The Auditor-General
Auditor-General Report No.31 2022–23
Performance Audit

Administration of the Community Health and Hospitals Program

Department of Health and Aged Care

Australian National Audit Office

© Commonwealth of Australia 2023

ISSN 1036–7632 (Print)
ISSN 2203–0352 (Online)
ISBN 978-1-76033-823-7 (Print)
ISBN 978-1-76033-824-4 (Online)

Except for the content in this document supplied by third parties, the Australian National Audit Office logo, the Commonwealth Coat of Arms, and any material protected by a trade mark, this document is licensed by the Australian National Audit Office for use under the terms of a Creative Commons Attribution-NonCommercial-NoDerivatives 3.0 Australia licence. To view a copy of this licence, visit http://creativecommons.org/licenses/by-nc-nd/3.0/au/.

You are free to copy and communicate the document in its current form for non-commercial purposes, as long as you attribute the document to the Australian National Audit Office and abide by the other licence terms. You may not alter or adapt the work in any way.

Permission to use material for which the copyright is owned by a third party must be sought from the relevant copyright owner. As far as practicable, such material will be clearly labelled.

For terms of use of the Commonwealth Coat of Arms, visit the *It's an Honour* website at https://www.pmc.gov.au/government/its-honour.

Requests and inquiries concerning reproduction and rights should be addressed to:

Senior Executive Director
Corporate Management Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Or via email:
communication@anao.gov.au.

Australian National Audit Office

Canberra ACT

5 June 2023

Dear President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Health and Aged Care. The report is titled *Administration of the Community Health and Hospitals Program.* Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — http://www.anao.gov.au.

Yours sincerely

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

For further information contact:
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Phone: (02) 6203 7300
Email: ag1@anao.gov.au

Auditor-General reports and information about the ANAO are available on our website:
http://www.anao.gov.au

Audit team

Michael Commens
Lily Engelbrethsen
Henry Maher
Grace Sixsmith
Alexander Wilkinson
Qing Xue
Matthew Conley-Evans
Zhuo Li
Ben Nicholls
Daniel Whyte
Christine Chalmers

Contents

Audit snapshot

Auditor-General Report No.31 2022–23

Administration of the Community Health and Hospitals Program

Why did we do this audit?

- The Community Health and Hospitals Program (CHHP) and associated measures involved $2 billion in grant and other funding to Primary Health Networks, non-government organisations and state and territory governments.
- The audit provides assurance to the Parliament regarding the effectiveness of CHHP administration, including compliance with the Commonwealth Grants Rules and Guidelines and alignment with the Federation Funding Agreements Framework.

What did we find?

- The Department of Health and Aged Care's (Health's) administration of CHHP was ineffective and fell short of ethical requirements.
- The governance and administration of funding arrangements (including national partnership agreements with states and grants to Primary Health Networks and non-government organisations) were not effective.
- Monitoring and evaluation arrangements were partly effective, however they are developing.

Key facts

- CHHP was announced as a $1.25 billion program in December 2018. A further $747 million was committed to associated projects.
- CHHP's purpose was to fund projects and services in every state and territory that support patient care while reducing pressure on community and hospital services.
- CHHP and associated projects comprised 171 infrastructure and service delivery projects primarily in the areas of mental health and hospital services.

What did we recommend?

- There were four recommendations to Health addressing compliance with finance law, grants assessment processes, the quality of advice to government, and GrantConnect reporting.
- Health agreed to the four recommendations.

2 of 63

Number of national partnership agreement projects assessed by Health to be 'highly suitable'.

7 of 108

Number of grants awarded that had no grant opportunity guidelines.

3 yrs 10 mths

Time between the program's announcement and the development of a draft monitoring and evaluation framework.

Summary and recommendations

Background

1. The Community Health and Hospitals Program (CHHP) was announced by the Prime Minister on 12 December 2018. The purpose of CHHP was to 'fund projects and services in every state and territory, supporting patient care while reducing pressure on community and hospital services'. A total of $1.25 billion was allocated to CHHP across four key areas[1]:

- specialist hospital services (such as cancer treatment, rural health, and hospital infrastructure);
- drug and alcohol treatment;
- preventive, primary and chronic disease management; and
- mental health.

2. Funding for CHHP was delivered through national partnership agreements with states and territories, and grants to Primary Health Networks (PHNs) and non-government organisations. On 30 June 2019 the government announced first round funding agreements worth $229.2 million with states, PHNs and non-government organisations for an initial 65 projects.

3. As at November 2022 the ANAO identified 171 CHHP and associated projects that were approved in 2018–19 to 2020–21. Of these, 92 projects (worth $1.25 billion) were categorised as CHHP by the Department of Health and Aged Care (Health); and 79 projects (worth $747 million) were identified by the ANAO to be associated with CHHP on the basis of their description in ministerial submissions or 2019–20 Budget proposals.

Rationale for undertaking the audit

4. The individual projects that are funded under, or associated with, CHHP contributed to seven programs across three outcomes in Health's 2018–19 Portfolio Budget Statements, and involved $2 billion in public funding.

5. The audit provides assurance to the Parliament regarding the effectiveness of CHHP administration, including compliance with the Commonwealth Grants Rules and Guidelines and alignment with the principles of the Federation Funding Agreements Framework. The proposed audit was identified as a Joint Parliamentary Committee of Public Accounts and Audit priority in 2020–21.

Audit objective and criteria

6. The objective of the audit was to assess the effectiveness of Health's administration of CHHP.

7. To form a conclusion against the objective, the following high-level criteria were adopted:

- Has Health effectively administered funding arrangements under CHHP?
- Has Health effectively monitored and evaluated the performance of CHHP?

1 A fifth key area ('other priorities identified by the government') was noted in the overarching Program Design for CHHP that was included in the 2019–20 Health Portfolio Budget Submission. The Australian Government agreed the overarching program design for CHHP on 8 February 2019.

8. The audit focused on Heath's administration of funding for CHHP and associated projects.

Conclusion

9. The Department of Health and Aged Care's administration of the Community Health and Hospitals Program was ineffective and fell short of ethical requirements.

10. The Department of Health and Aged Care's (Health's) effective administration of the funding arrangements under the Community Health and Hospitals Program (CHHP) was undermined by deliberate breaches of the Commonwealth Grants Rules and Guidelines and failure to advise government where there was no legislative authority for grant expenditure (see Appendix 4). Executive oversight, risk and fraud management were deficient. Health did not seek to advise the government whether national partnership agreement project selection was aligned to CHHP objectives. Health established national partnership agreements that did not create a strong basis for robust project monitoring and milestone payment approvals. Projects funded under grant agreements with Primary Health Networks and non-government organisations were designed, assessed, established and managed in a manner that was largely inconsistent with the Commonwealth Grants Rules and Guidelines.

11. Health's monitoring and evaluation of CHHP was partly effective. Health's monitoring of the performance of individual projects was limited, in part due to lack of specificity in agreement milestones. There has been no overall CHHP program evaluation. As at December 2022 an evaluation framework was in development which includes performance measures. Health has identified and acted upon some lessons learned, however this process has not been systematic.

Supporting findings

Administration of funding arrangements

12. Health established oversight for CHHP through line management. There was little consideration of CHHP by executive committees, and a dedicated taskforce was not utilised after August 2019. Health did not manage CHHP regulatory and compliance risks, including fraud risk. (See paragraphs 2.3 to 2.17)

13. Health established an expression of interest (EOI) process for potential CHHP projects and assessed state and territory EOIs against established criteria, however most approved projects were selected by government outside this process. In advising the Minister for Health (the Minister) to agree to enter into national partnership agreements, Health did not provide advice about how the selected projects contributed to CHHP objectives or if they merited funding. Health developed national partnership agreements as projects were announced by government. Initial national partnership agreements were developed with limited consultation with states and territories prior to the agreement being provided. National partnership agreements did not contain sufficient detail about the projects to be funded. Subsequent variations and later agreements involved consultation and improved levels of project detail. However, agreement milestones were still too high level to effectively support assurance of project progress. The resultant national partnership agreements are partly aligned with the August 2020 Federation Funding Agreements Framework principles. (See paragraphs 2.18 to 2.44)

14. Health's administration of CHHP grants was not appropriate, involving deliberate breaches of the relevant legal requirements and the principles underpinning them. The classification of the majority of CHHP grants as ad hoc/one-off or non-competitive grants was not appropriately justified. Health did not develop grant opportunity guidelines for seven of 108 CHHP grants, and in at least three instances this represented a deliberate decision by senior management to not comply with finance law. Controls for, and reporting of, non-compliance with finance law were insufficient. Grant opportunity guidelines were produced for other grants. These were not fully consistent with the Commonwealth Grant Rules and Guidelines principles of robust planning, transparency and probity. Health did not appropriately assess risk. Health recommended funding multiple grants prior to confirming that there was lawful authority for grants, or despite knowing that there was no legislative authority. Recommendations to government to fund grants were based on assessment processes that were not fully consistent with the requirements of established grant opportunity guidelines and the Commonwealth Grants Rules and Guidelines. Application processes were not fully consistent with the principle of achieving value for money and Health undertook limited due diligence before recommending funding. Health did not meet obligations to publish grant awards on GrantConnect in a timely and accurate manner. (See paragraphs 2.45 to 2.110)

Monitoring and Evaluation

15. Community Health and Hospitals Program project compliance monitoring was partly effective. Health established national partnership or grant agreements for all projects. Agreements included milestones and associated reporting obligations, however, reporting was often not linked to detailed project activities to support effective monitoring of project progress. The release of milestone payments to states and territories followed a process that was not consistently based on sufficient evidence. A number of grant agreements did not have detailed and specific reporting requirements, or did not have key performance indicators, and payments were often not linked to reporting. These characteristics did not support effective project monitoring. Project records were dispersed across multiple internal systems and were often insufficient to demonstrate active monitoring of project outputs and outcomes. Health has a project management framework which was not mandatory for CHHP projects. However, standard operating procedures developed in October 2022 incorporate the project management framework principles. (See paragraphs 3.3 to 3.24)

16. Health has established an enterprise-level project management framework to guide the monitoring and reporting of individual projects. Health does not have an enterprise-level program management framework. There was no plan for monitoring and evaluating CHHP until December 2022, when a draft program evaluation framework was developed. The draft program evaluation framework is consistent with Department of Finance guidance, however it was developed late in the lifecycle of CHHP and is not underpinned by a robust data collection methodology. Reporting of CHHP status has been primarily at the project level with little insight into overall CHHP program performance. (See paragraphs 3.25 to 3.34)

17. Health did not apply a systematic approach to capturing lessons learned until December 2022. Some lessons have been identified and acted upon in an ad hoc manner over the course of the program’s operation. (See paragraphs 3.35 to 3.38)

Recommendations

Recommendation no. 1
Paragraph 2.62

Department of Health and Aged Care improve the systems of control to identify, assess and report non-compliance with finance law.

Department of Health and Aged Care response: *Agreed.*

Recommendation no. 2
Paragraph 2.85

To support compliance with the Commonwealth Grants Rules and Guidelines (CGRGs), Department of Health and Aged Care ensure grant assessments are consistent with requirements of established grant opportunity guidelines and the requirements of the CGRGs; that they are based on sufficient information and due diligence to support a value for money recommendation; and that assessments and the evidence base for them are appropriately documented.

Department of Health and Aged Care response: *Agreed.*

Recommendation no. 3
Paragraph 2.100

Department of Health and Aged Care ensure that advice to government on grant funding approval is consistent with the requirements of the Commonwealth Grants Rules and Guidelines and the grant opportunity guidelines, and is comprehensive, evidence-based and accurate.

Department of Health and Aged Care response: *Agreed.*

Recommendation no. 4
Paragraph 2.111

Department of Health and Aged Care establish a quality assurance process to confirm and where necessary correct the accuracy of reporting on GrantConnect.

Department of Health and Aged Care response: *Agreed.*

Summary of entity response

18. The proposed audit report was provided to the Department of Health and Aged Care and an extract of the audit report was provided to Ms Glenys Beauchamp PSM. The summary response from the Department of Health and Aged Care is provided below. The full responses of the Department of Health and Aged Care and Ms Beauchamp are included at Appendix 1. The improvements observed by the ANAO during the course of this audit are at Appendix 2.

Department of Health and Aged Care

The Department of Health and Aged Care (Department) notes the findings, accepts the recommendations and has commenced implementation of improvements. The Department is committed to ensuring its management of public resources is efficient, effective, economical and ethical, consistent with the *Public Governance, Performance and Accountability Act 2013* requirements through robust administrative control and assurance processes.

The report notes a number of grants that were not established in accordance with the procedural requirements of the Commonwealth Grant Rules and Guidelines. In administering the CHHP, the Department has taken appropriate actions to strengthen its grant administration, which the ANAO

has recognised in part in the report. Throughout the administration of the program the Department has considered carefully its stewardship obligations and has acted with honesty, impartiality and transparency.

The ANAO's findings will support the ongoing review and improvement of the Department's advice to governments and control, governance and assurance arrangements.

Key messages from this audit for all Australian Government entities

19. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Grants

- Where decisions of government identify preferred recipients for grants funding, grants remain subject to the Commonwealth Grants Rules and Guidelines (CGRGs). It is the administering entity's responsibility to inform the relevant minister of the necessary steps and timeframes required to comply with the CGRGs. This includes providing clear advice where government-identified projects or recipients do not align with grants program objectives or value for money.
- Commonwealth officials are required to act in a manner that is consistent with the *Public Service Act 1999*, the *Public Governance, Performance and Accountability Act 2013* and finance law. Commonwealth officials do not have discretion regarding the application of the mandatory provisions of the Commonwealth Grants Rules and Guidelines.

Governance and risk management

- Commonwealth officials must create and maintain an appropriate evidence base for advice to government. It is the responsibility of all Commonwealth officials to maintain records in accordance with information management standards.

Audit findings

1. Background

Introduction

Community Health and Hospitals Program and related projects

1.1 The Community Health and Hospitals Program (CHHP) was announced by the Prime Minister on 12 December 2018. The program was announced as part of the 2018–19 Mid-Year Economic and Fiscal Outlook as a four-year program, before being expanded to a seven-year program as part of the 2019–20 Budget.

1.2 The purpose of CHHP was to 'fund projects and services in every state and territory, supporting patient care while reducing pressure on community and hospital services'.[2] A total of $1.25 billion was announced under CHHP across four key areas[3]:

- specialist hospital services (such as cancer treatment, rural health, and hospital infrastructure);
- drug and alcohol treatment;
- preventive, primary and chronic disease management; and
- mental health.

1.3 The Department of Health's (Health's)[4] Annual Performance Statements within the 2018–19 and 2019–20 Annual Reports demonstrate that CHHP projects contributed to seven departmental programs (see Table 3.1).

1.4 Funding under CHHP was delivered through national partnership agreements[5] with states and territories, and grants to Primary Health Networks (PHNs)[6] and non-government organisations. Projects funded under CHHP were selected by the Minister's office based on Expressions of Interest submitted to Health and proposals received by the Minister's office. Approval of selected projects occurred through the exchange of letters between the Minister for Health (the Minister) and the Prime Minister during the 2019–20 Budget process.

1.5 The process of awarding funding under CHHP was delayed due to the caretaker period associated with the May 2019 federal election. On 30 June 2019 the government announced first round funding agreements worth $229.2 million with states, PHNs and non-government organisations for an initial 65 projects.

1.6 As at November 2022 the ANAO identified 171 CHHP and associated projects in Health records that were approved in 2018–19 to 2020–21, of which 92 projects were categorised as

2 S Morrison, (Prime Minister of Australia), '$1.25 billion to improve the health and care of Australian patients', media release, Canberra, 12 December 2018.

3 A fifth key area ('other priorities identified by the government') was noted in the overarching Program Design for CHHP that was included in the 2019–20 Health Portfolio Budget Submission. The Australian Government agreed the overarching program design for CHHP on 8 February 2019.

4 The name of the Department of Health changed to the Department of Health and Aged Care on 1 July 2022.

5 National partnership agreements are predominantly short-term vehicles for nationally significant reforms, service delivery initiatives or projects.

6 PHNs are independent organisations funded by the government through grants to manage health regions, with focus on improving the efficiency and effectiveness and coordination of health services, particularly for people at risk of poor health outcomes.

CHHP by Health based on decisions of government. In addition to the projects categorised as CHHP, the ANAO identified 79 other projects that it considered to have a relationship with CHHP (associated projects) due to the projects being described as related to CHHP in ministerial submissions or 2019–20 Budget proposals.

1.7 CHHP funding of $2 billion comprised $1.25 billion announced during the 2018–19 Mid-Year Economic and Fiscal Outlook, and $747 million in additional allocations made in the 2019–20 Budget. Examples of additional funding sources for CHHP associated projects include the budget measure *Supporting our Hospitals – Additional Infrastructure and Service*[7] and *Prioritising Mental Health – Youth Mental Health and Suicide Prevention Plan*.[8] The distribution of funding by type is shown at Figure 1.1. A full list of the projects is provided in Appendix 3.

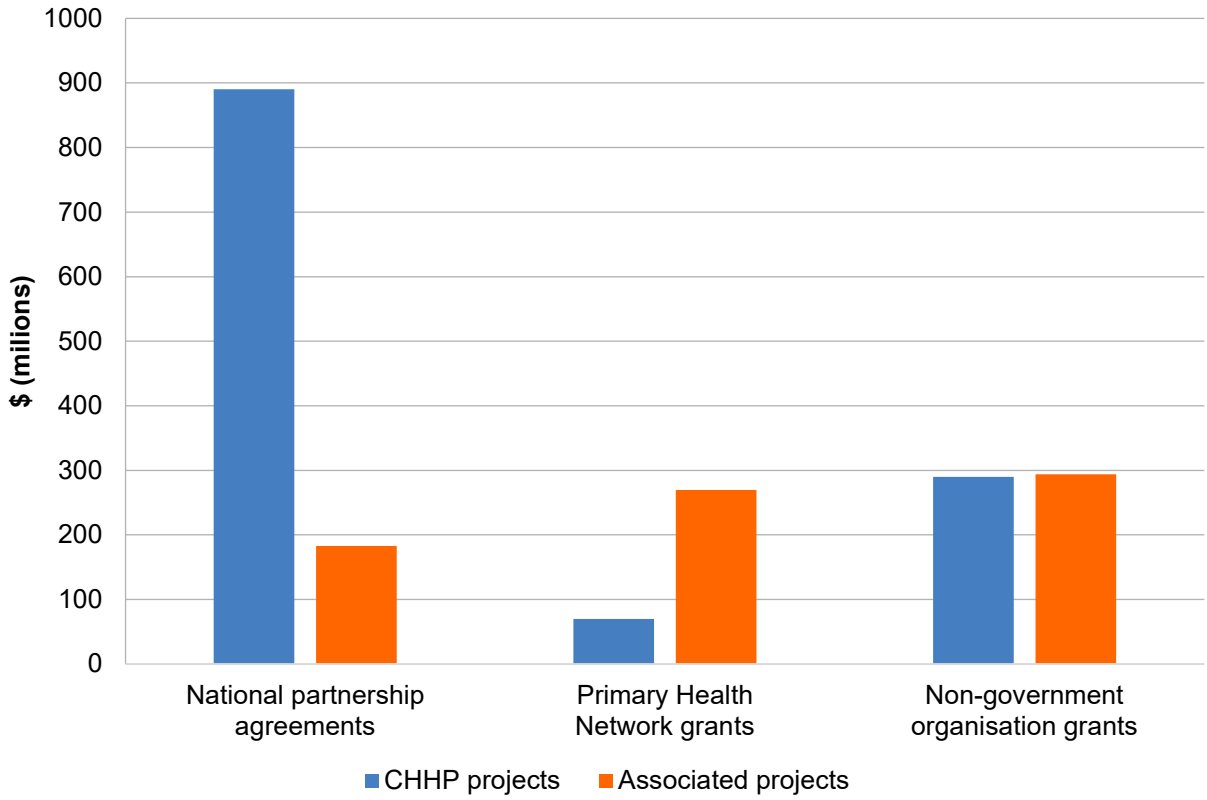
1.8 At November 2022 CHHP and associated projects comprised:

- state and territory national partnership agreements — 40 CHHP projects with a total value of $890.4 million and 23 associated projects with a value of $183 million;
- PHNs — 20 CHHP projects with a total value of $70 million and five associated projects with a value $269.8 million; and
- non-government organisations — 32 CHHP projects with a total value of $289.7 million and 51 associated projects with a value of $293.8 million.

