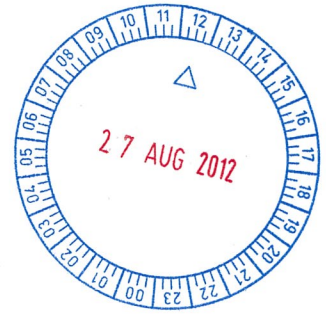


PUBLIC



**ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE
QUESTIONS ON NOTICE**

Monday, 6 August 2012

Department of Agriculture and Food, Western Australia

Question A1: Hon Philip Gardiner asked –

How much of the \$105 million of the supply chain development, which is functional expenditure, is research and how much is marketing and promotion? You have it for 2010-11, 2011-12 and the budget, so for the two previous plus the budget

Answer:

Around \$34 million (16%) of the Department's expenditure in projects is directed at the export, wholesale and retail elements of supply chains. A significant but unquantified amount of this effort is geared towards direct or indirect promotion. This is an area of growing importance for the department and it is reflected in a number of our Investment Priorities.

Question A2: Hon Liljanna Ravlich asked –

Please provide the committee with the advice that the Auditor General gave you, this being the end result of his recommendations, regarding the transfer of NRM from controlled funds to administered funds.

Answer:

Three articles of advice regarding the treatment of NRM funds are attached.

Question A3: Hon Liljanna Ravlich asked –

Provide an update on how the Department will achieve the efficiency dividend of \$2.798 million savings in 2012-13.

Answer:

The department will implement a 2% efficiency dividend in 2012-13 and 1% for each of the following three years. Management has:

- Prioritised projects and activities to fit the new budget position;
- Sought staff engagement on efficiency improvements through an ideas capture system; and,
- Introduced a cost-effectiveness framework to ensure savings do not reduce strategic intent or impact.

DAFWA plans to achieve the efficiency target through the following estimated reductions:

Travel	\$450,000
Vehicle expenses	\$270,000
Reduction in consultants	\$100,000
Reduction in contractors/agency staff	\$600,000
Leasing unused capacity	\$400,000
Workflow improvements	\$630,000
Business unit reforms	\$400,000
Total estimate	\$2,850,000

DAFWA will continue to pursue efficiency's to ensure resources are directed towards priority areas and initiatives that create maximum value and support strategic goals.

Question A4: Hon Liljanna Ravlich asked –

Provide the dollar value of Monsanto's 19% shareholding in InterGrain Pty Ltd.

Answer: In 2010 Monsanto paid \$10.5 million to InterGrain for a 19.89% share of InterGrain.

Question A5: Hon Giz Watson asked –

Provide the latest Statement of changes in equity (formerly known as the Profit and Loss Statement) for InterGrain Pty Ltd for 2011-12.

Answer: The Department has been granted an extension in responding to this question.

Question A6: Hon Liljanna Ravlich asked –

Provide the Shareholder Agreement, Service Agreement and details of Directors of InterGrain Pty Ltd.

Answer:

The InterGrain Board is Mr Dale Baker (Chair), Mr David Falconer and Ms Sarah Scales. Mr Baker and Mr Falconer are appointed by the Western Australian Agricultural Authority.

The Department has been granted an extension in responding to the Shareholder and Service Agreement elements of this question.

Question A7: Hon Liljanna Ravlich asked –

Did the department know that \$10.5 million had been paid by Monsanto paid for a 20% share of the public plant breeder?

Answer: The Department was aware that Monsanto purchased a 19.89% share of InterGrain Pty Ltd.

Question A8: Hon Liljanna Ravlich asked –

Provide details of any agreements Monsanto has with the Department.

Answer: The Department has been granted an extension in responding to this question.

Question A9: Hon Giz Watson asked –

Please provide copies of all agreements relating to InterGrain to which DAFWA is a party'

Answer: The Department has been granted an extension in responding to this question.

Question A10: Hon Giz Watson asked –

Provide an update on estimated value, estimated sale date and how much money DAFWA expects to realise from the sale of surplus land.

Answer:

The sale process of DAFWA's vested crown land is managed by the Department of Regional Development and Lands (RDL). The time to prepare the sites ready for sale can vary from 1 to 3 years depending on complexities related to key Government clearances around mining, environmental and suspected contamination issues, together with the lengthy process to rezone properties from Government Public Purpose into a suitable zoning to allow the properties to proceed to market.