7 Department of Health and Aged Care, *Budget 2019–20: Supporting our Hospitals – additional infrastructure and services* [Internet], Health, 2019, available from https://www.health.gov.au/resources/publications/budget-2019-20-supporting-our-hospitals-additional-infrastructure-and-services [accessed 28 March 2023].

8 Department of Health and Aged Care, *Budget 2019–20: Prioritising Mental Health – youth mental health and suicide prevention plan* [Internet], Health, 2019, available from https://www.health.gov.au/resources/publications/budget-2019-20-prioritising-mental-health-youth-mental-health-and-suicide-prevention-plan [accessed 28 March 2023].

Figure 1.1: Community Health and Hospitals Program (CHHP) and associated project funding by funding type, 2018–19 to 2020–21



Note: All figures are GST exclusive and are accurate as at November 2022.
Source: ANAO analysis of Health data.

1.9 The average funding across the 171 projects is $11.7 million, ranging from $50,000 to $152 million. The 92 projects categorised as CHHP involved infrastructure (37), service delivery (41), and combined infrastructure/service delivery projects (14). Fifty-five per cent of projects involving infrastructure were in the preliminary or planning stage as at November 2022. Seven per cent of service delivery projects were complete and a further 83 per cent of service delivery projects had commenced delivery of services as at November 2022**.** As at November 2022 a total of $1.05 billion had been expended on CHHP and associated projects.

1.10 Grant administration services are provided by the Department of Social Services through the Community Grants Hub for the majority of CHHP and associated grants to non-government organisations. Health directly administers all grants to PHNs[9] and all national partnership agreements under CHHP. For national partnership agreements with the states and territories, Health authorises the Department of the Treasury to release funding. Health established and retains policy responsibility for all CHHP and associated grants.

Commonwealth requirements for national partnership agreements and grants

1.11 Financial relations between the Commonwealth and the states and territories are governed by the *Federal Financial Relations Act 2009* (FFR Act). The object of the FFR Act is to provide a

9 For PHN grants, the Community Grants Hub is responsible for maintaining grant details in the Grants Payment System, and Health retains responsibility for day-to-day management, including grant payments.

framework for ongoing financial support for the delivery of services by the states, including through national partnership payments to the states for specified outputs or projects. The Intergovernmental Agreement on Federal Financial Relations came into effect in January 2009 and provided a framework for coordination between the Commonwealth and the states to improve the delivery of government services.

1.12 The Council on Federal Financial Relations (CFFR), comprising the Commonwealth and state and territory Treasurers, is the governing body of Commonwealth and state financial relations. On 28 August 2020 the CFFR implemented new governance arrangements for Commonwealth-state funding known as the Federation Funding Agreements Framework (FFA Framework). The FFA Framework comprises five elements: the Intergovernmental Agreement on Federal Financial Relations; the Council on Federal Financial Relations; the individual partnership agreements and overarching National Agreements[10]; eight principles[11]; and the administrative arrangements including payment and performance reporting requirements.

1.13 The Commonwealth Grants Rules and Guidelines 2017 (CGRGs) are issued by the Minister for Finance under section 105C of the *Public Governance, Performance and Accountability Act 2013*. Introduced in July 2009, the CGRGs state that the objective of grants administration is to 'promote proper use and management of public resources through collaboration with government and non-government stakeholders to achieve government policy outcomes'.[12] The CGRGs are set out in two interrelated parts, with Part 1 containing mandatory requirements (including practices and procedures that must be in place to ensure adherence to seven key grants administration principles[13]), and Part 2 further explaining how entities should apply the principles.

Rationale for undertaking the audit

1.14 The individual projects that are funded under or associated with CHHP contributed to seven programs across three outcomes in Health's 2018–19 Portfolio Budget Statements, and involved $2 billion in public funding.

1.15 The audit provides assurance to the Parliament regarding the effectiveness of CHHP administration, including compliance with the Commonwealth Grants Rules and Guidelines and alignment with the principles of the Federation Funding Agreements Framework. The audit was identified as a Joint Parliamentary Committee of Public Accounts and Audit priority in 2020–21.

10 National Agreements contain significant policy content and act as sources of ongoing funding, and have relatively complex and bespoke terms and conditions.

11 The eight principles are: strong economic, social and fiscal outcomes; limit the number of low value agreements; balance government priorities; budget autonomy and greater flexibility; funding certainty; CFFR will retain oversight over agreements; CFFR will involve portfolio ministers; and accountability and transparency.

12 Department of Finance (Finance), *Commonwealth Grants Rules and Guidelines 2017*, Finance, p. 6.

13 The seven principles are: robust planning and design; collaboration and partnership; proportionality; an outcomes orientation; achieving value with relevant money; governance and accountability; and probity and transparency.

Audit approach

Audit objective, criteria and scope

1.16 The objective of the audit was to assess the effectiveness of Health's administration of CHHP.

1.17 To form a conclusion against the objective, the following high-level criteria were adopted:

- Has Health effectively administered funding arrangements under CHHP?
- Has Health effectively monitored and evaluated the performance of CHHP?

1.18 The audit focused on Heath's administration of funding for CHHP and associated projects. The scope of the audit encompassed:

- the development and implementation of probity, policy and procedural guidance for the implementation of funding agreements;
- the development of individual funding agreements;
- advice and recommendations to government on the approval of funding agreements;
- management of individual funding agreements and associated reporting; and
- monitoring of project reporting and compliance with funding agreements.

Audit methodology

1.19 The methodology involved:

- examining relevant Health records and documents;
- high-level examination of relevant records management systems including the Capital Works Portal and the Grants Payments System; and
- meetings with Health personnel.

1.20 On 27 April 2023 the Secretary of the Department of Health and Aged Care requested, under paragraph 37(1)(a) of the *Auditor-General Act 1997* (the Act), that the Auditor-General not include particular information contained within the report for reasons set out in paragraph 37(2)(f) of the Act. Paragraph 37(1)(a) of the Act sets out that the Auditor-General must not include particular information in a public report if the Auditor-General is of the opinion that disclosure of the information would be contrary to the public interest for any of the reasons set out in subsection 37(2). Paragraph 37(2)(f) of the Act states that a reason that information should not be disclosed would include that the information could form the basis for a claim by the Crown in right of the Commonwealth in a judicial proceeding. The ANAO discussed the Health Secretary's request with the Attorney-General's Department. Following these discussions, the Auditor-General did not form an opinion that there were public interest grounds under section 37 of the Act to omit the particular information from the report and therefore no information was omitted under section 37. Some editorial changes were however made following the discussions.

1.21 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately $620,500.

1.22 The team members for this audit were Michael Commens, Lily Engelbrethsen, Henry Maher, Grace Sixsmith, Alexander Wilkinson, Qing Xue, Matthew Conley-Evans, Zhuo Li, Ben Nicholls, Daniel Whyte and Christine Chalmers.

2. Administration of funding arrangements

Areas examined

This chapter examines whether the Department of Health and Aged Care effectively governed and administered the funding arrangements for the Community Health and Hospitals Program (CHHP).

Conclusion

The Department of Health and Aged Care's (Health's) effective administration of the funding arrangements under the Community Health and Hospitals Program (CHHP) was undermined by deliberate breaches of the Commonwealth Grants Rules and Guidelines and failure to advise government where there was no legislative authority for grant expenditure (see Appendix 4). Executive oversight, risk and fraud management were deficient. Health did not seek to advise the government whether national partnership agreement project selection was aligned to CHHP objectives. Health established national partnership agreements that did not create a strong basis for robust project monitoring and milestone payment approvals. Projects funded under grant agreements with Primary Health Networks and non-government organisations were designed, assessed, established and managed in a manner that was largely inconsistent with the Commonwealth Grants Rules and Guidelines.

Areas for improvement

The ANAO made four recommendations to Health aimed at strengthening its systems of control to identify and report non-compliance with finance law; improving the conduct and documentation of grant assessments; improving the quality of advice to government; and quality assuring public reporting of grant awards. The ANAO also made two suggestions for improvement regarding how decisions are made to alter milestone dates after national partnership agreements are finalised; and maintaining appropriate records of advice received.

2.1 Under CHHP the Australian Government committed to provide, over seven years, $1.07 billion to states and territories for 63 national partnership agreement projects and $923.5 million in grants funding to Primary Health Networks and non-government organisations for 108 projects.

2.2 Delivery of CHHP funding via national partnership agreements should be aligned with Federation Funding Agreements Framework principles. Sections 15 and 16 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and section 6.2 of the Commonwealth Grants Rules and Guidelines set out that accountable authorities of Commonwealth entities must establish and maintain appropriate systems of control, promote the proper use and management of public resources, and put in place appropriate practices and procedures for grants administration. These include ensuring that grants are administered in a manner that is consistent with the seven key principles of grants administration expressed in the Commonwealth Grants Rules and Guidelines. The principles include governance and accountability; achieving value for money; and probity and transparency.

Is there an appropriate governance framework for the program?

Health established oversight for CHHP through line management. There was little consideration of CHHP by executive committees, and a dedicated taskforce was not utilised after August 2019. Health did not manage CHHP regulatory and compliance risks, including fraud risk.

Program oversight

Line management

2.3 Five divisions within Health (Mental Health and Suicide Prevention Division, Primary Care Division, Population Health Division, Market Workforce Division and Health System Strategy Division[14]) hold responsibility for developing, implementing, and managing CHHP projects. The Portfolio Programs Branch within the Health System Strategy Division has responsibility for the overall management of CHHP.

2.4 Senior executive approval was provided for grant assessment plans[15] and for grant opportunity guidelines where these were developed.[16] Health's advice to government about CHHP was cleared at a senior executive level.

Committees and taskforces

2.5 Health has enterprise level governance, oversight and assurance committee arrangements including an Executive Committee[17]; Program Assurance Committee; Audit and Risk Committee; and Digital, Data and Implementation Board. The committees exercised limited oversight of CHHP.

- Executive Committee — The role of Health's Executive Committee is to provide strategic direction and leadership to ensure the achievement of outcomes documented in Health's Corporate Plan and Portfolio Budget Statements. The ANAO reviewed documents relating to 93 meetings of the Executive Committee held between 27 November 2018 and 23 August 2022 and found that the Executive Committee did not monitor the design, implementation or performance of CHHP. Health informed the ANAO that the Executive Committee reviewed assurance mapping for CHHP at its June 2022 meeting and received budget updates in January and April 2019 which referenced CHHP funding provided in the Mid-Year Economic and Fiscal Outlook. The ANAO was unable to verify this from meeting minutes.
- Program Assurance Committee — Health's Program Assurance Committee is responsible for contributing to the identification of risks and risk mitigation strategies within and across programs and for monitoring performance and effectiveness of sub-programs. The Program Assurance Committee held 24 meetings between April 2019 and December 2022 at which it discussed the performance of 42 sub-programs and reviewed four

14 The Health System Strategy Division was previously called the Portfolio Strategies Division and is referred to as the Portfolio Strategies Division throughout this report.

15 Assessment plans provide guidance and instructions for officials when assessing grant proposals and include requirements for officials to comply with the CGRGs.

16 Grant opportunity guidelines establish key requirements for grant opportunities including grant objectives, grant assessment and selection criteria, indicative reporting and acquittal requirements, and funding approval requirements.

17 The Executive Committee was called the Executive Board in 2019 and 2020.

sub-programs. The CHHP did not constitute a separate sub-program within the 42 sub-programs discussed by the Program Assurance Committee during this period. Health advised the ANAO that where individual CHHP projects contributed to a sub-program, the project was considered by the Program Assurance Committee.

- Audit and Risk Committee — Health's Audit and Risk Committee Charter sets out the functions required under section 17 of the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).[18] The Charter states that the Audit and Risk Committee may review whether management has in place a current and sound enterprise risk management framework and associated internal controls for effective identification and management of Health's and the Secretary's risks. The ANAO examined Audit and Risk Committee minutes between 14 March 2019 and 29 September 2022. The Audit and Risk Committee received regular risk updates; and noted revised risk management frameworks, policies and plans, and appetite statements. There was no specific discussion of CHHP until June 2022, when the Audit and Risk Committee reviewed a CHHP 'risk snapshot', which is discussed further at paragraph 2.11.
- Digital, Data and Implementation Board — The Digital, Data and Implementation Board provides oversight, advice and assurance on the effective implementation of Health's high risk change projects and portfolios of work; investments relating to IT and property; and the use of capital and non-capital budgets.[19] The Board considered an update on Ministerial objectives and election commitments on 21 November 2019. The update included a brief description and the status of more than 200 projects and programs, including CHHP. The CHHP is listed in the update as 'progressing'.

2.6 Health established a CHHP taskforce to support the early implementation of CHHP. June and August 2019 project plans developed by the taskforce identified senior executive project owners, as well as resourcing requirements for completing assessments and processing payments. Although the taskforce was never formally disbanded, there are no artefacts from the taskforce after August 2019.

Risk management

2.7 Accountable authorities are required under section 16 of the PGPA Act to establish and maintain: an appropriate system of risk oversight and management for the entity; and an appropriate system of internal control for the entity. The Commonwealth Risk Management Policy and Department of Finance guidance provide requirements for how Commonwealth officials must manage risk.[20] Health has established risk management guidance for Health officials including a risk management policy, Accountable Authority Instructions and risk activity templates.

18 Section 17 states that an accountable authority of a Commonwealth entity 'must, by written charter, determine the functions of the audit committee for the entity' and these functions must include reviewing the appropriateness of the entity's: financial and performance reporting; system of risk oversight and management; and system of internal control.

19 The Digital, Data and Implementation Board was known as the Investment and Implementation Board from 19 March 2019 to 8 September 2021, and as the Data Transformation and Portfolio Implementation Board for a 20 October 2021 meeting only.

20 Department of Finance, *Commonwealth Risk Management Policy*, Canberra, 2022, available from https://www.finance.gov.au/government/comcover/risk-services/management/commonwealth-risk-management-policy [accessed 22 Dec 2022].

2.8 Health's enterprise risk appetite statements for 2018–19, 2019–20 and 2021–22 set out that Health has a low tolerance for regulatory and financial risks.[21] Risk appetite statements provided to Health's Audit and Risk Committee stated that regulatory and financial risks were to be 'controlled'. Health's enterprise risk appetite statement indicates that 'controlled' means that avoidance of risk and uncertainty is a key objective. This is the most risk-averse category on a four-category risk appetite scale, which also includes 'cautious', 'accepting' and 'open'.

2.9 The ANAO reviewed divisional risk registers and maturity assessments[22] for the divisions responsible in 2019 for administering CHHP projects. In 2018–19 and 2019–20 (when CHHP was announced and most agreements were executed), none of the four divisional risk registers identified regulatory or financial risks pertaining to CHHP or grants funding more generally.

2.10 The CHHP taskforce's project plans included brief descriptions of risks associated with the delivery of CHHP. The taskforce plans did not identify legislative and regulatory compliance as risks and the plans did not set out how Health would monitor and ensure compliance with mandatory requirements of the Commonwealth Grants Rules and Guidelines and PGPA Act. However, the June 2019 and August 2019 CHHP taskforce plans included reference to obtaining legislative and constitutional risk assessments.

2.11 In 2022 Health commissioned Protiviti to prepare a 'CHHP risk snapshot', which Protiviti provided to Health in May 2022.[23] The risk snapshot states that it was instigated by the Assistant Secretary who is the Senior Responsible Officer for CHHP, to confirm observed program issues and in preparation for the possibility of an ANAO audit, and that its primary purpose was to provide real time assistance through preliminary risk assessment.

2.12 The CHHP risk snapshot identified 'high' risks relevant to CHHP planning and delivery, budget and financial management, fraud and compliance, and record keeping; 'high to medium' risks relating to governance arrangements; and 'medium' risks relating to legislation and information technology; and gave CHHP an overall 'high' risk rating.[24] Areas for consideration outlined in the risk snapshot report included documenting program management and risk management plans; developing a stakeholder engagement plan; reviewing the roles and responsibilities between Health and the Community Grants Hub to improve the efficiency and effectiveness of program management; developing minimum criteria that must be achieved and verified prior to making grant milestone payments; and improving record keeping. Health advised the ANAO in January 2023 that it had 'validated the risk snapshot and commenced work in the areas identified'.

2.13 The Protiviti risk snapshot did not indicate the tolerance for CHHP risks, however it did indicate that 'high' risks that are outside of the risk appetite and which are deemed unacceptable require action from the risk owner, and 'high' risks that are outside of the risk appetite and which

21 Health did not update its risk appetite statement in 2020–21.

22 Health assesses the maturity of divisional risk management against a five-point scale (risk immature, risk aware, risk defined, risk managed and risk mature).

23 The CHHP risk snapshot states that it was developed in consultation with Health officials, it relies solely on management representation, and that no documents were reviewed in detail.

24 Protiviti assessed CHHP risks using Health's risk matrix, which includes four possible risk ratings (low, medium, high and extreme).

are deemed acceptable require justification as to why the risk is acceptable. The snapshot does not identify risk owners, whether CHHP 'high' risks are acceptable, or specific mitigations.

Fraud management

2.14 Section 10 of the PGPA Rule states that an accountable authority must take all reasonable measures to prevent, detect and deal with fraud relating to the entity, including by conducting fraud risk assessments, and developing and implementing a fraud control plan and an appropriate mechanism for preventing fraud.

2.15 Health's Accountable Authority Instructions state that Health officials must take all reasonable measures to prevent, detect and deal with fraud including by developing and implementing a fraud control plan and conducting regular fraud risk assessments.

- Health developed fraud control plans covering the period 2018 to 2020 and 2021 to 2023 as required under the PGPA Rule. Health's accountable authority certified Health's fraud control arrangements complied with requirements of the PGPA Rule in Health's 2018–19, 2019–20, 2020–21, and 2021–22 Annual Reports.
- The divisions with responsibility for administering CHHP maintained fraud risk assessments. These were first developed in 2017 and (as at December 2022) last updated between April and June 2020. The Portfolio Strategies Division was the only division that identified a fraud risk relevant to CHHP or grants administration more generally: 'Misuse of funding under the CHHP'. The risk assessment notes that the causes of the risk are that the governance framework for CHHP was still being refined, the program was non-competitive with government determining grants funding distribution, and that 'there are some grants going to organisations that have no experience working with the Australian Government'. The 2020 Portfolio Strategies Division risk register assigned the fraud risk to the First Assistant Secretary of the division, and noted that there was a need to identify controls for this risk and to rate the risk. As at December 2022 this risk had not been rated and no controls or treatments had been identified.

2.16 The May 2022 Protiviti risk snapshot noted that 'there are high level departmental structures … in place to manage fraud and compliance' and that there was regular reporting of financial statements that Health could review to identify fraud risks. However, the risk snapshot also noted that the Community Grants Hub did not consistently communicate 'fraud flags' to Health and that there was a risk that fraud and compliance issues would go unidentified. Health advised the ANAO that it received one complaint alleging inappropriate use of Commonwealth funding. Health advised that the complaint was determined to relate to the operation of the relevant state health system and was referred to state officials for further investigation.

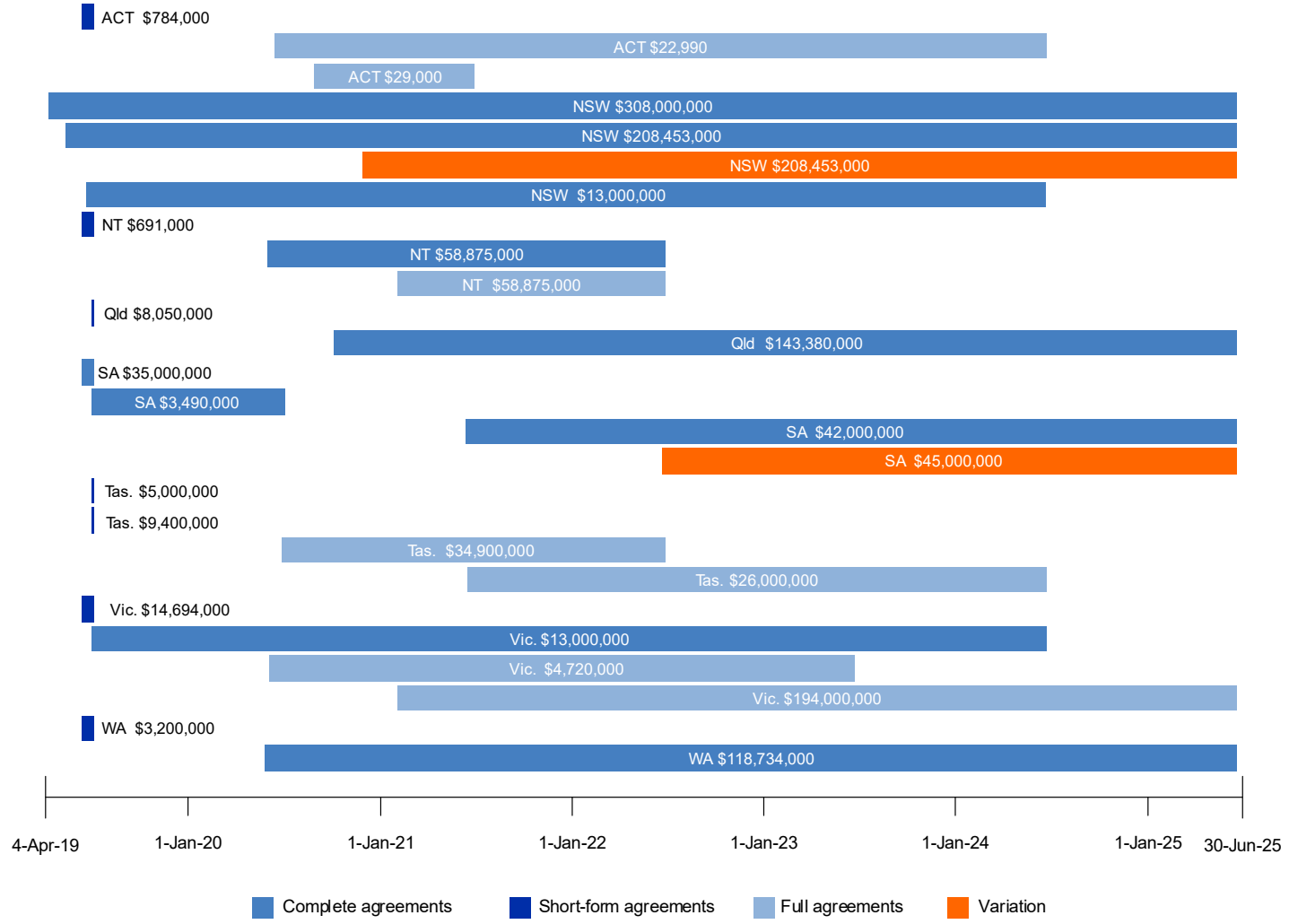
2.17 In October 2022 Health completed a whole-of-department assessment of fraud risks across the grants life cycle. A new Fraud Control Toolkit was released in November 2022. Health advised the ANAO that it has also been working with the Community Grants Hub to improve fraud prevention, detection and response though improved communication of risks through shared registers, and inclusion of fraud awareness and controls in grant activity work planning templates. Health plans to roll out a new electronic tool in April 2023 to support identification of fraud.

Were national partnership agreements appropriately administered?

Health established an expression of interest (EOI) process for potential CHHP projects and assessed state and territory EOIs against established criteria, however most approved projects were selected by government outside this process. In advising the Minister for Health (the Minister) to agree to enter into national partnership agreements, Health did not provide advice about how the selected projects contributed to CHHP objectives or if they merited funding. Health developed national partnership agreements as projects were announced by government. Initial national partnership agreements were developed with limited consultation with states and territories prior to the agreement being provided. National partnership agreements did not contain sufficient detail about the projects to be funded. Subsequent variations and later agreements involved consultation and improved levels of project detail. However, agreement milestones were still too high level to effectively support assurance of project progress. The resultant national partnership agreements are partly aligned with the August 2020 Federation Funding Agreements Framework principles.

2.18 As at December 2022, 26 national partnership agreements had been developed, including two variations, for 63 CHHP projects. Figure 2.1 provides an overview of CHHP national partnership agreements since 2019.

Figure 2.1: Lifecycle and type of CHHP national partnership agreements



Note: Short-form agreements were developed to provide funding allocated for 2018–19. Full agreements were developed from July 2019 to replace the short-form agreements and covered the balance of funding for projects introduced in the short-form agreements, as well as the complete funding for the remaining approved projects. Some agreements were executed with states that were neither full nor short-form; these contained the full funding profile for all projects included in the agreement. While agreements specify expiry dates, agreements may also expire upon completion of projects, which may occur before or after the agreement expiry date.

Source: ANAO analysis of CHHP national partnership agreements.

2.19 The ANAO considered the way in which Health supported the assessment and selection of CHHP projects included in national partnership agreements and how the national partnership agreements were established and managed, including whether the national partnership agreements were aligned with the Federation Funding Agreements Framework principles.

Assessment and selection of national partnership agreement projects

Project proposals

2.20 On 24 December 2018 Health invited state and territory health departments (states) to submit EOIs for project funding by 1 February 2019. Health received 105 EOIs from states: 94 by 1 February 2019; and a further 11 late EOIs from Victoria and the Northern Territory. Concurrent to Health's EOI process, the Minister received project proposals directly from states. Health advised the ANAO that it is unable to quantify the number of proposals sent to the Minister.

Project assessments

2.21 In January 2019 Health developed an assessment plan to evaluate EOIs. The plan outlined eligibility and assessment criteria, and considerations for assessing value for money, policy priority and risk. The plan was to conduct the evaluation in two stages: (1) proposal compliance with eligibility criteria; and (2) assessment against assessment criteria. The plan stated that only proposals considered 'highly suitable' would be shortlisted. An assessment report for the Minister was to be prepared.

- The eligibility criteria were that the funding proposals must: be submitted on or before 11.59pm 1 February 2019 to LTR.inbox@health.gov.au; be submitted by a state or territory government, and/or Primary Health Network[25]; and detail potential projects and/or services within the four key CHHP priority areas (see paragraph 1.2).
- Determination of value with relevant money would be based on: whether the funding proposal met the aims of CHHP; whether the amount of funding being requested was commensurate with the scale of the project/activities being undertaken; whether there was a demonstrated history of delivery of similar scale project/activities; a comparison of the funding proposal against alternative sources of funding; the benefits versus costs of the proposal; and whether the proposal was likely to add value by achieving something worthwhile that would not occur without the funding.

2.22 On 2 February 2019 Health provided a list to the Minister summarising the 94 project proposals it had received from states to that date, noting that it was still expecting a response from Victoria.[26] Information summarised in the list provided to the Minister included the name of the project, the CHHP priority that the project related to, whether it was an infrastructure or service delivery project, the state and location (where known), whether the project was in a regional or

25 Primary Health Networks are independent organisations funded by the government through grants to manage health regions, with focus on improving the efficiency and effectiveness and coordination of health services, particularly for people at risk of poor health outcomes.

26 The Victorian response was received on 11 February 2019 and included a further nine proposals. The ANAO is unable to determine the precise date at which the NT response was received; however, the NT response providing a further two proposals was received after 2 February 2019 and prior to the assessment process. The listing of EOIs included 10 described as 'Local Health Network' proposals; the ANAO has excluded these proposals from its totals.

metropolitan location, whether there were other funders, and the proposed funding profile.[27] Health categorised all 94 proposals as 'eligible'. No other advice regarding the projects' suitability for funding was provided in the list however Health noted that it intended to provide further information to the Minister by the following week.

2.23 Assessment of state and territory EOIs (including the 93[28] received by the due date and 11 received after the due date) against the assessment criteria was completed by late February 2019. EOIs from Victoria and NT did not meet eligibility criteria as they were received after the closing date, however they were still considered eligible. Health made a ministerial submission on 1 March 2019 detailing the outcomes of its assessments of the EOIs. The submission asked the Minister to:

> 1. Note the department's initial assessment of Expressions of Interest submitted by state/territory governments and Primary Health Networks through the Community Health and Hospitals Program.
>
> 2. Indicate the proposals you would like the department to assess in more detail in order to ensure that the project can be delivered and provide value for money.

2.24 The ministerial submission went on to provide a preliminary assessment of the EOIs received, noting that they were not detailed grant proposals, and that 'Greater detail would be required for more a [*sic*] comprehensive assessment process, and further scrutiny around budgets and duplication of funding/activities would also be necessary.' The submission stated that each EOI had been assessed against four criteria listed in the assessment plan to ensure a 'fair and equitable' process. The analysis examined 114 state/territory proposals and found seven projects to be 'highly suitable', 71 to be 'suitable' and 36 to have insufficient information to allow assessment.[29] Reasons for assessments and points for follow-up were documented by Health.

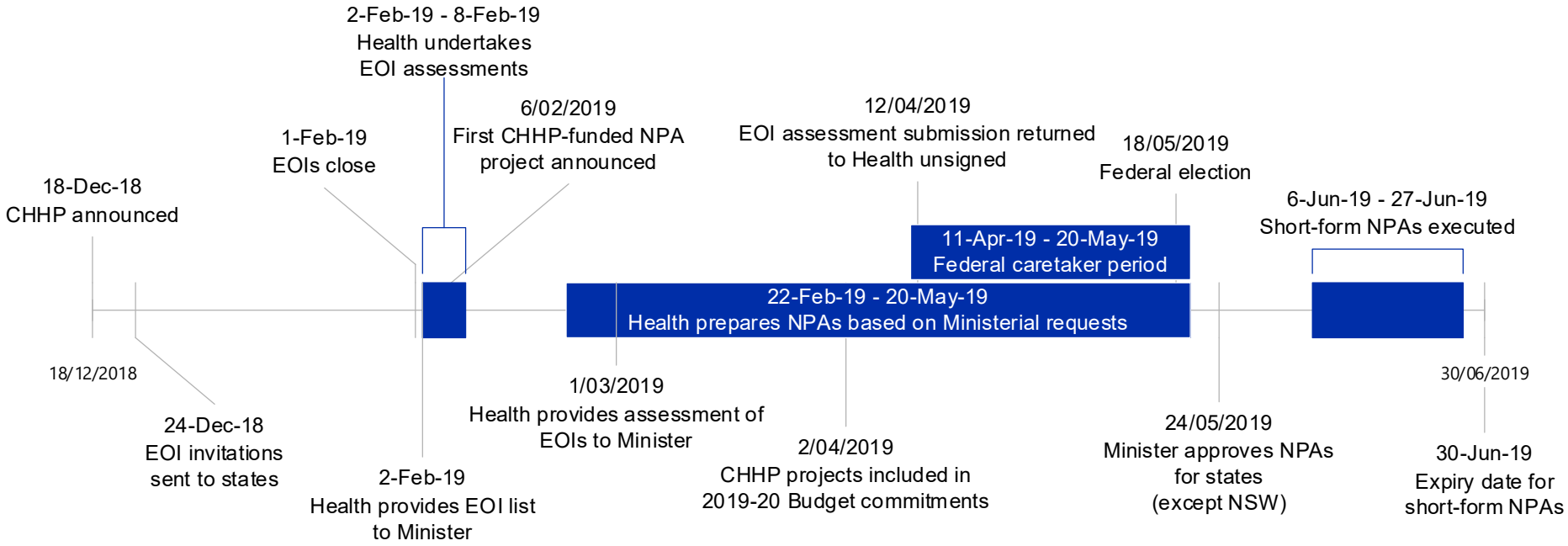
2.25 Although there was a structured assessment process, it was based on limited information and was not finalised. The federal election caretaker period began on 11 April 2019 (Figure 2.2). The 1 March 2019 submission was returned from the Minister's office on 12 April 2019 with the notation 'no further action', in accordance with caretaker conventions.

27 A funding profile is a breakdown of total funding for a project by financial year.

28 One Queensland EOI was withdrawn after being submitted. The project was eventually reinstated however an assessment of the proposal was never completed.

29 During the audit Health identified that 10 Primary Health Network proposals had been mis-labelled as state/territory proposals in the submission to the Minister. Excluding these 10, seven were found to be 'highly suitable', 66 were found to be 'suitable' and 31 were found to have 'insufficient information' to assess.

Figure 2.2: Development of national partnership agreements



Source: ANAO analysis.

Project selection and approval

2.26 In early February 2019 the government had considered Health's funding proposal, in which Health asked the government to agree the overarching program design for CHHP. The program design set out the objective and key focus areas of CHHP, and stated that new policy proposals would be required to demonstrate: how they addressed the key CHHP focus areas and/or address needs and service gaps in identified locations; that they did not duplicate existing services, programs or funding; that they targeted populations of need; and how outcomes would be evaluated. It listed seven projects proposed to be offset from CHHP, and noted that in future additional 'priority projects' (of which it listed six) would be assessed through expressions of interest from state and territory governments, Primary Health Networks and local hospital services. Government agreed the overarching program design for CHHP.

2.27 On 28 February 2019 the Prime Minister notified the Minister for Health of the selected projects to be funded within the 2019–20 Budget. Following a series of ministerial submissions from Health, between 24 May 2019 and 16 June 2021 the Minister approved national partnership projects for funding. The ANAO determined that a total of 63 national partnership agreement projects were established.

- The 63 projects partly aligned with the assessment outcomes communicated by Health to the Minister on 1 March 2019. Of 63 projects approved by the Minister, 29 were identified as part of the EOI process[30], and 34 were identified outside of the EOI process.
- The 34 projects approved for funding that were identified outside of the EOI process did not have a supporting EOI proposal and had not been assessed by Health against the eligibility or assessment criteria.
- Of the 29 approved projects that were identified through the EOI process, 22 were assessed by Health to be either 'highly suitable' (2) or 'suitable' (20). Six projects were found to have insufficient information for assessment and were described in Health's assessment records as being misaligned with program objectives, duplicating services already provided, and/or having access to alternative sources of funding. One Queensland project was never assessed (see paragraph 2.23).

2.28 Of 63 state and territory national partnership agreement projects approved for funding, two projects had been found by Health to be 'highly suitable'. As noted in paragraph 2.21, in its assessment plan Health had proposed that only 'highly suitable' projects should be short-listed for further consideration.

Establishment and management of national partnership agreements

Preparation of short-form agreements

2.29 In mid-February 2019, before Health had finalised its assessment of the EOIs and prepared the ministerial submission mentioned at paragraph 2.23, Health commenced drafting national partnership agreements for specific projects following requests from the Minister. The first national partnership agreement, with New South Wales, was drafted over February and March 2019 for the Comprehensive Children's Cancer Centre project.

30 Including the project that had previously been withdrawn.

2.30 Health received several requests from the Minister's office to draft national partnership agreements once projects were publicly announced. Following these requests, Health decided to begin drafting national partnership agreements on the basis of public announcements. Health monitored the media to keep track of announcements. Funding for at least 35 projects was announced between February and April 2019, with agreements finalised between March and May 2019. Following the May 2019 federal election, national partnership agreements were prepared for all states.

2.31 On 23 May 2019 Health prepared the first of several ministerial submissions requesting approval of the national partnership agreements and their distribution to state and territory ministers for signature. This submission referred to eight national partnership agreements representing 15 of the 63 projects, which were executed between 7 and 27 June 2019. In its 23 May 2019 submission, Health did not provide the Minister with advice about its prior project assessments (see paragraph 2.23), the alignment of the approved projects to its assessments, or how more than half had not been assessed at all against assessment criteria. Subsequent submissions also did not provide the Minister with this advice.

2.32 The agreements were to be funded within 2018–19 appropriations, and in order for Health to authorise the payments in 2018–19, it needed to complete an internal payment approval process with the Department of the Treasury (Treasury) by 19 June 2019. Given the short timeframe to prepare the agreements and make the payments, Health prepared most national partnership agreements as 'short-form' agreements that involved a single payment for each of the projects. The requirement for payment to be released was for the parties to the national partnership agreement to execute it.[31] A total of $90.9 million, across 18 payments, was paid on execution of national partnership agreements made prior to 30 June 2019.

2.33 Robust milestones are a key element of better practice national partnership agreements. Requirements for milestone schedules were delineated in the Federal Finances Circular (no. 2015/01) prepared by the Council on Federal Financial Relations[32] and in the Federation Funding Agreements (FFA) Framework 2020. The Federal Finances Circular stated that national partnerships must focus on outcomes and/or outputs, and that (to the fullest extent possible) payments should be aligned with the achievement of outcomes and outputs as measured through clearly specified performance indicators. This was described as a key principle in 2015 and is restated in the 2020 FFA Framework.

2.34 Health sought advice from Treasury and the Department of the Prime Minister and Cabinet (PM&C) on drafting agreements, and provided finalised drafts for review before submitting them for ministerial approval. Health implemented some suggestions from the central agencies regarding the number of agreements and agreement content (for example, the wording for project and milestone descriptions).

2.35 Health intended to develop 'full' agreements to replace short-form agreements, which would include more detail on the agreed activities and appropriate milestone schedules once the short-form agreements had fulfilled their purpose in delivering the 2018–19 funding. Health advised the Minister in May 2019 that it had taken a 'two stage approach to providing the funding to the

31 Although short-form agreements were executed, Health was unable to deliver payments before 30 June 2019, and payments were accrued in 2018–19 and paid in August 2019.

32 Council on Federal Financial Relations, *Federal Financial Relations Circular 2015/01*, Treasury, 2015, p.8.

state [*sic*] and territories, so that the 2018–19 payments can be made this financial year'. The advice stated that:

> The Department has developed agreements based only on the 2018–19 funding profile which will provide one payment in the agreement and will be based on receipt of a signed agreement. This approach should enable the respective state/territory Minister to sign off on their agreement. The agreements will expire on 30 June 2019, which will provide an opportunity for the Department to liaise with state/territory government officials to ensure the next Project Agreements for 2019–20 onwards have more comprehensive timeframes, deliverables and payments developed.

2.36 States were not always provided formal advice on which projects had been approved for funding and sometimes became aware of approval through public announcements. Western Australia and Queensland contacted Health requesting clarification of funding details following public announcements. Health records indicate that the Minister's office had instructed Health that draft agreements were not to be sent to states for review and negotiation.[33] States' visibility of the project agreements was limited to the formal offer of funding at the execution stage.

2.37 Due to the time limits and lack of consultation involved in the development of the agreements, Health did not determine the details of projects to be delivered before executing the short-form agreements. Health populated agreement templates using high-level information provided in the EOIs received in early 2019 and in funding announcements made by government for projects not supported by EOIs. The agreements lacked appropriate supporting information such as a business case or project plan to inform the drafting of the agreements. Case study 1 shows one example of a project funded through a national partnership agreement with the Northern Territory government where project details were lacking in the documented agreement.

Case study 1. National partnership agreement with the Northern Territory — Staff accommodation block at Tennant Creek Hospital

Health received an EOI from Northern Territory Health (NT Health) for the construction of a 12-unit accommodation block for staff working at Tennant Creek Hospital. The one-page proposal specified the number of units intended to be constructed, that a site had been identified, the total funding estimate required and the funding profile. The proposal otherwise contained limited information about the project. The proposal did not indicate how the funding estimate was developed.

The Prime Minister approved funding for the project on 28 February 2019. Health provided advice to the Minister on 1 March 2019 that the proposal did not meet the objectives of CHHP and that there was insufficient information about the project.

33 Under Federal Financial Relations Circular No. 2021/02 (Guidance on drafting Federation Funding Agreement Schedules), agencies are advised that they 'must work with Treasury and the Department of the Prime Minister and Cabinet (PM&C) on drafting the FFA Schedule' (Step 3, p.2) and 'Once a draft schedule is agreed with Treasury and PM&C, Commonwealth agencies should begin negotiating the terms of the schedule with relevant state counterparts' (Step 4, p.3). Health noted that these processes result in the drafting of the agreement being significantly advanced before state officials have opportunity to provide input.

A short-form national partnership agreement with NT Health for the Tennant Creek project specified funding of $100,000 in 2018–19. Health did not seek further information from NT Health prior to executing the national partnership agreement on 7 June 2019. Preparation of a full agreement with the Northern Territory began in August 2020. The finalised national partnership agreement specified a second and final payment of $3.175 million on receipt of a 'project plan with timeframes to completion and plans for delivering services' due in November 2020. A status report was provided on 9 November 2020, and total funding was paid to NT Health for the project.