DAFWA has identified 4 properties in the metropolitan area for potential sale: Bartram Road (ex-apiary site), Forrestfield, part Medina and part of the South Perth headquarters site. The disposal of metropolitan properties is looking to raise \$48.4 million to support the new headquarters project.

The regional program has 50 properties. Other than material revenue returns from vacated offices and research stations, the bulk of other properties are low-value ex-Agricultural Protection Board depot sites. The disposal of regional properties is estimated to generate somewhere between \$10 million and \$15 million.

Question A11: Hon Giz Watson asked –

Does the Minister have aspirations for what money from the sale of land would be spent on?

Answer: The Department's endorsed Strategic Asset Plan (SAP) 2011-12 articulates areas where capital investment is required to align the department's asset portfolio to the business needs of the department. Asset sale revenue returns direct to Treasury and through Treasury budget decisions related to the Department's capital works program, land sales are assisting with the funding requirements of a number of approved projects including the new Metropolitan Facilities redevelopment at South Perth, the New Genes for New Environments

Facilities at Katanning and Merredin and Information Communications and Technology (ICT) upgrades.

Question A12: Hon Philip Gardiner asked –

Provide an explanation of the sorts of things DAFWA means in relation to transformational development and provide observations, particularly examples about where there is clear differentiation – wine is an obvious one, but in wheat, for example, how much differentiation is there – and where we see some of the developing differentiation occurring.

Answer: DAFWA considers 'transformation' to involve a fundamental change to an industry's mix of markets, mix of products or business model: all long-running industries need to transform in order to remain competitive, profitable and vibrant as market, climatic, social, technical and economic conditions evolve. Transformations currently underway in marketing include the shift in focus from Europe/UK to the Asia/Pacific region, reflecting the increasing buying power of China, India, Indonesia and other emerging economies. Product mix transformations include an increasing focus on premium, rather than bulk wines, reflecting both the increased consumer preference of these same emerging economies, and the increasing ability of low-cost producers, such as Argentina, to match our quality in non-premium wines. Business model transformations are most apparent in changing succession arrangements and the increasing involvement of corporate investment and ownership. DAFWA sees increasing differentiation in each of these fields.

Question A13: Hon Giz Watson asked –

Have the materials been purchased for the proposed extension of the state barrier fence? Provide details regarding what material has been purchased, who was it purchased from, the cost, where the materials are being stored and the time frame for the expenditure of the allocated Royalties for Regions funding on the state barrier fence. Indicate whether this funding was included in DAFWA's 2012-13 budget.

Answer:

Yilgarn Gap (length of 165km)

Great Northern Rural Services (Geraldton) has been contracted to supply materials. The cost is \$995,947. The materials include fencing posts, wire, strainer assemblies and gates. Materials will be stored by the supplier and delivered on-site during fence construction. Expenditure will be complete by end June, 2013.

Wire-lapping to existing State Barrier Fence (length 820km)

Great Northern Rural Services (Geraldton) has been contracted to supply materials. The cost is \$247,142. The materials include prefabricated lap wire netting. Materials will be stored by the supplier and delivered on-site during fence construction. Expenditure will be complete by end June 2013.

Timeframe for expenditure:

DAFWA has signed a *Memorandum of Understanding* with the Department of Regional Development and Lands for all Royalties for Regions expenditure on the State Barrier Fence that extends until 31 December 2015.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

DEPARTMENT OF AGRICULTURE AND FOOD

Report on the Financial Statements

I have audited the accounts and financial statements of the Department of Agriculture and Food.

The financial statements comprise the Statement of Financial Position as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Schedule of Income and Expenses by Service, Schedule of Assets and Liabilities by Service, and Summary of Consolidated Account Appropriations and Income Estimates for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information, including Administered transactions and balances.