The Acting Northern Territory Minister for Health wrote to the Commonwealth Minister for Health in May 2021 reporting that the tenders received for the project exceeded the budget by at least 40 per cent and requested a variation to the national partnership agreement to reduce the scope of the proposed works from 12 to six units. The Minister declined the request and Health advised the ANAO that in March 2022 a decision was made by NT Health to construct the staff accommodation block on the hospital campus rather than at an external site to allow the 12 units to be constructed.

Preparation of full national partnership agreements

2.38 The New South Wales (NSW) Government requested that any national partnership agreement with it be prepared using a full rather than a short-form agreement. Health undertook the development of a full agreement with the NSW Government within the same timeframe as it developed short-form agreements with the other states. Health intended for the NSW national partnership agreement to be finalised before the caretaker period preceding the 23 March 2019 NSW election, however the agreement was executed on 7 May 2019 for $208.5 million. In advice to the Minister in April 2019, Health stated that PM&C and Treasury had advised against progressing an agreement with full funding amounts within the short timeframe, advising instead to commence development of the agreement the following year. This advice was not followed. Due to limited involvement by NSW in the drafting of the agreement, details of the projects funded through the agreement were not adequately captured. Milestone requirements were high-level and did not contain sufficient detail to allow for appropriate oversight of progress. Health subsequently varied the agreement in November 2020 to clarify project details.

2.39 Health began negotiating 'full' agreements to replace the short-form agreements with the other state governments from September 2019. Full agreements contained the complete funding profiles for projects introduced in short-form agreements as well as approved projects that had not yet been included in any agreement. Health invited states to provide feedback on iterative drafts of the full agreements. Health organised meetings with states to discuss the full agreements, including performance milestones, due dates, and other reporting requirements.

Variations to national partnership agreements

2.40 The Federation Funding Agreement – Health states that partnership agreements 'may be amended or added at any time by agreement in writing by all relevant Commonwealth and State portfolio ministers.' A national partnership agreement can only be varied by the Minister. As at December 2022 two national partnership agreement variations with the NSW (November 2020) and South Australian (June 2022) governments had been executed. Health sought approval from the Minister to implement these variations. In January 2022 the Minister provided 'in-principle

support' to vary three initiatives under the national partnership agreement for Western Australia, subject to the Western Australian Government providing clarification of the construction timeframes for the initiatives (see Case study 5). At February 2023 no variation had been executed as the Western Australian Government had not provided the requested information. Health obtained approval from the Minister in February 2023 to begin negotiating variations to all CHHP national partnership agreements with Western Australia, noting that it had received advice from the Western Australian Government that a further four projects were experiencing delays.

2.41 The COVID-19 pandemic impacted the delivery of CHHP projects. Health received requests from Queensland, Tasmania and Western Australia to extend milestone dates. In administering a change to the agreement Health advised that it considers advice from the state as to the reason for the delay, when the milestone will be met, whether a payment is affected, whether the payment will be made within the same financial year and the expected overall impact on delivery of the project. Health project officers approved changes to milestones and reporting due dates without executing formal variations. These decisions were made without ministerial approval. Health advised the ANAO that 'states can often not meet the milestone dates prescribed in agreements for a variety of reasons and where this occurs it is not always practical to seek the Minister's specific agreement to vary the milestone date in the agreement'. Health further advised that it considered it unnecessary to seek approval unless the change in milestone was to a different financial year. In July 2022 Treasury advised Health, in relation to the national partnership agreement with Victoria, that:

> you will not need to vary the schedule once a movement of funds has been approved so long as the milestones/deliverables remain the same as what was initially agreed. If you do wish to change the milestones however it will require a variation signed by Ministers.

2.42 Changes to reporting milestone dates were inconsistently recorded in Health's internal tracking spreadsheets and Capital Works Portal.[34] In late June 2020 Health sought to update the project tracking spreadsheets with all changes. Spreadsheets were updated to reflect changes to some projects however not all were recorded at that time. Health continued to update tracking spreadsheets between June 2020 and November 2022 on a monthly basis with progress against milestones, including any changes to agreed delivery dates.

Opportunity for improvement

2.43 Changes to milestones dates associated with a national partnership agreement represent a change to the agreement. Where ministerial approval through a variation is not required, Health could establish a protocol for such decisions, including the appropriate level of decision-making authority within Health.

Alignment of agreements with the Federation Funding Agreements Framework

2.44 On 28 August 2020 the FFA Framework introduced eight principles for the development, negotiation and content of new national partnership agreements (see Table 2.1), which restated elements of the 2015 Federal Financial Relations Circular (see paragraph 2.33). Both frameworks emphasised the importance of articulating outputs, outcomes and clear milestones to support

34 The Capital Works Portal was developed to provide centralised monitoring and reporting on the status of capital works projects funded by Health.

accountability. The ANAO considered broad alignment of the CHHP national partnership agreements to the eight FFA Framework principles, while acknowledging that the majority of CHHP national partnership agreements were executed prior to August 2020 under different guidance. The ANAO did not assess Principles 6 and 7 as they describe the Council on Federal Financial Relations' and Ministers' responsibilities. CHHP national partnership agreements developed by Health are broadly aligned with principles 2, 4 and 5; partly aligned with principles 3 and 8; and not aligned with principle 1.

Table 2.1: Alignment of Community Health and Hospitals Program national partnership agreements with Federation Funding Agreements Framework principles

	Principle	Description		Alignment
1	Strong economic, social and fiscal outcomes	New agreements will promote strong economic and social outcomes and support strong fiscal outcomes (for example: improved employment outcomes, the facilitation of private sector investment where appropriate, and regard for social or health needs or efficiency of service delivery).	○	Health did not obtain sufficient detail on project deliverables to be able to demonstrate the economic and social outcomes expected from the projects. The absence of detailed milestones makes it difficult to demonstrate the achievement of those outcomes included in the agreement (see paragraph 3.5).
2	Limit the number of low value agreements to ensure value for money	Council on Federal Financial Relations will monitor new agreements to limit the number of low value agreements to minimise the administrative costs associated with the agreement and avoid complexity that does not deliver significant benefit.	●	Individual agreements provide material levels of funding across a number of projects, helping to minimise administrative costs.
3	Balance government priorities	New agreements will recognise and balance the priorities of all levels of government.	◑	Selected projects do not necessarily align with the CHHP priorities. All approved projects did not undergo a systematic assessment against CHHP or health priorities (see paragraph 2.26). Consultation with states during the development of 'short-form' agreements was limited (see paragraph 2.36), although this increased for full agreements.
4	Budget autonomy and greater flexibility	New agreements will provide states with budget autonomy and flexibility, where practical, to deliver services and infrastructure in a way that they consider will most effectively and efficiently improve outcomes for Australians.	●	Agreements provide states with flexibility, as they are not prescriptive.
5	Funding certainty	New agreements that fund ongoing services will provide states with funding certainty where possible.	●	The agreements are clear in their commitment to funding over time and in response to specific milestones being achieved.

	Principle	Description		Alignment
6	CFFR will retain oversight over agreements	Portfolio ministers are required to inform Council on Federal Financial Relations once they have policy authority for a new agreement.	N/A	
7	CFFR will involve portfolio ministers	Council on Federal Financial Relations will decide whether new agreements are pursued, and the allocation of responsibilities for new agreement negotiation, implementation, monitoring, evaluation, and renewal. As required, CFFR should leverage the expertise of portfolio ministers.		
8	Accountability and transparency	Agreements, and exchanges of letters that constitute agreements, will be published on the Council on Federal Financial Relations website to promote transparency and accountability. Reporting should include what measured outcomes were achieved and evidence on their cost effectiveness.	◑	Health published national partnership agreements on the Council on Federal Financial Relations website for all projects. Reporting requirements included in CHHP national partnership agreements do not include reporting on the achievement of measured outcomes and cost effectiveness.

Key:

○ Not aligned ◔ Partly aligned ◑ Half aligned ◕ Mainly aligned ● Fully aligned

Source: ANAO analysis of the FFA Framework and CHHP national partnership agreements.

Have grants been appropriately administered?

Health's administration of CHHP grants was not appropriate, involving deliberate breaches of the relevant legal requirements and the principles underpinning them. The classification of the majority of CHHP grants as ad hoc/one-off or non-competitive grants was not appropriately justified. Health did not develop grant opportunity guidelines for seven of 108 CHHP grants, and in at least three instances this represented a deliberate decision by senior management to not comply with finance law. Controls for, and reporting of, non-compliance with finance law were insufficient. Grant opportunity guidelines were produced for other grants. These were not fully consistent with the Commonwealth Grant Rules and Guidelines principles of robust planning, transparency and probity. Health did not appropriately assess risk. Health recommended funding multiple grants prior to confirming that there was lawful authority for grants, or despite knowing that there was no legislative authority. Recommendations to government to fund grants were based on assessment processes that were not fully consistent with the requirements of established grant opportunity guidelines and the Commonwealth Grants Rules and Guidelines. Application processes were not fully consistent with the principle of achieving value for money and Health undertook limited due diligence before recommending funding. Health did not meet obligations to publish grant awards on GrantConnect in a timely and accurate manner.

2.45 The government committed $923.5 million (GST exclusive) for 108 CHHP and associated grants in 2018–19 to 2021–22.[35] Grants were provided for infrastructure and service delivery projects run by Primary Health Networks (PHNs) (25) and non-government organisations (83).

2.46 CHHP and associated projects funded through grants were selected by the government. The Minister was informed of the selected projects in a letter from the Prime Minister on 28 February 2019. Subsequent to the selection of projects, Health developed grant opportunity guidelines. The Minister approved entering into the majority of grant agreements in three tranches on 11 June 2019, 4 and 24 October 2019 and 5 December 2019.[36] Table 2.2 sets out approval records for CHHP and associated grants, noting that the approved value shown in the table excludes variations subsequently negotiated.

Table 2.2: Community Health and Hospitals Program initial grant agreement approvals, 2018–19 to 2020–21

Approval date	Tranche No.	No. projects approved	Value ($000)[a]	GST status
6 December 2018[b]	N/A[c]	1	4950	Inclusive
05 April 2019	N/A	9	19,500	Not stated
11 June 2019[d]	One	44	309,968	Exclusive
17 June 2019	N/A	1	1364	Inclusive

35 One project related to regional cancer treatment, which was initially approved as a grant and was subsequently included in a national partnership agreement with Victoria, is excluded from this total. Rounds of funding approved in 2021–22 were out of scope of the audit.

36 The three tranches included 82 of the 108 CHHP and associated grants (including 48 of 52 grants classified by Health as CHHP grants).

Approval date	Tranche No.	No. projects approved	Value ($000)[a]	GST status
1 August 2019	N/A	1	1320	Inclusive
4 October 2019	Two	10	14,494	Exclusive
24 October 2019	Two	15	53,882	Exclusive
5 December 2019	Three	13	101,805	Exclusive
9 June 2020[e]	N/A	1	3684	Inclusive
10 June 2020[f]	N/A	10	45,500	Exclusive
3 November 2020	N/A	1	114,500	Inclusive
27 April 2021	N/A	2	68,000	Exclusive
14 May 2021	N/A	1	60,000	Exclusive

Note a: Figures reflect the amounts in approval records and may vary from final grant agreement amounts and amounts quoted throughout this report, which reflect variations and other changes to project amounts negotiated following initial approval. The inclusion or exclusion of GST from approval amounts was not consistent or always clear.

Note b: There were three components to this grant; each was approved separately.

Note c: N/A refers to grants approved in one-off or small batch approvals.

Note d: Total approved value includes $13 million for one round of funding under the National Headspace Waitlist Reduction project. The National Headspace Waitlist Reduction project later involved an additional $139 million under a different funding program.

Note e: There were three components to this grant; each was approved separately.

Note f: One approved grant for $4.5 million was subsequently administered as a national partnership agreement project with Victoria. This 'grant' is excluded from ANAO analysis of grants.

Source: ANAO analysis of grants approval records.

2.47 Consistent with other grant administration performance audits, the ANAO analysed the distribution of CHHP and associated project funding across federal electorates. The outcome of this analysis is included at Appendix 5.

2.48 When administering grants, Commonwealth officials and Ministers must comply with the Commonwealth Grants Rules and Guidelines (CGRGs), including the seven key principles (see paragraph 1.13). Grants administration encompasses the grants lifecycle comprising design of grant opportunities and activities; assessment and selection of grantees; establishment of grants; ongoing management of grantees and grant activities; and evaluation of grant opportunities and activities.[37] The ANAO examined whether the way CHHP and associated grants were designed, assessed, established, and managed was consistent with the requirements of the CGRGs, with a focus on non-government organisation grants. Chapter 3 examines how the grants were evaluated.

2.49 To determine the extent to which Health complied with relevant requirements of the CGRGs, the ANAO reviewed a targeted sample of 16 CHHP and associated projects from the population of 108 projects. The targeted sample included one PHN grant[38] and 15 non-government

37 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 2.8.

38 The targeted sample did not include other PHN grants as PHN CHHP grants were included in existing PHN grant agreements and are subject to the terms and conditions, milestones and reporting requirements of those broader agreements. The one PHN grant included in the targeted sample was due to inaccurate public reporting of this grant.

organisation grants. Projects were selected for detailed analysis based on Health and Australian Government Solicitor risk assessments, the value of the grant, and Parliamentary or public interest in the funded project.[39]

Design of grants

Classification of grants

2.50 The CGRGs describe six grant types ranging from 'open competitive' to 'one-off ad hoc'.[40] In relation to the key principle of achieving value for money, the CGRGs state that competitive, merit-based selection processes should be used to allocate grants unless specifically agreed otherwise by a Minister, accountable authority or delegate. Further, the CGRGs state that where a method other than a competitive merit-based selection process is planned to be used, officials should document why a different approach was used.[41] According to the CGRGs, one-off or ad hoc grants are those that: are designed to meet a specific need, often due to urgency or 'other circumstances'[42]; are usually determined by Ministerial decision; and are generally not available to a range of grantees or on an ongoing basis.[43] Unlike for other types of grants, it is not a requirement that grant opportunity guidelines be published (although they must still be prepared).

2.51 Health advised the ANAO that it classified CHHP and associated grants as 'ad hoc/one-off' (69 grants), closed non-competitive (five)[44], targeted non-competitive (18)[45], and open competitive (nine). Seven were not classified. The classification generally did not align with guidance for ad hoc/one-off grants. The Community Health and Hospitals Program was not responding to an urgent or unforeseen circumstance and the program need was not specific, noting the December 2018 announcement of CHHP by the government outlined broad objectives for community health and hospital projects. Health advised the ANAO that 'CHHP and associated grants were government decisions therefore ad/hoc one-off grants were an appropriate classification'. The ANAO notes that the CGRGs (at CGRG paragraph 13.11) state that one-off grants are *usually* made by Ministerial decision, however the CGRGs do not state that grants that are the result of ministerial decisions should be classified as ad hoc.

2.52 Health did not document the rationale for using ad hoc/one-off or non-competitive grants, as required by the CGRGs. Health sought and received advice from the Department of Finance (Finance) in September 2019 on the consistency of draft CHHP mental health grant opportunity guidelines with the CGRGs.[46] In relation to the proposed grant model, Finance noted that the grant

39 The ANAO's targeted sample was composed of 12 ad hoc/one-off grants, two targeted non-competitive and two closed non-competitive grants. One grant included in the sample was provided in three components which were classified variously as ad hoc/one-off and closed non-competitive.

40 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 13.11.

41 ibid., paragraph 11.5.

42 ibid., p. 6.

43 ibid., paragraph 13.11.

44 At paragraph 13.11, the CGRGs define close non-competitive grants as, for example, where applicants are invited by the entity to submit applications for a particular grant and the applications or proposals are not assessed against other applicants' submissions and are assessed individually against other criteria.

45 It is not clear what Health meant by a 'targeted non-competitive' grant. At paragraph 13.11, the CGRGs describe 'targeted *competitive*' grants as funding rounds which are open to a small number of potential grantees based on the specialised requirements of the grant activity under consideration.

46 Internal Health correspondence relating to this advice refers to similar feedback on 'the remaining guidelines'. The ANAO requested, and Health was unable to locate, records relating to this additional advice.

opportunity (which was classified as an ad hoc grant) would be more appropriately categorised as a 'closed non-competitive' grant on the grounds that the opportunity was only available to those listed in the guidelines. Health noted this and did not amend its categorisation of the grant opportunity in line with the advice or explain the rationale.

Grant opportunity guidelines

Establishment of grant opportunity guidelines

2.53 A key requirement in the design stage of a grant is the development of grant opportunity guidelines. Section 4.4 of the CGRGs states that officials must develop grant opportunity guidelines for all new grant opportunities, including for one-off and ad hoc grants, and that these grant opportunity guidelines must be consistent with the CGRGs. The development of grant opportunity guidelines is a legal obligation and the CGRGs do not provide for any discretion for officials to not comply.

2.54 Between 1 July 2019 and 28 July 2022 Health internally reported breaching the CGRG obligation to have grant opportunity guidelines in place before awarding grants 24 times. These reports covered 221 grants (none indicated in Health records as being related to CHHP). In 12 of the 24 breach reports, approval to breach CGRG requirements was provided by a senior executive officer prior to the breach occurring. Although it was not among the 24 internally reported breaches, the ANAO also found that Health did not develop grant opportunity guidelines for seven awarded CHHP and associated grants. For at least three awarded grants (see Case study 2), this represented a conscious decision by senior Health officials to not comply with finance law.[47]

Case study 2. Failure to develop grant opportunity guidelines

In September 2019 the First Assistant Secretary responsible for several mental health-related CHHP grants raised concerns with the responsible Deputy Secretary that there was a risk that these grants would be delayed by the requirements of the CGRGs. Email correspondence indicates that the Deputy Secretary discussed these concerns with the Secretary and other Deputy Secretaries as part of Health's regular Executive Board meeting. Executive Board meeting minutes from September 2019 do not record this discussion.

The Deputy Secretary recorded their understanding of discussions at the Executive Board meeting in an email to the First Assistant Secretary on 18 September 2019. This email referred to previous approvals by the Deputy Secretary of other CHHP grants that had been allowed to 'progress without full compliance'. The First Assistant Secretary was informed that 'payment should proceed … the drafting and approval of [grant opportunity guidelines] should not delay prompt execution …'. The email noted that this would constitute a breach of CGRG requirements. The Deputy Secretary requested that each use of this approach be subject to their approval.

47 The PGPA Act defines finance law as the PGPA Act, the PGPA Rules, any instrument made under the PGPA Act (including the CGRGs) and an Appropriation Act.

The First Assistant Secretary wrote to the Deputy Secretary on 28 October 2019 proposing grants to 22 recipients. Of these grants, four were proposed to be made without grant opportunity guidelines in place prior to offering a grant agreement. The First Assistant Secretary undertook to record a breach of the CGRG requirements if approval was provided. The Deputy Secretary endorsed the proposed approach to offering the grants. Of the four grants proposed to be created without grant opportunity guidelines, three were awarded and one did not proceed.

2.55 The ANAO raised the issues in the above case study with Health in November 2022. In response, Health undertook an internal investigation and discussed the issue at an Executive Board meeting on 22 November 2022. Health agreed with the findings, noting to the ANAO that the Executive Board was aware of the non-compliance at the time, and that:

> The department considers the apparent specific decision of the Executive to not comply with the rules at the time to be inappropriate and regrettable. The department acknowledges and agrees that the approach should have been, in the first instance, to escalate for priority processing any grants that were identified as being at risk of delay, and subsequently to seek to improve the grants administration framework so that specified grants of this nature are not inappropriately delayed.

2.56 In November 2022 Health provided to the Minister for Health a letter for his signature, addressed to the Minister for Finance. The letter provided two suggestions '…aimed at reducing the administrative burden on both grant administrators and funding recipients'. The first was to create an additional category of grant within the CGRGs intended to '…support timely delivery of published and explicit decisions of Government…', and the second was to develop '…program level grant guidelines that can be re-used over subsequent years and funding rounds…'. The Minister for Health signed the letter on 9 November 2022.

2.57 Health indicated to the ANAO that, in response to the matters raised in the case study, actions included:

- a directive to senior management at three meetings in November 2022 that non-compliance of this nature is not appropriate;
- a mandatory performance expectation in all senior executive agreements that they familiarise themselves with their obligations under finance law, ensure they comply with finance law at all times, and work to build a strong culture of compliance with finance law in their respective business areas, to be implemented as part of the mid-year performance review cycle due in early 2023;
- that it would initiate a program of increased financial literacy training to build awareness of roles and responsibilities and control arrangements more generally; and
- that although the initial target was the senior executive service, similar steps would follow, as appropriate, to all financial delegates and to all Health officers in turn, as a matter of priority in 2023.

2.58 Health's Audit and Risk Committee receives quarterly reporting on compliance with the PGPA Act and finance law. The ANAO reviewed compliance reporting in Health's 2019–20, 2020–21 and 2021–22 'PGPA Compliance Report' and identified two instances of non-compliance specifically relating to CHHP. The first related to the reconciliation of end of year accruals to outcomes. The second related to where CHHP funding was allocated notwithstanding an identified risk that making

the grants would be without lawful authority. In relation to the failure to develop grant opportunity guidelines described in Case study 2, although the business area in question stated at the time that it would report the breach, the ANAO was unable to locate any report within Health's internal breach recording system or to the Audit and Risk Committee.

2.59 Section 19 of the PGPA Act requires accountable authorities to notify the responsible Minister of any significant issue that has affected the entity. Department of Finance guidance indicates that 'A significant issue, under section 19 of the PGPA Act, includes significant non-compliance with the finance law'.[48] Significant non-compliance is defined in the Department of Finance Guidance as including 'high volume, high value and/or systemic instances of non-compliance with the Commonwealth Procurement Rules or the Commonwealth Grants Rules and Guidelines'. Department of Finance guidance also requires that accountable authorities notify the Finance Minister of instances of significant non-compliance with finance law reported to the responsible Minister.

2.60 The Health accountable authority did not assess the 24 reported instances described in paragraph 2.54 as significant and they were not reported to the Minister. Health did not report CHHP non-compliance or any other instances of non-compliance in its 2018–19, 2019–20, 2020–21 or 2021–22 Annual Reports. In its response to this audit, Health indicated to the ANAO that it considered the 24 occurrences described in paragraph 2.54 to be 'infrequent', that they were in response to a decision of government, and that they occurred in situations where producing grant opportunity guidelines as required under the CGRGs would result in 'delays [that] would mean the project not commencing in the timeframe announced'. Health further advised that it did not consider the occurrences to meet the definition of 'systemic'.

2.61 During the final stages of this audit, Health identified the three instances of non-compliance with finance law in 2019–20 that are outlined in Case study 2, as 'significant'. Health advised the ANAO that the justification for judging the matters to be significant was the associated reputational risk and not that they represented systemic non-compliance. The matters were reported to the Minister for Health and the Minister for Finance on 9 February 2023. Health has undertaken to the Minister to report the non-compliance in the 2022–23 Annual Report in accordance with Subdivision A, section 17AG of the PGPA Rule, including the steps taken to remedy the matter.

48 Department of Finance, *Resource Management Guide 214 - Notification of significant non-compliance with the finance law*, Finance, 2020.

Recommendation no. 1

2.62 Department of Health and Aged Care improve the systems of control to identify, assess and report non-compliance with finance law.

Department of Health and Aged Care response: *Agreed.*

2.63 *The Department operates a responsive financial controls and assurance framework and a financial governance framework which promotes the efficient, effective, economical and ethical use of resources. Relevant improvements to this system of control in 2022–23 include publication of a new Accountable Authority Instruction (AAI) Financial obligations and accountability, and accompanying Finance Business Rules (FBRs), and establishment of a quarterly grants assurance testing program.*

2.64 *Noting the most recent comprehensive review of the Department's system of financial controls was an internal Financial Management Controls and Assurance project finalised in 2019, the Department is commissioning a comprehensive external review of its financial controls and assurance framework. This review will help ensure the Department's systems of internal control and assurance frameworks are fit for purpose and aligned to better practice for an entity of the Department's scale and complexity*.

Format of grant opportunity guidelines

2.65 Grant opportunity guidelines should include the grant objectives and purpose; selection criteria; approval process (including key dates and the decision-maker); expected terms and conditions of the grant agreement; and indicative reporting and acquittal requirements.[49] Grant opportunity guidelines covering projects included in the ANAO's targeted sample followed a consistent format and were aligned with the CGRGs. They included information on grant objectives; selection criteria; the selection process; and the final decision maker (which was the Minister); funding amounts; and annual payment milestones.

2.66 Selection criteria are comprised of eligibility and assessment criteria. Eligibility criteria refer to the mandatory criteria that must be met to qualify for a grant, and assessment criteria (which may exist in addition to eligibility criteria) are the specified principles or standards against which applications will be judged.[50] CHHP grant opportunity guidelines in the ANAO's targeted sample included eligibility and assessment criteria.

2.67 Eligibility for the grant was restricted to those entities and projects listed in respective grant opportunity guidelines. Grant eligibility criteria were that: (1) the specified grantee needed to confirm the need for, and their capability and capacity to undertake, the grant; and (2) Health needed to assess the proposal as having met the program/policy outcomes as outlined in the relevant grant opportunity guidelines. The September 2019 Finance advice (see paragraph 2.52) included advice in relation to grant and project eligibility for mental health grants.

- On eligible projects, Finance stated that it was not clear how projects had been identified to be the only eligible projects for the round and questioned how the service gaps were

49 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraphs 8.6 and 9.3.

50 ibid., p. 40.

identified. In response Health noted that the eligibility of particular projects and organisations were decisions of government.

- On eligible grant activities, Finance advised that the activities associated with each of the eligible projects were 'very broad and potentially open to various interpretations'.
- On selection processes, Finance stated that Health could improve the grant opportunity guidelines to provide information regarding how proposals were requested and shortlisted. In response Health again noted these were decisions of government.

2.68 The advice from Finance relating to mental health grants communicated to Health that although the grant opportunity guidelines contained the required elements, the substance of the guidelines was not fully consistent with the principles of the CGRGs, most notably: the principles of robust planning and design; and probity and transparency. In an email about the Finance advice, a Health officer remarked that the advice did not provide 'much value add'. Health advised the ANAO that this remark represented the views of one official and did not reflect on Health's culture. However, in response to unrelated June 2019 feedback from Finance regarding Health's general approach to grant opportunity guidelines and CGRG compliance, an email exchange between senior Health officials described Finance's advice as 'a pretty outrageous set of accusations which points to a pretty deep-set culture of mistrust'. A Deputy Secretary stated: '[It] would be nice if [their] concerns related to some sort of outcome measure. I can feel some congestion busting coming on'. The term 'congestion busting' was subsequently used to justify several internal performance awards to officials involved in the CHHP process.

2.69 Grant opportunity guidelines must be made publicly available on GrantConnect, unless the grants are provided on a one-off or ad hoc basis.[51] Health did not publish grant opportunities for the 69 grants which were classified as one-off or ad hoc. Health published grant opportunities for the five closed non-competitive grants, 18 'targeted non-competitive' grants[52], and nine open competitive grants, as required by the CGRGs. No grant opportunity guidelines were published for the seven grants that were not classified and had no guidelines. The grant opportunity for four closed non-competitive grants was published and closed on the same day and the opportunity for one closed non-competitive grant was published in 2021, more than two years after the grant was announced in 2018.

Risk assessment

2.70 Under the key principle of 'robust planning and design', the CGRGs note that grants administration processes should be proportional to the scale and risk profile of the grant opportunity. This requires identifying and engaging with risk.[53] Estimates Memorandum 2018/39[54], issued on 4 December 2018, required, where new or revised grant opportunity guidelines are necessary, that entities complete a risk assessment in consultation with Finance and PM&C.

2.71 Health had a process for completing risk assessments for grant opportunities. Health completed grant opportunity risk assessments for three grant opportunities covering 24 (22 per

51 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 3.4.

52 The 'targeted non-competitive' grants were published as closed non-competitive grants.

53 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraphs 7.3 and 7.7.

54 Estimates memoranda are sent by Finance to Commonwealth entities and cover matters relating to budget estimates and the reporting of actual expenses, and provide advice on policy changes, whole-of-government processes and requirements, upcoming deadlines, and specific actions that entities must take.

cent) CHHP and associated projects. Finance and PM&C confirmed Health's risk assessments of 'medium' and 'high' for three grant opportunities.[55]

2.72 CHHP grant opportunity guidelines state that Health may identify risks as part of its assessment of value with relevant money. The CGRGs refer to three broad categories of risk: grantee; grant program; and grant activity risk.

- Grantee risk — Health undertook grantee risk assessments for 14 of 16 grants examined in detail by the ANAO. For seven of the 14, the assessments were completed following the approval and execution of the grant agreement. The grantee risk assessment therefore did not inform the assessment process or Health's recommendations that projects represented value with relevant money.
- Program and activity risk — There was no assessment of grant program or activity risk.

2.73 The CGRGs state that before entering into an arrangement for the proposed commitment of relevant money, there must be legal authority to support the arrangement.[56] Legislative authority is required for grants that are not categorised as the ordinary and well-recognised functions of government.[57] Health obtained legal risk assessments from the Australian Government Solicitor (AGS) for 13 of 16 grants included in the ANAO's targeted sample. For five of these grants, there was likely no lawful authority for the expenditure (see paragraphs 2.90 to 2.95).

Assessment

2.74 The CGRGs state that officials should put in place a transparent and systematic assessment and selection process. The ANAO reviewed documents relevant to the assessment and selection of the 16 grants included in the ANAO's targeted sample, 15 of which were non-government organisation grants (see paragraph 2.49).

2.75 The one PHN project included in the targeted sample was identified through an EOI process (see paragraph 2.20). Of the 25 PHN CHHP and associated grants, 16 were identified through the EOI process.

2.76 The 15 non-government organisation projects included in the targeted sample were identified by government and did not involve an application process. The September 2019 Finance advice on mental health grants (see paragraph 2.52) included advice in relation to the application process. Finance questioned the request and short-listing process, and noted that the grant opportunity guidelines employed a non-application-based process. Finance stated that:

> This approach may be best used when determining a further grant for the same, or very similar, grant activities by known grantees. It is not clear how past performance of previous and different activities will establish the value with relevant money for new activities.

Health responded by stating: 'Given decisions of Government about eligibility of particular organisations and projects for the CHHP, the Department is not able to elaborate further on these aspects'.

55 The ANAO was unable to confirm if Finance and PM&C confirmed the same risk assessments completed by Health as documentation lacked clarity.

56 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 3.6.

57 Department of Finance, *Resource Management Guide 411: Grants, procurements and other financial arrangements*, Finance, 2021, Attachment A.

2.77 Health developed assessment plans, which set out that Health would assess grant proposals against specific criteria established in the relevant grant opportunity guideline. Each proposal was to be scored as 'highly suitable', 'suitable', or 'not suitable' against the grant opportunity guideline criteria. The assessment plans included high-level instructions covering: assessing value with relevant money; assessment of financial viability, governance and risk; and the requirements for recommendations to government and decision making. Unlike for national partnership agreements, the assessment plans for grants did not indicate that only 'highly suitable' projects should be shortlisted and no threshold was established. Each of three assessment plans were approved by the responsible senior executive officer.

2.78 Assessment against the criteria in the grant opportunity guideline was documented for 11 of the 16 grants in the targeted sample. Of the 11 assessments examined by the ANAO, one project was assessed as highly suitable and 10 projects were assessed by Health as suitable (including the one PHN grant included in the targeted sample). One suitable project discussed in Case study 4 was later assessed as not suitable by a quality assurer. Advice supporting recommendations to government (discussed in paragraph 2.98) did not include the assessment ratings although it did indicate whether Health judged the grant to represent value for money.

2.79 Health's response to Finance's advice about the grant opportunity guidelines noted that the key information used for the assessment, in the absence of a formal application, was the project proposal. The ANAO found that targeted sample project proposals varied in terms of clarity, detail, completeness and suitability as the basis for a value for money assessment. Where assessments were documented they typically contained information directly copied from applicants' business cases and requests for funding. In some cases, proposals lacked detail in terms of how much money was being sought, and what was intended to be delivered. For example, a two-page submission from MATES in Construction[58] for a $1.24 million grant to 'operationalise' a blueprint for better mental health and suicide prevention in the building and construction industry, did not include the blueprint, or an ABN and street address for the entity making the proposal. Health assessed this proposal to be 'suitable'.

2.80 Five of the 11 Health assessments examined by the ANAO stated that there was insufficient information available to support the assessment, and recommended that additional information including detailed budgets, project plans and timelines should be requested from the funding recipients as one of the grant agreement milestones, while simultaneously assessing the proposal as suitable for funding.

2.81 Health's assessment plans and the relevant grant opportunity guidelines set out that Health, as part of its consideration of value with relevant money, would undertake a financial viability assessment on organisations that had not previously received funding from the Commonwealth. Of the 16 grants examined in detail by the ANAO, Health advised the ANAO that four organisations had previously received funding from the Commonwealth. For the remaining 12, Health undertook a financial viability assessment for seven. Of the seven assessments, four were partly completed and three were complete.

58 A website describes MATES in Construction as a charity established in 2008 to reduce the high level of suicide among Australian construction workers. MATES in Construction, *About MATES* [Internet], MATES, available from https://mates.org.au/about-us [accessed 29 March 2023].

2.82 Case studies 3 and 4 demonstrate that Health assessed as 'suitable' projects with proposed activities that were inconsistent with the requirements of the grant opportunity guidelines, and with insufficient due diligence.

Case study 3. Esther Foundation

Prior to entering into voluntary administration in April 2022, the Esther Foundation stated that it provided group and individual counselling to help manage socially prevalent issues and concerns faced by young women and children, including substance abuse, sexual and emotional abuse, domestic violence, mental health, pregnancy, self-harm, family breakdown, bullying, depression and eating disorders.

In late February 2019 the government allocated funding for a range of CHHP and associated grants including a $4 million grant to the Esther Foundation. The government announced its 'investment' in the Esther Foundation on 8 March 2019. A Health email to the Minister's office on 12 June 2019 described Esther Foundation as one of seven grants the government had identified were 'sensitive and priority' projects.

On 3 June 2019 Health completed and quality assured an assessment of the Esther Foundation project proposal, finding that it was suitable and value with relevant money.

- The assessor provided less than 100 words commentary in support of the assessment outcome, all of which was copied from an Esther Foundation media profile and an activity plan provided by Esther Foundation on request from Health.
- Health did not undertake a financial viability assessment or obtain audited financial statements as was required to comply with the established grant opportunity guidelines.
- The activity work plan supporting Health's assessment set out that Esther Foundation budgeted to spend the largest component of funding on vocational training, which was not aligned with the publicly announced CHHP objectives (see paragraph 1.2), or consistent with the eligible activities in the relevant grant opportunity guidelines.
- Items deemed ineligible in the grant opportunity guidelines were included in Esther Foundation's proposal, such as vehicle fleet expansion and telecommunications.

Health advised in a Ministerial submission covering the grant that its approach to assessing and recommending grants was consistent with requirements of the CGRGs. Health also requested that to expedite delivery of funding agreements and manage risk, the Minister provide his approval pending AGS advice about legal risk. The Minister approved the grant on 11 June 2019.

The Esther Foundation signed the grant agreement on 18 June 2019, the same day Health received the project's legal risk assessment from AGS. The AGS advice indicated that making the grant would likely be without lawful authority, including that legislative authority was required to support expenditure on the proposal and there was no legislation at the time the assessment was undertaken that could reasonably be relied upon to authorise expenditure on the proposal as a whole.

Section 3.6 of the CGRGs states that 'before entering into an arrangement for the proposed commitment of relevant money, there *must* be legal authority to support the arrangement'. Health executed the grant agreement on 25 June 2019 without confirming legal authority for the grant.

On 25 June 2019 Health advised the Minister that it had received the AGS risk assessment for the Esther Foundation grant, and that it was among 11 'high' risk grants identified by the AGS. The Health advice to the Minister stated that 'in line with budget decisions [Health] will proceed to execute grant agreements for all these projects'.

On 24 May 2022 the Esther Foundation entered into liquidation. The following day, Health issued a notice of termination to the Esther Foundation's liquidators and suspended all future grants payments. In July 2022 Health published on GrantConnect a variation to the grant value (from $4 million to $2 million — the amount spent as at July 2022). The end date for the grant was also brought forward from 30 June 2025 to 25 May 2022 when the grant agreement was terminated. Health formally closed the project in October 2022.

Case study 4. Lord Somers Camp

The Lord Somers Camp and Power House is a sporting and community facility providing rowing and other sporting facilities for several schools and community sporting clubs located in Albert Park, Victoria. On 26 March 2019 the government announced that Lord Somers Camp and Power House would receive a $5 million 'funding boost', stating that the government is 'committed to ensuring young Australians and those living with a disability can get information, advice, counselling and guidance, when and where they need it'.

A business case for the redevelopment of the Power House was prepared in October 2018 (prior to the announcement of CHHP). The business case, which was provided to the Minister, included a $32 million budget for the redevelopment including funding for a rowing shed, gym, function rooms and theatre, café and consultant fees.

Health used the 2018 business case and additional information that it sought in April 2019 to support its assessment against the relevant grant opportunity guidelines for a CHHP grant. A rowing shed, gym, function rooms, theatre, café and consultants were not included as eligible activities in the relevant grant opportunity guidelines. Health did not complete a financial viability assessment for Lord Somers Camp and Power House as required by the relevant grant opportunity guidelines.

In an undated document, Health assessed the grant proposal as suitable and representing value with relevant money. A quality assurer disagreed and amended the assessment to 'not suitable' on the basis that the proposal was not consistent with CHHP objectives.

On 11 June 2019 the government approved a Health recommendation to commit $5 million in grant funding for the project. The recommendation stated that Health had insufficient information to allow a full value for money assessment against the objectives of CHHP. Health instead recommended funding the project against Portfolio Budget Statements outcome 2.4, 'preventive health'. Health further advised the Minister that AGS advice for several grants

(including Lord Somers Camp and Power House) were pending however recommended funding be approved regardless.

On 19 June 2019 the AGS completed its advice for Lord Somers Camp, assessing the proposal as likely to be without lawful authority. Health advised the Minister of this outcome on 25 June 2019. Health again recommended that the Minister approve the grant. The government approved funding for the project and on 2 September 2019 Health executed a $5 million grant agreement with Lord Somers Camp and Power House, providing $500,000 to the organisation upon execution of the grant agreement. The agreement was incorrectly published on GrantConnect as an 'open competitive' grant with funding from PBS outcome 1.1, 'health research and coordination'. As at December 2022, Health had not taken steps to rectify the inaccuracy in public reporting for this grant.

Health completed a grantee risk assessment in September 2019 after executing the agreement, noting the organisation was a 'high' risk, due to its viability. A subsequent risk assessment in January 2022 included two 'extreme' risks relating to performance management and viability.

According to reporting on GrantConnect, Health varied the grant agreement four times between 20 September 2020 and 28 February 2022, each time to change the end date for the completion of the project.

In September 2022 Health recommended to the Minister that the agreement be terminated. In October 2022 the Minister approved an alternative approach proposed by Health to provide the grantee a further six months (to 31 March 2023) to secure required funding co-contributions. The Minister agreed to terminate the grant agreement if this could not be achieved. Health advised the ANAO that, as at 8 May 2023, it had not received a response from the organisation to its letter advising them of the Minister's decision.

2.83 Health officials involved in the assessment and development of funding recommendations to government formally certified their agreement to be bound by the requirements of the assessment plan and CGRGs. Plans set out that staff would receive training and other materials and information on: probity requirements, CGRG requirements, and the policy intent of the program and how it should be applied in the assessment process. Health did not provide training in accordance with its assessment plans, noting in internal correspondence that a decision to 'simplify' the assessment process negated the need for training.

2.84 The CGRGs state at section 12.6 that good record keeping by officials will assist in meeting accountability obligations, demonstrate compliance with the CGRGs and resource management framework, and show that due process has been followed. The ANAO was unable to identify, and Health was unable to provide, records for several grants demonstrating CGRG compliance, including documented grant assessments, financial viability assessments, evidence supporting the consideration of constitutional and legislative authority for grants, and the basis for assessments of value with relevant money (see paragraphs 2.74 to 2.78).

Recommendation no. 2

2.85 To support compliance with the Commonwealth Grants Rules and Guidelines (CGRGs), Department of Health and Aged Care ensure grant assessments are consistent with requirements of established grant opportunity guidelines and the requirements of the CGRGs; that they are based on sufficient information and due diligence to support a value for money recommendation; and that assessments and the evidence base for them are appropriately documented.