Director General's Responsibility for the Financial Statements

The Director General is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Director General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Director General, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

The Department maintains and administers the following special purpose accounts: the Cattle Industry Funded Scheme, the Grain, Seeds and Hay Industry Funded Scheme, the Sheep and Goats Industry Funded Scheme, and the funds relating to the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust in the Commonwealth Agriculture Activity Grants (Interest Bearing) Account. The Department has included financial transactions relating to these accounts in its statement of comprehensive income and statement of financial position. Under the Australian Accounting Standards and the Treasurer's Instructions because the Department does not have discretion over how it uses the funds in these special purpose accounts they should be treated as administered accounts in the Notes to the financial statements and not included in the statement of comprehensive income and statement of financial position. Accordingly, income, expenses and restricted cash and cash equivalents have been overstated by \$18 million, \$24.6 million and \$18.1 million respectively.

Department of Agriculture and Food

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Department of Agriculture and Food at 30 June 2011 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

Matter of Significance

The Western Australian Agriculture Authority (WAAA) was established by the Biosecurity and Agriculture Management Act 2007 (BAM Act) as a body corporate that is governed by the Minister for Agriculture and Food. Although WAAA has financial transactions and assets and liabilities, the BAM Act does not require it to report these separately. However, for financial accountability purposes, the BAM Act requires WAAA's activities to be regarded as services under the control of the Department. Consequently, the Department has included WAAA's income, expenses, assets and liabilities in its financial statements as though they relate to the Department. The Department does not separately account for these transactions or disclose them in its financial statements. My opinion is not modified in respect of this matter.

Report on Controls

I have audited the controls exercised by the Department of Agriculture and Food. The Director General is responsible for ensuring that adequate control is maintained over the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Director General based on my audit conducted in accordance with Australian Auditing Standards.

Opinion

In my opinion, the controls exercised by the Department of Agriculture and Food are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

Report on the Key Performance Indicators

I have audited the key performance indicators of the Department of Agriculture and Food. The Director General is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing Standards.

Basis for Qualified Opinion

The following key performance indicators of effectiveness either do not relate to or are not an appropriate measure of the Department's effectiveness as they have limited correlation to the Department's outcomes.

- KPI 1.1 The Impact of department activity on the adoption of management practices that address off-site environmental impact or contribute to the long term sustainability of the natural resource base.
- KPI 1.2 The impact of department activity on improving the capacity of primary producers to sustainably and profitably manage the agricultural resource base.

Department of Agriculture and Food

- KPI 2.1 Uptake of crop varieties developed by the department.
- KPI 2.2 The extent to which the outcomes of research, development and extension projects improve the profitability or potential profitability of rural industries.
- KPI 3.1 The benefit-cost ratio and net present value of the agency's research and development and biosecurity activity.
- KPI 3.2 The impact of department activity on the capacity of agri-industry to manage change and respond to opportunities.
- KPI 4.1 The extent to which new market opportunities are developed or maintained for Western Australian agricultural produce.
- KPI 4.2 Interceptions of significant pests, diseases and weeds by interstate and international barrier quarantine activities.
- KPI 5.1 The impact of department activity on the management of community and environmental risks.

As a result, the above key performance indicators of effectiveness are not relevant and/or appropriate to assess the Department's performance for the year ended 30 June 2011.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the key performance indicators of the Department of Agriculture and Food are relevant and appropriate to assist users to assess the Department's performance and fairly represent indicated performance for the year ended 30 June 2011.

Independence

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and the Australian Auditing Standards, and other relevant ethical requirements.



COLIN MURPHY
AUDITOR GENERAL
28 September 2011

DEPARTMENT OF AGRICULTURE AND FOOD
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2011
FINDINGS IDENTIFIED DURING THE AUDIT

3. Administered Items – Natural Resource Management

Finding

Audit noted the Department is incorrectly treating funds being administered on behalf of the State Natural Resource Management (NRM) Office as controlled funds.

The NRM Office which received the funds is housed within the Department, empowered by and directly responsible to the State NRM Ministerial Council. The Council is the ultimate decision maker on which regional priorities will be promoted as State priorities. Consequently, the Department has no control over the funds and the accounts should be treated as administered accounts in accordance with AASB 1050.

Implication

Rating: Significant

Without the correct treatment of administered accounts in accordance with AASB 1050, the Department will be overstating its revenue and cash assets.

Recommendation

Treat the accounts associated with the State NRM Office as administered accounts in accordance with AASB 1050.

Management Comment

During 2009/10 the previous Director Finance reviewed a number programs administered by the NRM Office. It was determined that both NRM State and the NHT 2 Commonwealth funded scheme were controlled by the department and that the new Commonwealth funded Caring For Our Country (CFOC) scheme was not.