Department of Health and Aged Care response: *Agreed.*

2.86 *The Department has implemented an internal grants assurance program with testing undertaken each quarter aligned to an annual assurance plan. The Department has already completed assurance testing for quarter one and two of the 2022–23 financial year, with the outcomes of this testing reported to the Executive Committee and informing continuous improvements to guidance materials, templates and training. The Department will review and strengthen the annual grants assurance plan and testing activities in line with this recommendation. The Department will also implement any subsequent improvements identified in the external review of the financial controls and assurance framework noted above*.

Establishment and management

Commitment of relevant money

2.87 The PGPA Act requires that a Minister must not approve proposed expenditure of relevant money unless satisfied that the expenditure would be a proper use of relevant money.[59] Where Ministers exercise the role of an approver of a grant, they must comply with the CGRGs, and Commonwealth officials must advise their Ministers of these requirements.[60] Section 4.6 of the CGRGs states that officials must provide written advice to Ministers which, at a minimum: provides information on the applicable requirements of the PGPA Act and Rule and the CGRGs, including the legal authority for the grant; outlines the application and selection process followed; and includes the merits of the proposed grant or grants relative to the grant opportunity guidelines and the key principle of achieving value with relevant money. The *Australian Public Service Act 1999* states that the Australian Public Service must be apolitical and provide the government with advice that is frank, honest, timely and based on the best available evidence.

2.88 Advice to the Minister about CHHP grants was provided in the form of funding recommendations and requests for funding approval. The advice set out that the approval was for CHHP grants. Each submission included an attachment setting out applicable requirements of the PGPA Act and Rule and the CGRGs, highlighting those relevant to the Minister. Health's submissions for tranche one, two and three projects asserted that the approach taken by Health was consistent with the PGPA Act and CGRGs. However, the assertion was not supported by evidence. For example, the tranche one submission states that 'given the limited time to execute payments before the end of the current financial year, the department has undertaken a condensed grants process compliant with the CGRGs'. The submission stated that there would be an assessment plan and grant

59 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 3.11.
60 ibid., paragraphs 3.3 and 3.10.

opportunity guidelines; the ways in which the process was 'condensed' (and the associated risks) were not explained.

2.89 The ANAO found that advice to the Minister was sometimes inconsistent with the requirements of the CGRGs in other respects. The main deficiencies were related to sections 3.6 and 4.6 of the CGRGs: that there must be legal authority for the proposed commitment; and that the minister must be advised on the merits of the proposed grant.

Section 3.6 — There must be legal authority for the proposed commitment

2.90 Section 3.6 of the CGRGs states that before entering into arrangements (contracts or agreements) for a proposed commitment of relevant money, there *must* be legal authority to support the arrangement.

2.91 On 11 June 2019 the Minister accepted Health's recommendations for the government to approve 44 CHHP and associated grants (tranche one), pending AGS advice. The Heath advice to the Minister stated that Health anticipated the majority of projects would receive a 'low' or 'medium' legal risk assessment from the AGS. The AGS advice, when received, found that 11 CHHP projects were likely to be without lawful authority. For six of these projects, the AGS advised that that there was no legislation that reasonably could be relied on to authorise expenditure on the program.

2.92 Following Health's receipt of final AGS risk assessments for tranche one grants, on 25 June 2019 Health advised the Minister that there were 11 projects where the AGS assessment identified there would likely be no lawful authority for the expenditure.

2.93 This advice to the Minister did not precisely explain that for several grants, the AGS advice to Health more definitively stated that there was no legislation that could reasonably be relied upon to authorise expenditure on the proposal, and the advice to the Minister lacked detail that had been provided by the AGS about the extent to which risk could be managed or mitigated.

2.94 On 30 June 2019 the Minister noted Health's advice that it execute the 'high' risk agreements despite the AGS risk assessments. Health advised the Minister it would execute the agreements on the grounds that they were one-off grants, legal challenge was unlikely, funding for each project had already been agreed by government, the projects had been announced, and stakeholders were committed. Health noted in its advice that this approach may attract adverse commentary from the ANAO and any parties opposed to the expenditure. Health stated in its advice that risks would be mitigated through obtaining more information in grant milestone reports, such as budgets and risk plans, and through strong grants management. It is unclear to the ANAO how additional information on project budgets, or strong grants management, could resolve the issue that the grant had no legislative authority. Health acted contrary to requirements of the CGRGs in recommending the Minister approve funding and that agreements be executed notwithstanding the absence of legislative authority.

2.95 The advice noted by the Minister on 30 June 2019 further stated that Health had consulted with PM&C on any assessments that identified grants that would likely be without lawful authority and that PM&C had advised that the Minister could decide on whether the government would proceed with the 11 projects. The advice attributed to PM&C is inconsistent with CGRG requirements that there *must* be legal authority to support the grant. Health did not maintain appropriate records relating to what advice it sought or the response it received from PM&C.

Opportunity for improvement

2.96 Department of Health and Aged Care could improve the evidence base supporting its advice to government by maintaining appropriate records of advice being sought and received.

Section 4.6 — The minister must be advised on the merits of the proposed grant

2.97 Section 4.6 of the CGRGs states that officials *must* provide written advice to Ministers where Ministers exercise the role of an approver, and that this advice *must* include the merits of the proposed grant relative to the grant opportunity guidelines and the key principle of achieving value with relevant money.

2.98 In ministerial submissions approved on 11 June 2019, 4 and 24 October 2019, and 5 December 2019, Health recommended approval of 82 CHHP and associated tranche one, two and three grants. Health included in its submissions tables of projects recommended for funding. The tables listed projects and total funding, as well as information on Health's assessment of value with relevant money and discussion of risks and mitigations. The advice for 81 of the 82 grants recommended for approval stated that they met value with relevant money requirements, and for one recommended grant (discussed further in Case study 4) that it did not meet value with relevant money requirements.

2.99 Health's advice on value with relevant money was not always supported by robust evidence. For several grants recommended for funding, including 11 of 16 grants included in the ANAO's targeted sample, Health either did not undertake an assessment of the project against the relevant grant opportunity guidelines, or made an assessment that was inconsistent with the grant opportunity guidelines. Five projects in the targeted sample were assessed by Health as value with relevant money despite notes in assessments stating that insufficient information was available to assessors. Two projects in the targeted sample included activities that were inconsistent with the relevant guidelines.

Recommendation no. 3

2.100 Department of Health and Aged Care ensure that advice to government on grant funding approval is consistent with the requirements of the Commonwealth Grants Rules and Guidelines and the grant opportunity guidelines, and is comprehensive, evidence-based and accurate.

Department of Health and Aged Care response: *Agreed.*

2.101 *The Department published updated Ministerial Submission templates on the Parliamentary Management Document System (PDMS) at the beginning of April 2023 which include mandatory references to the Commonwealth Grants Rules and Guidelines (CGRGs) and broader finance law requirements, as well as guidance to promote better practice advice being provided to the Minister. The Department will review and strengthen the annual grants assurance plan and testing activities in line with this recommendation. The Department will also implement any subsequent improvements identified in the external review of the financial controls and assurance framework noted above.*

2.102 Section 4.11 of the CGRGs states that where the Minister approves a proposed grant in his or her own electorate, the Minister must write to the Finance Minister advising of the details. The Minister approved four projects in his electorate with a combined commitment of $14.4 million. In

each instance, Health provided advice and correspondence to the Finance Minister advising of the approval of the grants.

Community Grants Hub

2.103 Where the Community Grants Hub was involved in grants administration (see paragraph 1.10), Health's procedures and guidance for the management of grant agreements states that Health is responsible for drafting grant agreements and the Community Grants Hub is responsible for executing the agreement with the grantee.[61] Health's procedures include guidance on engagement and information sharing with the Community Grants Hub.

2.104 Health maintained general partnership agreements with the Community Grants Hub throughout the administration of CHHP and developed a CHHP-specific service level agreement in September 2020, which was updated in December 2022 and provided to the Community Grants Hub for comment. Agreements set out the Community Grants Hub's responsibilities in partnership with Health for: executing and varying agreements; management of funds, including payments, acquittals, and debt recovery; performance monitoring and milestone reporting; finalising agreements; and reporting grants on GrantConnect. The updated version in December 2022 was more explicit than the September 2020 agreement on the process, timeframes and administration of grants, including grant payments and the roles of both agencies for risk and issue management.

Grant variations

2.105 Health has procedures and guidance for varying grant agreements. Health published 63 variations to 25 of the 52 grants that Health explicitly categorised as CHHP. Variations were mainly to milestone dates and funding, with one grant to the Esther Foundation being varied to close the agreement ahead of schedule. Of the 25 grants that were varied, 18 were varied to extend the project completion date and two were varied to bring forward the project completion date, without changes to overall funding. Three CHHP grants were varied to reduce funding and five were varied to increase funding.

Grant reporting on GrantConnect

2.106 The CGRGs state that: 'Reliable and timely information on grants awarded is a precondition for public and parliamentary confidence in the quality and integrity of grants administration'.[62] Entities must report on GrantConnect information on individual grants no later than 21 calendar days after the grant agreement for the grant takes effect, including for ad hoc/one-off grants. The ANAO reviewed GrantConnect reporting for the 52 grants that Health categorised as CHHP, as well as two CHHP-associated grants included in the ANAO's targeted sample.

2.107 Health did not consistently meet the requirement to publish grant awards on GrantConnect within 21 days. Grant agreements were published on GrantConnect in 134 days on average, with a median duration of 51 days. Seven of 52 (13 per cent) CHHP grants were published within the 21-day timeframe. Of the 45 CHHP grants that were not published in the 21-day timeframe, 27 per cent were published more than 100 days after the grants were in effect. The two CHHP-associated grants

61 The Community Grants Hub is administered by the Department of Social Services and is intended to deliver a streamlined process for all community-based grants on behalf of Australian Government departments, including Health. The Community Grants Hub website includes information for applicants and grantees on grant opportunities and grant awards.

62 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 5.1 and paragraph 5.3.

included in the ANAO's targeted sample were both reported within the 21 day time requirement: 11 and 14 days, respectively.[63]

2.108 Requirements for grant reporting on GrantConnect include information on the selection process followed (such as competitive, targeted or restricted and non-competitive). GrantConnect also requires officials to report whether the grant was an ad hoc/one-off grant.

2.109 Of the 52 CHHP grants published on GrantConnect:

- 38 were published as 'closed non-competitive' grants, consistent with the non-competitive approach taken by Health;
- four were published as targeted or restricted competitive;
- five were incorrectly published as 'open competitive';
- one was incorrectly published as 'demand driven'; and
- four did not include the selection process.

Two additional CHHP associated grants included in the ANAO's targeted sample were both published as CHHP grants and one of the two, discussed in Case study 4, was incorrectly published as having been funded through an 'open competitive' grant process. None of the ad hoc grants reviewed by the ANAO were accurately reported as having been ad hoc/one-off grants.

2.110 None of the reporting errors outlined above had been corrected by Health as at December 2022. Health advised that as at April 2023 GrantConnect data relating to selection processes and whether the grant was ad hoc or one-off has been corrected, and that it continues to work with the Community Grants Hub to address the GrantConnect reporting anomalies. A lack of timely and accurate information on grant commitments undermines transparency and accountability, key requirements of the CGRGs.

Recommendation no. 4

2.111 Department of Health and Aged Care establish a quality assurance process to confirm and where necessary correct the accuracy of reporting on GrantConnect.

Department of Health and Aged Care response: *Agreed.*

2.112 *The Department has already taken steps with the Community Grants Hub in the Department of Social Services to rectify the specific anomalies on GrantConnect identified as part of this audit. Under the Streamlining Government Grants Program, reporting of grants on GrantConnect is undertaken by the grant hubs on behalf of client agencies. The hubs now have well-established quality assurance processes in place to support this function, and mechanisms to report any issues of non-compliance with GrantConnect reporting requirements to client agencies. The Department will continue to work with the hubs to address any non-compliance they report, and will review and strengthen the annual grants assurance plan and testing activities in line with this recommendation. The Department will also implement any subsequent improvements identified in the external review of the financial controls and assurance framework noted above.*

63 The ANAO used the date on which the grant agreement was signed as the basis for its calculations.

3. Monitoring and evaluation

Areas examined
This chapter examines the monitoring and evaluation arrangements for individual Community Health and Hospital Program (CHHP) projects and the program as a whole.

Conclusion
Health's monitoring and evaluation of CHHP was partly effective. Health's monitoring of the performance of individual projects was limited, in part due to lack of specificity in agreement milestones. There has been no overall CHHP program evaluation. As at December 2022 an evaluation framework was in development which includes performance measures. Health has identified and acted upon some lessons learned, however this process has not been systematic.

Areas for improvement
The ANAO suggested that Health initiate and document lessons learned activities earlier in the program lifecycle.

3.1 The Commonwealth Grants Rules and Guidelines (CGRGs) require that 'grants administration should have a performance framework that is linked to an entity's strategic direction and key performance indicators'.[64] Performance reporting is the main way that Australian Government entities demonstrate to the Parliament and the public how well they have used public resources to deliver programs and services and achieve outcomes. Performance reporting is fundamental to good management, governance, and decision-making and plays an important role in maintaining public trust and confidence in the public sector and the government. The Commonwealth Performance Framework sets out requirements for the measurement, reporting and evaluation of activities.

3.2 To assess whether the Department of Health and Aged Care (Health) effectively monitored and evaluated the achievement of CHHP objectives, the ANAO reviewed:

- the effectiveness of Health's processes for monitoring compliance with individual project funding requirements, including the achievement of project milestones;
- performance monitoring, reporting and evaluation arrangements for the overall CHHP program; and
- the extent to which Health has identified and actioned lessons learned for CHHP.

Is there effective project compliance monitoring?

Community Health and Hospitals Program project compliance monitoring was partly effective. Health established national partnership or grant agreements for all projects. Agreements included milestones and associated reporting obligations, however, reporting was often not linked to detailed project activities to support effective monitoring of project progress. The release of milestone payments to states and territories followed a process that was not consistently based on sufficient evidence. A number of grant agreements did not have detailed and specific reporting requirements, or did not have key performance indicators, and payments

64 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 10.2.

were often not linked to reporting. These characteristics did not support effective project monitoring. Project records were dispersed across multiple internal systems and were often insufficient to demonstrate active monitoring of project outputs and outcomes. Health has a project management framework which was not mandatory for CHHP projects. However, standard operating procedures developed in October 2022 incorporate the project management framework principles.

Payment monitoring and approvals

3.3 The monitoring of individual project performance relies upon the milestones and associated reporting obligations included in individual project agreements. Health has agreements in place for the 63 projects included in national partnership agreements and for all grants categorised as CHHP by Health. The ANAO's review of CHHP national partnership agreements and grant agreements in a targeted sample of grants (see paragraph 2.49) found that each agreement included milestones as a basis for monitoring progress and making payments.

National partnership agreements

3.4 As noted in paragraph 2.33, robust milestones are a key element of national partnership agreement principles. Requirements for milestone schedules relating to outcomes are outlined in the 2015 Federal Financial Relations Circular 2015/01[65]; the August 2020 Federation Funding Agreements (FFA) Framework and the 2021 Federation Funding Agreement — Health (FFA-Health).

3.5 The full national partnership agreements partially comply with the principles relating to milestone payments outlined in the frameworks. Milestones schedules include reporting due dates and expected payments. The Protiviti 'risk snapshot' commissioned by Health in May 2022 (see paragraph 2.11) noted a lack of clear delivery milestones, timeframes and completion dates in national partnership agreements. The CHHP national partnership agreements have milestone schedules that reference specific project activities, for example, a 'report on completion of concept design and awarding of construction contract'. However, the level of detail varies, including between individual projects covered in the same national partnership agreement. Some milestone requirements are a 'progress report' with no indication of the expectations for project progress to trigger a payment (that is, expected outputs or stage of delivery). For example, a milestone in a national partnership agreement executed with Tasmania in June 2020 was 'provision of a status report on progress' without specifying the nature of information or level of detail required, or expected level of project progress. Project completion dates are not included in any of the milestone schedules as required by the framework.

3.6 A new national partnership agreement template was created as part of the FFA Framework in August 2020. The CHHP national partnership agreements executed from this date followed the new template. Health executed new national partnership agreements with Queensland and the Northern Territory using the new national partnership agreement template. Health informed the ANAO that in 2022 it had varied the South Australia agreement and commenced discussions to vary agreements with Victoria and Western Australia. Health advised the ANAO that where variations to the other agreements are required it is using those opportunities to improve the quality of

65 Council on Federal Financial Relations, *Federal Financial Relations Circular 2015/01*, Treasury, 2015, p.10.

milestones. Variations can only be progressed where the Minister provides authority, and the partner state is in agreement.

3.7 Under the FFA – Health, the Commonwealth's responsibilities include 'monitoring and assessing the performance in the delivery of the initiatives under FFA Schedules to ensure that outputs are delivered and outcomes are achieved within the agreed timeframe'. The FFA – Health states that the Commonwealth will make payments subject to the performance report demonstrating the relevant milestone has been met.[66] The method for monitoring and approving CHHP national partnership agreement milestone payments was partly aligned with this responsibility.

- Delegate approval of payments — In August 2018 the Minister authorised Health officials at Assistant Secretary level or above to make determinations that performance milestones have been met and whether payments to states should be made under national partnership agreements. ANAO analysis of the first milestone payment status for 63 CHHP national partnership agreement projects, found that payment approval minutes on file were signed by the appropriate delegate for 56 projects and where a payment approval minute was not on file, this was because milestone deliverables were overdue (five projects), or a payment approval minute was not required as the first scheduled milestone payment was due in 2023 or 2024 (two projects).
- Receipt of milestone reports — Principle 8 of the FFA Framework (Accountability and Transparency) and clause D35(d) of Schedule D of the Intergovernmental Agreement on Federal Financial Relations[67] together indicate payments to states and territories should be based on the performance reporting requirements in partnership agreements having been met. For 22 of the 56 payment approval minutes on file, no milestone report was required as they related to a payment on execution of the agreement. At November 2022, according to information provided in the payment approval minute to the delegate, a first milestone report had been received for the remaining 34 national partnership agreement projects. Two of the first milestone reports were verbal only.
- Approval of payments — Of the 34 projects where an approval minute existed and a milestone report was provided according to the minute, Health asserted in the relevant minute that the milestone requirement(s) had been met for 32 of the projects, and not met for two of the projects. The ANAO found that, of the 32 projects where the delegate approved a payment to be made on the basis of a milestone report, records contained sufficient evidence to support the payment for 14 projects. This is because:
  - of the 32 projects where Health asserted in the relevant minute that the milestone requirement(s) had been met, the ANAO was able to find the milestone report for 20 projects and unable to find the milestone report for 12 projects; although

66 Commonwealth of Australia and the States and Territories, *Federation Funding Agreement - Health*, 2021, paragraphs 19 and 22.

67 Clause D35(d) of Schedule D states 'in the case of facilitation and project payments, the relevant Commonwealth Minister will authorise, based upon funding and performance reporting arrangements set out in the National Partnership or FFA schedule, whether the facilitation or project payment should be paid, and may formally authorise a Commonwealth agency official to act on their behalf to perform this responsibility for individual National Partnerships or FFA schedules'.

- for the 12 projects where the ANAO could not find a milestone report, the approval minute for five had an evidence-based assessment of the milestone report against requirements; and
- of the 20 projects where there was a milestone report, the ANAO considered that the evidence provided in the milestone report supported the approval for nine projects and did not support the approval for 11 projects as evidence provided in the report was insufficient to demonstrate achievement of the milestone.

3.8 Health sometimes took additional action when information it received to support milestone payments did not address requirements, however it accepted milestone reports which did not meet requirements (see Case study 5).

Case study 5. Peel Health Campus

On 25 May 2020 Health executed a national partnership agreement with Western Australia that included a $25 million project to expand Peel Health Campus. The project involves four components: expansion of the emergency department; construction of a mental health facility; refurbishment of the medical imaging department; and construction of an eating disorder facility. During the development of the national partnership agreement, it was agreed between Health and the Western Australian government that high level milestones for the project would be sufficient and that a variation to the national partnership agreement could be sought to incorporate additional project detail once it became available. The four components are described in the agreement however the payment milestones make no reference to the components. The milestones do not include the requirements set out in the FFA – Health, such as relationship to activities and expected completion dates for each component of the project.

The first milestone for the project was due in July 2020 and was linked to a payment of $7.5 million. The milestone required a 'report on planning' as evidence to support payment. In a July 2020 payment approval minute, the approver was advised that a verbal update had been accepted in place of the documented milestone requirement and that it had been agreed that the state would provide a report later. No written record of the verbal update was found by the ANAO. The ANAO has been unable to identify a copy of the report promised in the verbal agreement. Payment was approved on 22 July 2020.

The second milestone (a 'report on [the project]') was due on 1 July 2021 and was linked to a payment of $7.5 million. The Western Australian government provided a one-page report on 2 July 2021. The report stated that no progress had been made for three out of four components of the project and noted the state's intention to seek the Minister's approval for variations to the project. A payment approval minute signed on 27 July 2021 states that 'project plans and reports … have been received and deemed to be acceptable' and the second instalment of $7.5 million was paid to Western Australia.

The project experienced further delays. In August 2021 the Health Minister for Western Australia wrote to the Commonwealth Minister for Health requesting various changes to the project including new locations for the mental health and eating disorder facilities and a delay to the refurbishment of the medical imaging department.[a] In January 2022 the Minister provided 'in-principle' support for changes to the project milestone schedule, and advised that a variation of the agreement could not be agreed without clarification from Western Australia of the construction timeframes. As at February 2023 this information had not been provided by the Western Australian government.

Note a: The national partnership agreement did not specify a completion date.

3.9 Milestone reports were only sometimes attached to payment approval minutes (although minutes sometimes included the file reference number of the milestone report). Where milestone reports were not attached or linked, minutes did not include summaries of the contents of milestone reports or updates on project progress. Approvers had poor oversight of the progress of projects. Revised October 2022 procedures for evaluating milestones and approving payments now require that the delegate be provided with an evidence-based evaluation before approving a milestone payment. The ANAO notes that the inclusions of supporting evidence in approval minutes has improved since the implementation in October 2022 of revised procedures.

Grant agreements

3.10 One of the seven principles of effective grants administration under the CGRGs is an outcomes orientation; when administering grants, officials should focus on achieving government policy outcomes. This involves grant agreements that contain milestone information that is phrased in such a way that it is clear how and when these objectives have been achieved.[68] At a minimum, a grant agreement should specify deliverables, payment schedules, reporting requirements and acquittal procedures.

3.11 Grant agreements with Primary Health Networks (PHNs) for CHHP projects were developed as schedules to existing agreements that Health maintains with each PHN. The CHHP projects were subject to the reporting and acquittal requirements of the overarching PHN funding agreement. Grant agreements for non-government organisations were developed on standard grant agreements templates or capital work schedules.

3.12 The development of grant agreements is supported by Commonwealth grant templates providing relevant clauses and guidance. The 2018 template included Department of Finance guidance on specifying activities, milestones and reports in agreements. The guidance stated that there should be a detailed description of the activity linked to key performance indicators, which can be structured as 'milestones'. Milestones should also be clearly linked to the activity description.[69]

3.13 A review of the 16 grant agreements in the targeted sample (which included one PHN grant and 15 grants with non-government organisations) found that the grant agreements were consistent with requirements of the CGRGs and included: objectives; outcomes and outputs; payments and milestone schedules; and reporting and acquittal requirements. Payment and

68 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraphs 10.1, 10.3, 12.8 and 12.10.

69 Department of Finance, *Commonwealth Standard Grant Agreement*, Finance, 2018, pp. 7–9.

milestone obligations included requirements to submit establishment reports, periodic performance and progress reports, financial acquittal reports and final reports upon completion of the grant.

3.14 While CHHP grant agreements contained these elements, they did not align with Department of Finance guidance in relation to including detailed descriptions of activities and linking milestones to activities.

- Across the 52 projects categorised as CHHP by Health, 12 included specific detail on the information to be included in reporting. This included a requirement for documentary evidence and related mainly to infrastructure projects (11 of 12). Forty had generic reporting requirements (for example, a 'Report on the progress of the planned activities as set out in the Activity Work Plan').
- Agreements often included vague descriptions of activities. For example, the activity description for the Lord Somers Camp project (see Case study 4) was 'establish an upgraded community hub'. The agreement for a $2.5 million grant to the Police Association of Victoria for the BlueHub project (see Appendix 3) included a requirement to provide a series of approximately six-monthly progress reports against 'key activities', however 'key activities' were undefined.
- Some of the grant agreements were not consistent with the CGRG principles of governance and accountability and value with relevant money. Fifty-six per cent of grant agreements (29 of 52) did not link payments to milestones. Six of the grants were paid in full immediately after being signed. For example, a $9 million grant to the Mater Hospital in Townsville for the relocation of a private maternity facility was paid in full up-front.
- Of the 51 grants where an activity was described, 56 per cent did not include clearly documented key performance indicators. Of 20 PHN grants, one agreement included key performance indicators. Sixty-nine per cent of non-government organisation grant agreements included key performance indicators.

3.15 Some of the grant agreements were not established in a timely manner. Although the median time taken to execute agreements following approval for the 16 grants in the targeted sample was 56 days, the time taken for Health to negotiate and execute the 16 agreements ranged from nine days for the $9 million grant to the Mater Hospital to 606 days for a $10.5 million grant to Safe Spaces for the provision of mental health services.

3.16 The CGRGs state that officials should monitor payments to provide assurance that relevant money allocated to grantees has been spent for its intended purpose.[70] Health had procedural guidance for the administration of grant payments at the time CHHP was announced in December 2018. The CHHP grant agreements allow the Commonwealth to withhold grant payments if the grantee fails to comply with any aspect of the agreement.

3.17 For some projects, Health shares responsibility with the Community Grants Hub (CGH) for monitoring compliance against milestone requirements and administering payments. A service level agreement with CGH sets out that from July 2019 the CGH was to release payments and assess acquittals according to the requirements of the grant agreements for which it was responsible.[71]

70 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 12.12.

71 The CGH directly manages 63 CHHP grants on behalf of Health.

Milestone reports are sent by grantees to CGH. Health receives an assessment report from the CGH confirming whether the milestone requirements have been met. Grant agreements provide for Health to independently assure claims in grantee milestone reports if necessary. Although Health advised the ANAO that it regularly requests milestone reports from CGH, the May 2022 Protiviti 'risk snapshot' (see paragraph 2.12) observed that while Health was the program owner of CHHP and the CGH administered the majority of the grants to non-government organisations, the governance structures between departments for the management of the program 'was originally set up to operate as a "set and forget" arrangement, whereby the Department significantly relies on the Hub for management of grants' and that there was 'an increased risk that this approach does not necessarily align with Government expectations for the Department's role in managing and reporting on grants arising from an election commitment'.

3.18 In October 2022 Health developed a standard operating procedure for managing non-government grants which outlines responsibilities for specific roles involved in managing a grant, guidance on assessing submitted reports and associated documents, and how to complete Health Tracker reporting. This document is supported by template assessment documents for grant and national partnership agreements. The December 2022 redraft of the CHHP service level agreement between Health and CGH (see paragraph 2.104) may increase Health involvement. The draft version reviewed by the ANAO includes a requirement that the CGH provide milestone reports to Health and only pay following Health's approval of the report.

Monitoring records and systems

3.19 The management of individual projects was undertaken by multiple business areas in Health with varying approaches to information storage. Milestone reports and related supporting evidence such as correspondence were filed across multiple Health systems. Records supporting monitoring activity were located in the Grants Payment System (maintained by the CGH), Capital Works Portal (maintained by Health)[72] and TRIM (Health's electronic document and records management system). In some instances information was inconsistent or duplicated across systems.

3.20 Health uses a SharePoint site called 'Health Tracker' for recording project status information. Information stored in the various systems described in paragraph 3.19 is manually transferred into Health Tracker, where it is to be reviewed by senior Health officials.[73] There are two versions of the Health Tracker: 'Planning' and 'Implementation'. The 'Planning' version is used for tracking government initiatives, including election commitments, Budget measures and ministerial announcements and for reporting against the commitments to Health's Executive, the Minister's office and the Department of the Prime Minister and Cabinet. The 'Implementation' version is used to track departmental projects and initiatives and complete monthly status reporting. Health advised the ANAO that CHHP projects are listed in the 'Planning' Health Tracker. Health Tracker is intended to support executive and government reporting and neither version contains the detailed information necessary to support day-to-day project management and monitoring activities. Health confirmed to the ANAO that Health Tracker is a status update

72 The Capital Works Portal is an online system allowing grant recipients to submit status reports and supporting documentation for Health grants. The system is primarily intended to support infrastructure projects however has been used for mixed infrastructure-service delivery projects.

73 Information includes project title and status, funding approach, benefits to be realised, year to date expenditure and budget status, and details of most recent management clearances of the information.

repository and not a project management tool. Health also indicated that it is introducing a new reporting and project management system in 2023.

Outcome monitoring

3.21 The Health Tracker includes overall ratings of individual projects as on track as per project plan (green), a problematic implementation (amber) or a highly problematic implementation (red). Overall project ratings are to be derived from the rating and assessment of multiple criteria (whole of life budget, current financial year budget, schedule, scope, risk, issues and benefits). The process for determining the overall rating is outlined in Health's project management framework (see paragraph 3.23). The Health Tracker ratings are not linked to evidence, and it is unclear on what basis the CHHP project ratings were made.

3.22 The ANAO examined 12 projects in detail to determine whether and how project outputs and outcomes were monitored.[74] Of the 12, the ANAO assessed six to be subject to regular ongoing monitoring of project activities (on the basis of milestone reports and related correspondence found in project files). One project was at an early stage and project records were therefore expected to be limited. The remaining five were assessed to be insufficiently monitored: records included grant agreements, letters of offer and some communication between Health and grant recipients, however other records were generally absent.

3.23 The Health intranet describes a project management approach as important to the successful delivery of outcomes and realisation of benefits from projects, and includes an emphasis on capturing and using lessons learned from individual projects. Health has a project management framework and project management templates (for example, for business plans and risk registers) on its intranet for use by staff engaged in management of projects registered in the 'Implementation' Health Tracker.[75] Use of the project management framework for other projects is optional. Templates that relate to outcome monitoring include a lessons learned register, project closure report and benefits register.

3.24 As none of the CHHP projects were listed in the 'Implementation' Health Tracker, none were required to adhere to the project management framework and templates, and no CHHP projects applied the project management framework or used the templates. As at October 2022 revised standard operating procedures for managing grants and national partnership agreements that are 'approved for interim use' include reference to the project management framework as the basis for project officers determining project status and for reporting in Health Tracker. An October 2022 performance reporting and assessment template for national partnership agreements includes guidance to users which is aligned with the performance criteria contained in the project management framework.

74 The 12 sampled projects were selected to provide a cross section based on funding type (national partnership agreement — three, Primary Health Network grant — five, non-government organisation grant — four) and project status rating in Health Tracker. Records for these projects were filed primarily in TRIM, Health's electronic document and record management system, and to a lesser extent in the Capital Works Portal.

75 Health guidance states that the project management framework and templates 'should' be used for 'Tier 1, 2 and 3' projects registered in the 'Implementation' Health Tracker, and is optional for smaller projects.

Is there an effective program monitoring, evaluation and reporting framework?

Health has established an enterprise-level project management framework to guide the monitoring and reporting of individual projects. Health does not have an enterprise-level program management framework. There was no plan for monitoring and evaluating CHHP until December 2022, when a draft program evaluation framework was developed. The draft program evaluation framework is consistent with Department of Finance guidance, however it was developed late in the lifecycle of CHHP and is not underpinned by a robust data collection methodology. Reporting of CHHP status has been primarily at the project level with little insight into overall CHHP program performance.

Program monitoring and evaluation framework

3.25 Health's intranet page distinguishes between project and program management, with the former described as 'a focus on managing the delivery of a specific objective and outcome within agreed timeframes, budgets, scope' and the latter described as 'a focus on managing related projects to [deliver] long-term, strategic outcomes'. While Health has developed an enterprise framework to guide project management for certain types of projects (see paragraph 3.23), it has not developed an analogous framework for program management. In December 2022 Health's intranet stated that 'A program management approach for the department is under review'.

3.26 The Commonwealth Evaluation Policy[76] and Finance guidance on conducting evaluation[77] note that Commonwealth entities are expected to deliver support and services by setting clear objectives for major policies, projects and programs, and consistently measuring progress towards achieving those objectives. One of the key principles is planning for monitoring and evaluation before beginning any program or activity. As part of a tool kit of evaluation resources, Finance produces a template for an evaluation framework, which includes the following key elements: program overview; upcoming planned evaluations (distinguishing between evaluation for monitoring purposes and overall impact evaluation); program logic; evaluation questions and data matrix; roles and responsibilities; timelines for evaluations; evaluation methodologies; and risks and controls.

3.27 In December 2022 Health developed a draft CHHP program monitoring and evaluation framework. The December 2022 draft framework describes how Health intends to monitor and evaluate CHHP, noting that it is intended to be used in conjunction with Health's project management framework. The draft framework describes the objectives of CHHP, CHHP timeframes, and key stakeholders; and provides a program logic that includes intended short, medium and long-term outcomes (see Appendix 6). The framework outlines performance measures that are mapped against outputs and outcomes; sets out evaluation questions, activities and requirements; assigns responsibility for monitoring and evaluation of CHHP to the Portfolio Programs Branch within Health; and provides templates for closure reports and record-keeping instructions.

76 Department of Finance, *Commonwealth Evaluation Policy* [Internet], Finance, 2022, available from https://www.finance.gov.au/government/managing-commonwealth-resources/planning-and-reporting/commonwealth-performance-framework/commonwealth-evaluation-policy [accessed 5 January 2023].

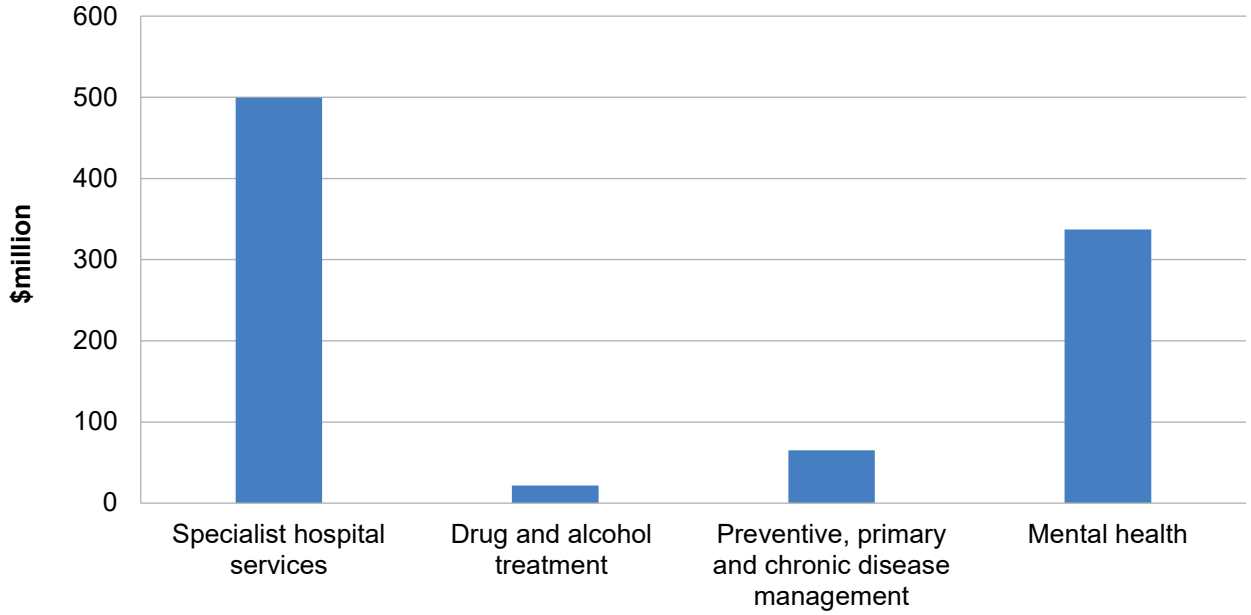
77 Department of Finance, *Resource Management Guide 130: Evaluation in the Commonwealth*, Finance, 2021.

3.28 The draft CHHP monitoring and evaluation framework contains many of the elements of an effective monitoring and evaluation plan in alignment with Finance guidance. It was, however, developed very late in the life cycle of CHHP, which commenced in 2018–19 with funding allocated to 2024–25, and is not yet finalised. This limits the framework's value for monitoring to at best approximately two of the seven years that CHHP is to be in effect, and means that the program logic has not informed project assessment, selection and design, as all CHHP funds were already fully committed at the time of its development.

Performance measurement

3.29 The CGRGs state that the objective of grants administration is to promote the proper use and management of public resources through collaboration with government and non-government stakeholders to achieve government policy outcomes.[78] No program evaluation activity has been undertaken to examine whether CHHP has achieved its stated outcome of supporting patient care while reducing pressure on community and hospital services in four healthcare areas (see paragraph 1.2). Figure 3.1 shows the distribution of funding for all 108 CHHP and associated grants across the four CHHP priorities announced by the government in December 2018.

Figure 3.1: Distribution of grant funding by priority area



Source: ANAO analysis of Health records as at November 2022.

3.30 Health commenced identifying and documenting criteria against which to monitor the performance of CHHP in December 2022 as part of the draft CHHP monitoring and evaluation framework. The draft monitoring and evaluation framework lists performance indicators and how they contribute to monitoring and evaluation (see Appendix 7). Almost every draft performance measure requires project officers to make a subjective assessment as to whether deliverables, expectations and objectives have been met. The majority of performance indicators are project rather than program-oriented. There is no baseline data that could demonstrate change over time.

78 Department of Finance, *Commonwealth Grants Rules and Guidelines 2017*, Finance, paragraph 2.1.

3.31 The draft CHHP monitoring and evaluation framework acknowledges that:

> The CHHP was not specifically designed to support an evaluation process. The program's objectives are high-level and broad. Further, appropriate data is not directly available to support an objective assessment of the health system state at the commencement of the program and to facilitate an assessment of each project's impact, or the collective impact of the program (all projects) to the system. The project agreements for individual projects have also not been designed to support evaluation processes, such as through requiring the provision of data that would support an assessment of impact. As a consequence of the program's design, the evaluation of individual projects and the program as a whole must necessarily be based on the use of whatever data is available to demonstrate impact (e.g. data about patient throughput or facility capacity) and a subjective assessment as to overall impact.

Reporting

3.32 Commencing in early June 2019, weekly status reports were provided to the Health Executive and Minister's office. These reports provided a high-level overview of progress in awarding funding under the program, as well as identifying delivery issues and risks. The reporting was proposed to only extend until the end of June 2019 while tranche one (government priority) projects were to be delivered, however, there was one additional report on 8 August 2019.

3.33 Subsequent to the August 2019 report, no further regular CHHP program reporting to the Health Executive and Minister's office was undertaken, although project reporting was provided on a monthly basis through the 'Health Tracker'. 'Health Tracker' reports did not provide insight into program performance against objective criteria.

3.34 Commonwealth entities must report in their annual report on actual results achieved against the performance measures published in their corporate plans and portfolio budget statements. This performance information must be presented as an annual performance statement in accordance with the *Public Governance, Performance and Accountability Act 2013* and Public Governance, Performance and Accountability Rule 2014. While overall responsibility for CHHP rests with the Portfolio Programs Branch, some projects are managed by specific policy areas in other Health divisions and branches. As a consequence, CHHP contributed to seven programs within Health's 2018–19 and 2019–20 annual performance statements and six programs in the 2021–22 performance statements (Table 3.1). Although the combined value of CHHP is significant, when spread across the multiple Health programs, none is individually material. Performance information about CHHP is therefore not made publicly available through annual performance reporting.

Table 3.1: Portfolio Budget Statements Programs relating to Community Health and Hospitals Program projects

2018–19 and 2019–20 Programs	2021–22 Program
1.1 Health Policy and Research and Analysis	1.1 Health Research, Coordination and Access
1.3 Health Infrastructure	1.2 Mental Health
2.1 Mental Health	1.3 Aboriginal and Torres Strait Islander Health
2.2 Aboriginal and Torres Strait Islander Health	1.5 Preventative Health and Chronic Disease
2.4 Preventive Health and Chronic Disease Support	1.6 Primary Health Care Quality and Coordination
2.5 Primary Health Care Quality and Coordination	2.2 Hearing Services
4.2 Hearing Services	–

Source: ANAO analysis of Health 2018–19, 2019–20 and 2021–22 annual reports.