The basis of this decision was that the previous Commonwealth NHT 2 and NAP funding scheme's payments were directly monitored and managed by the DAFWA NRM Office that formed part of the Department's key advisory service to the NRM State and Commonwealth Committee and carried a degree of influence on the scheme's future NRM project funding. Furthermore, the NHT 2 (\$5.2m) and NAP (\$3.9m) schemes are being wound up and the balance of the funds are to be returned to the Commonwealth for usage under the new administered CFOC scheme in the coming reporting period.

Therefore, the Department will report NHT 2 and NAP funded balances as controlled programs based on the previous Department review and OAG determinations as the fund is being wound-up and matched to the current budget papers and prior year transactions.

In relation to the State NRM Consolidated Funds in 2010/11 the Department agrees that these funds could be treated as administered accounts in accordance with AASB 1050.

However, the Department of Treasury has appropriated the budget in 2010/11 to DAFWA as controlled funds as the responsible entity for the financial management of these consolidated funds and are approved by Cabinet based on the Department and Minister's submission. Therefore, the Department will report the 2010/11 State Funded NRM program transactions as controlled based on the previous Department review and OAG determinations and in alignment with the current state budget papers. With a view to negotiate with Department of Treasury to recognise 2011/12 State NRM Funding as administered funds in the next reporting period.

**DEPARTMENT OF AGRICULTURE AND FOOD
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2011
FINDINGS IDENTIFIED DURING THE AUDIT**

In an effort to improve the 2010/11 disclosure of the State NRM monies in the 2010/11 Financial Statements the Department will include them as part Special Purpose Account note within the financial statements as discussed with OAG officers.

**Responsible Person: Director Finance via Director General
Completion Date: December 2011**



Government of Western Australia
Department of Treasury

Our ref : 00054380
Enquiries : Mick Jolob
Telephone : 65512554

Mr Rob Delane
Director General
Department of Agriculture and Food WA
3 Baron-Hay Court
SOUTH PERTH WA 6151

Dear Mr Delane

**DEPARTMENT OF AGRICULTURE AND FOOD WA (DAFWA) 2010-11
ANNUAL REPORT - SIGNIFICANT AUDIT FINDINGS**

I refer to your letter received 28 November 2011 seeking timely resolution of a number of matters identified by the Office of the Auditor General (OAG) in the audit of DAFWA's 2010-11 financial statements.

Western Australian Agriculture Authority (WAAA)

Following on from earlier discussions conducted between our officers and the OAG, the Department of Treasury (Treasury) obtained further advice from the State Solicitor's Office (SSO) that confirmed that the WAAA is a mechanism established under the *Biosecurity and Agriculture Management Act 2007* (BAM Act) to facilitate the operations of the Department and should not be taken to be a separate agency.

This supports your current treatment of recording and reporting transactions entered into in the name of the WAAA as part of DAFWA's controlled operations. You will be aware that the WAAA is a continuation of the body corporate that existed under the *Agriculture Act 1988* and was administered by the Director General (DG). The transfer of administration of the WAAA from the DG to the Minister is consistent with government policy that recognises the line of responsibility that exists between the Minister and DG. My officers will liaise with the OAG to finalise this issue.

Industry Funding Schemes

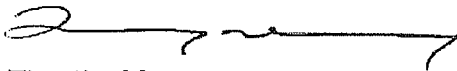
I understand that the original intention was to abolish the statutory authorities created to administer the various industry funding schemes by repealing their enabling legislation and to roll those functions into the Department through provisions in the BAM Act. Accordingly, it is Treasury's position that the schemes should be reported as controlled. While recognising the role of industry based committees in ensuring the funds are applied in accordance with the relevant industry's intent, this is not inconsistent with other restricted moneys under the control of the Department. My officers will contact Mr Joe Murgia to discuss options to resolve the audit issue.

Natural Resource Management Program

DAFWA's view that the State funding for the Natural Resource Management Program should be treated as administered is supported and I will arrange for that funding to be reflected as an administered appropriation in DAFWA's 2012-13 Budget.

Please contact Mick Jolob, Director Financial Policy on 65512554 for any further clarification regarding these issues.

Yours sincerely



Timothy Marney
UNDER TREASURER

2 February 2012