Have lessons learned informed the administration of the program?

Health did not apply a systematic approach to capturing lessons learned until December 2022. Some lessons have been identified and acted upon in an ad hoc manner over the course of the program's operation.

3.35 Documented lessons learned provide a resource to inform future planning and the improvement of ongoing management. For the majority of the period that CHHP has been in operation Health has not applied a planned approach to identifying and documenting lessons learned. There are mechanisms for capturing lessons learned for Tier 1, 2 and 3 'Implementation' Health Tracker projects as part of Health's project management framework, and a draft CHHP monitoring and evaluation framework incorporates the capture of lessons learned.

3.36 In an October 2022 response to an ANAO request for information, Health stated that ' … no process to identify and address lessons learned has been formalised to date … '. Health subsequently provided to the ANAO in December 2022 a lessons learned register relating to non-government organisation CHHP grants. All lessons included in the register were entered in November 2022. The register contained 25 lessons learned and included a categorisation of each lesson across a range of project management concepts, a description of the lesson, and actions that had resulted from the lesson. Recorded lessons ranged from specific procedural lessons that had no applicability to future activities to broad lessons about grant administration.

3.37 In addition to the November 2022 lessons learned register, the ANAO observed Health assessing and communicating some lessons through other activities.

- On 12 June 2019 an official in the Program Delivery Branch wrote to a senior executive responsible for CHHP about the processes used to award funding in the first tranche of funding at the end of 2018–19. Stated concerns included:
  - government announcements and media releases occurring before robust grant administration planning was finalised;
  - variability in the quality of, and level of information provided, in proposals received from organisations;

  - urgency of timeframes for the commitment of 2018–19 grant funding;
  - lack of documentation and poor records management;
  - inconsistent messaging and information sharing; and
  - lack of suitable resources (for example, staff with experience to undertake the urgent work).
- On 23 June 2019 the Infrastructure Branch[79] held an annual planning day at which time was set aside for collective discussion of 'learnings from June activities'. The branch had been a key participant in the development and subsequent awarding of CHHP funding from January to June 2019. The outcomes of the learnings discussion were not formally documented, however handwritten notes stated by Health to have been collected on the day included lessons learned from CHHP implementation.
- The project plans for CHHP tranches two (August 2019) and three (November 2019) include references to lessons learned informing the planning for the relevant tranche. Tranche two planning was informed by the experiences of delivering tranche one, and tranche three planning incorporated learnings from the previous tranches. The project plans describe difficulties in gaining Australian Government Solicitor advice within the required timeframes. The plans included agreeing additional staffing resources with Australian Government Solicitor and Health's internal legal team, undertaking more comprehensive information gathering prior to requesting an Australian Government Solicitor assessment, and building in extra time for assessments to occur. Health also developed a templated request for advice which was intended to minimise the requirement to request follow-up information. The ANAO sighted examples of the request template being implemented in subsequent tranches.
- The leadership group involved in the delivery of CHHP projects met in September 2019 to review the delivery of tranche two and commence the planning for tranche three. Points for discussion on the day included: 'What has/hasn't worked well with tranche 2 (and tranche 1) that we should use? What are some things that may warrant treating tranche 3 different to how we managed tranche 2? Do we have similar risks/dependencies to tranche 2?'.
- The stated intent of the May 2022 Protiviti 'risk snapshot' was to 'provide real time assistance to Senior Responsible Officers (SROs) through preliminary risk identification presented in this risk snapshot … '. The snapshot relied predominantly on interviews with key Health officials who had been involved in administering CHHP. The issues reported include lessons learned. The report noted that 'Capability of staff understanding the statutory frameworks that apply to grant management has been a challenge, this is urgently being addressed by the Branch including through standardising processes (and templates) … ' The ANAO has sighted revised work procedures issued in October 2022 which are intended to address this.

79 Later called the Portfolio Programs Branch.

Opportunity for improvement

3.38 Health could ensure that the process of identifying and capturing lessons learned commences early in the program management cycle and that lessons are documented in a consistent and timely manner. Documented records of lessons learned could be reviewed periodically as part of process improvement activity.

Grant Hehir
Auditor-General

Canberra ACT
5 June 2023

Appendices

Appendix 1 Entity response

Department of Health and Aged Care response

Australian Government
Department of Health and Aged Care

Secretary

Mr Grant Hehir
Auditor-General for Australia
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

Department of Health and Aged Care response to the Proposed Audit Report – Administration of the Community Health and Hospitals Program.

Thank you for providing the Australian National Audit Office's (ANAO) proposed report pursuant to section 19 of the *Auditor-General Act 1997* on the audit of the *Administration of the Community Health and Hospitals Program* (CHHP). I appreciate the opportunity to respond to the report.

The Department of Health and Aged Care (Department) notes the findings in the report, accepts the recommendations and has commenced implementation.

The report highlights a number of challenges in the administration of the CHHP and related 2019-20 Budget projects. These challenges are in part due to the rapid genesis and implementation of projects that the former Government selected and announced.

Notwithstanding this fact, the Department acknowledges that a number of grants were not established in full accordance with the procedural requirements of finance law. However, the report recognises that the Department has taken appropriate actions and made improvements to grant administration. It is also important to emphasise that throughout the administration of the program the Department has considered carefully its stewardship obligations and has acted with honesty, impartiality and transparency.

The ANAO's findings will support ongoing review of and improvements in the Department's advice to governments, assurance arrangements and delivery of future programs. The challenges experienced by the Department to implement projects that have already been selected and announced by government are also experienced by other agencies, in particular around election commitments.

Phone: (02) 6289 8400 **Email:** Brendan.Murphy@health.gov.au
GPO Box 9848 Canberra ACT 2601 - **www.health.gov.au**

As a priority, the Department is commissioning a comprehensive external review of its financial controls and assurance framework. In addition, the Department recommended refinements to grant processes under finance law to Minister Butler who wrote to Minister Gallagher, and will continue to work with the Finance Portfolio. The Department is committed to supporting better processes for funding recipients and grants administrators across the Commonwealth, whilst ensuring the proper use and management of public resources.

Please find the Department's summary response for integration within the final report at Attachment A and itemised responses to each recommendation at Attachment B. Editorial comments are also provided at Attachment C.

If you have any questions regarding the department's response please contact Narelle Smith, Assistant Secretary, Corporate Assurance Branch on (02) 6289 5342.

Yours sincerely

Brendan Murphy

8 May 2023

Response to extract of this report from Ms Glenys Beauchamp PSM

1 Background and purpose of this response

1.1 On 6 April 2023, the Auditor-General provided me with a redacted extract of a proposed report of the Australian National Audit Office (ANAO) on the administration of the Community Health and Hospitals Program (CHHP) that has been prepared for tabling in parliament (Extract).

1.2 The Extract contains paragraphs 2.53, 2.54 and a "Case study 2" under the heading "Grant opportunity guidelines".

1.3 The Extract relates to conduct within the Department of Health (Department) between 2019 and 2022, as the Department of Health and Aged Care was then known, prior to July 2022. I note that I was the Secretary of the Department from 18 September 2017 to 28 February 2020.

1.4 I provide the below comments on the version of the Extract pursuant to section 19 of the Auditor-General Act 1997 that was provided to me on 6 April 2023 and the amendments agreed by the Auditor-General, of which I have been informed. I understand that there may be some additional amendments made to the text of the Extract prior to publication of the final report, and to the extent that this occurs I will be advised of any substantive amendments and be provided with an opportunity to update my comments on the Extract.

1.5 I also enclose a marked-up version of the Extract, which includes the editorial changes that I submit, for the reasons outlined below, are appropriate and should be incorporated into the text of the final report.

2 Preliminary comments

2.1 I would like to thank the Auditor-General and the ANAO for the opportunity to comment on the proposed report on the administration of the CHHP. I note that as I have only been provided with two paragraphs and a case study of the report, which I understand is over 80 pages, it is very difficult for me to provide a well-considered response. I requested copies of the contemporaneous material relied on by the ANAO in preparing the Extract. Ultimately, the Department provided me the contemporaneous material which I have relied on to make my comments.

2.2 With the limitation of only being provided parts of the proposed report and based on the materials provided to me by the Department relevant to the Extract and correspondence with the ANAO, I offer the below comments on the Extract.

2.3 As Secretary of the Department, I took my obligations under the Finance Law, including the Commonwealth Grants Rules and Guidelines (CGRGs), very seriously and would similarly have taken any non-compliance with the Finance Law that was brought to my attention very seriously. In my experience in the Department, public servants generally, including senior officers, took their obligations under the Finance Law very seriously. I do not recall being asked to provide authorisation to officers of the Department for non-compliance with the Finance Law at any point during my term as Secretary, and do not believe that I was in a position to provide such authorisation.

2.4 During my time at the Department, there were strong governance arrangements and processes to guide decision-making and ensure that the Department complied with its obligations. The Department had an Executive Board, Audit and Risk Committee and Program Assurance Committee, which was put in place while I was Secretary of the Department. The Program Assurance Committee was established to promote excellence in program delivery across all programs to provide assurance to the Executive Board on management arrangements, accountability measures and performance results. A further purpose of establishing the Program Assurance Committee was to align resources, capabilities and senior focus, relative to risk and the achievement of intended outcomes.

2.5 Further, previous ANAO reports, advice from the Audit and Risk Committee and Public Governance, Performance and Accountability Act 2013 (PGPA Act) compliance reports were carefully considered by the Department when strengthening the Department's process for designing and administering grants. For example, whilst I was Secretary I initiated an independent review (led by an ex-Secretary of the Department of Finance) of how unsolicited grants were being managed, which focused on the Indigenous Australians' Health Program.

2.6 Under these governance arrangements, instances of non-compliance with the Finance Law were required to be reported both internally and externally, and prompt action was required to be taken to address or correct the non-compliance.

2.7 In my role as Secretary, I was not involved in the day-to-day administration or delivery of grants by the Department. I was only involved in the grant process where strategic program level decisions were being made, or where significant stakeholder communications were required. As a result, I was not involved in individual grant management, nor for compliance (or non-compliance) of particular grants with the CGRGs.

2.8 However, the Executive Board was provided with an annual PGPA Act compliance report detailing the number, value and nature of instances of non-compliance in grants administered or delivered by the Department. Those reports were prepared by the financial management area in the Department and provided to Audit and Risk Committee for consideration. The reports included information about whether any instances of non-compliance were considered significant, and whether there were any systemic issues associated with non-compliance that needed to be addressed. The reports also included actions required to strengthen compliance arrangements such as reviewing internal controls and educating program managers on changes which had occurred in the CGRGs.

2.9 I do not recall any serious or systemic patterns of non-compliance in relation to the administration and delivery of grants being brought to my attention while I was the Secretary of the Department. To the contrary, it was my assessment that during the period I was Secretary, the Department had strong governance arrangements in place with respect to the administration and delivery of grants, including with respect to monitoring and mitigating the risk of non-compliance. As outlined in further detail below, the grants referred to in the Extract represent a very small portion of the total grants administered by the Department and my experience is that instances of non-compliance were the exception, rather than the norm.

3 The grant process

3.1 The Department provides a considerable amount of funding through grants for a variety of programs and services. In the 2018-19 financial year, for example, I understand that the Department delivered 12,610 grants with committed funding of $7.1 billion. During my time as Secretary, grants in the Department covered a range of different services and were provided to organisations and individuals who delivered activities in the health, aged care or sport areas. The activities delivered included, for example, research, the provision of services direct to the community and vulnerable groups, providing infrastructure and building health system capacity.

3.2 During my time as Secretary of the Department, the Department administered different types of grants, including:

(a) grants funded by the Commonwealth and administered by the states and territories through funding agreements;

(b) grants funded by the Commonwealth and delivered through primary health networks (PHNs), being independent organisations that coordinate healthcare services in their region;

(c) grants provided through a competitive process or non-competitive selection processes; and

(d) one-off or ad hoc grants that generally did not involve planned selection processes and were designed to meet a specific need, and included unsolicited proposals.

3.3 I recall that there were different processes and governance arrangements in place for the management of each of the types of grant described at paragraph 3.2.

4 Grants administered under the CHHP

4.1 Paragraph 2.53 of the Extract states that the development of grant opportunity guidelines (GOGs) is a key requirement in the design stage of a grant. My recollection is that with respect to the CHHP, there was not a typical grant program design stage in relation to the grants as the projects and proponents that were to receive grant funding through the CHHP were selected and announced by the Government as part of the budget processes and election commitments involving consultation with the states and territories. The Department was then required to assess and put in place arrangements for the projects agreed by the Government. As a result, in contrast to a typical design stage where a grant program was designed prior to a recipient being selected, the Department was required to develop the GOGs after the recipients of the grants had already been determined.

4.2 The CHHP program also differed from a typical grants process in a number of other respects. First, it was on a large scale, with funding of $1.25 billion provided over 7 years. Second, the Department was required to deliver the grants as quickly as possible. Third, as the endorsed projects were publically announced, grant recipients, as well as the Government, were eager to see that funds were received quickly. In many instances, this was to ensure continuity of services, particularly to vulnerable groups in the community.

4.3 In light of the above, paragraph 2.53 does not accurately reflect the circumstances in which the grants under the CHHP were required to be administered and delivered by the Department. As I was only provided with the Extract, I do not know if this is explained

elsewhere in the report. Accordingly, the changes that I request include revisions to address this lack of context.

5 My role in grants approvals

5.1 As noted above, in my role as Secretary, I was not involved in the administration or delivery of any individual grant. To my recollection, grant implementation arrangements, including the application of the CCRGs, were typically managed by program managers at the Senior Executive Service Level Band 1 and 2, with oversight from a Deputy Secretary. This involved officers from both the program or policy areas of the Department and the grants administration area of the Department.

5.2 I believe I would recall had I ever been asked to approve non-compliance in relation to a particular grant or group of grants as to do so would be a very serious matter. I do not recall approving, or being asked to approve, non-compliance in relation to any of the following (whether individually or collectively):

(a) the 24 internally reported breaches (non-CHHP) referred to in paragraph 2.54 of the Extract;

(b) the seven CHHP and associated grants referred to in paragraph 2.54 of the Extract; or

(c) any of the grants that featured in the emails of 18 September 2019 and 28 October 2019 that form the basis of Case study 2 in the Extract.

6 Scope of non-compliance

6.1 I am informed by the Department that there were 22,007 unique active grants across the 2019-20, 2020-21 and 2021-22 financial years.

6.2 Of these grants, the Department reported breaches of the requirement in section 4.4a of the CGRGs to develop GOGs 24 times, covering 221 grants. Therefore, only around 1% of the 22,007 grants were affected by breaches of the obligation under the CGRGs to develop GOGs.

6.3 In my view, a non-compliance rate of 1% does not suggest that there were systemic issues of non-compliance in grant approvals within the Department. To the contrary, it suggests that the overwhelming majority of grants were compliant. I also note that 12 of the 24 breaches post-date my time as Secretary of the Department. This is consistent with my recollection that serious or systemic patterns of non-compliance in relation to the administration and delivery of grants were not brought to my attention while I was the Secretary of the Department.

6.4 In any event, I note that these 24 breaches are not related to CHHP grants, the subject of the ANAO performance audit.

6.5 In relation to the seven CHHP and associated grants, where the ANAO found that the Department did not develop GOGs (referred to in paragraph 2.54), these represent a very small portion of the total 22,007 active grants identified by the Department between 2019 to 2022 (around 0.03% of the total active grants) and are among 108 CHHP and associated grants that required GOGs (approximately 6.5%).

6.6 In light of this, paragraph 2.54 of the Extract, as drafted, is misleading and does not provide adequate context in relation to the scale of the breaches referred to. Accordingly, the changes that I request include revisions to address this lack of context.

7 Nature of breaches of the CGRGs

7.1 Paragraph 2.54 does not include any reference to the nature of the breaches of the CGRGs, the status of the GOGs at the time of non-compliance or any corrective action taken by the Department in relation to the breaches.

7.2 As I understand it, most of the breaches referred to in paragraph 2.54 occurred where the Department was seeking to ensure continuity of service and mitigate risks to programs caused by delays, in furtherance of the goals of the Department and in order to deliver outcomes for stakeholders and provide value for money.

7.3 None of the 24 breaches referred to in paragraph 2.54 were classified as significant. Of the 12 out of 24 breaches that occurred during my time as Secretary, the vast majority appear to have taken place in circumstances where there were legitimate concerns to ensure continuity of service or to ensure program delivery.

7.4 Continuity of service issues arise, for example, where grants are being provided in relation to an ongoing project or existing funding agreements are being extended, and delays in providing the grants would result in the recipient of the grant having to stop delivering the services funded by the grant. In these circumstances, it is my expectation that the projects would be considered on a case-by-case basis and the urgency of funding, importance of the services being delivered, value of money and impediments to compliance assessed.

7.5 In addition, the majority of the 24 reported breaches occurred where the GOGs had been prepared for the grants at the time of the breach and were awaiting approval by the Department of Finance or some form of corrective action was taken to address the non-compliance.

7.6 This demonstrates that officers of the Department were not indifferent to the consequences and seriousness non-compliance and had undertaken the necessary assessments. For example, for the 12 breaches that occurred while I was the Secretary of the Department:

(a) in relation to six of the breaches, GOGs were prepared or drafted for approval at the time of the breach and utilised in the assessment of proposals, but due to tight deadlines had not yet been approved by the Department of Finance;

(b) in relation to two of the breaches, GOGs were developed retrospectively;

(c) in relation to three of the breaches, GOGs were to be prepared to prevent further non-compliance. In these cases, it was determined that the timeframe for developing GOGs and conducting a grant selection process posed an unacceptable risk to service delivery; and

(d) in relation to one of the breaches, the grants resulted from unsolicited proposals received by the Department or the Minister's Office and were assessed against GOGs developed and approved by the Department of Finance under a previous approval process. The vast majority were one-off grants.

7.7 I also understand that for the 12 breaches that occurred after my time as Secretary of the Department:

(a) in relation to four of the breaches, an agreement for the grant was to be executed only on GOG approval or GOGs were to be prepared concurrently whilst progressing an agreement;

(b) in relation to three of the breaches, GOGs were developed retrospectively;

(c) in relation to two of the breaches, the GOGs were with the Department of Finance for approval at the time of the breach;
(d) in relation to two of the breaches, there was a timing issue and GOG approval was received. In both of these cases, the Minister had provided some approvals and the commitment approval was provided; and
(e) in relation to one of the breaches, there was a misclassification of an arrangement and the program area was encouraged to seek advice in future.

7.8 I note that the Department assessed the significance of the non-compliance against guidance issued by the Department of Finance (RMG 214 (Notification of significant non-compliance with the finance law)). None of the 24 reported breaches were considered to be significant for the purposes of section 19 of the PGPA Act. Rather, the non-compliance largely involved technical breaches. That is, the grants were assessed against GOGs that had been prepared and were awaiting approval by the Department of Finance, were prepared concurrently with and prior to execution of the grant agreements, or had been approved under a previous approval process.

7.9 Indeed, none of the compliance breaches identified in the annual PGPA Act compliance report considered by the Executive Board at its meeting in September 2019 (and referred to in Case study 2) were significant.

7.10 In light of this, paragraph 2.54 of the Extract, as drafted, is misleading and does not provide adequate context in relation to the nature of the breaches referred to. Accordingly, the changes that I request include revisions to address this lack of context.

8 Case study 2

8.1 Based on the information available to me, it appears that Case study 2 included in the Extract is based on internal emails between officers of the Department from 18 September 2019 and between 21 to 29 October 2019. I note that I was not a recipient of these emails and only became aware of these emails when I was provided with copies by the Department for the purposes of preparing this response to the Extract. Based on my reading of these emails, I do not believe that the Case study 2 included in the Extract accurately reflects the content of the emails.

Alleged discussion with Executive Board

8.2 Case study 2 states that the email correspondence indicates that concerns regarding delay were discussed with me and other Deputy Secretaries at a meeting of the Department's Executive Board. I understand that this is a reference to the Executive Board meeting that was held on 18 September 2019.

8.3 I do not recall the specific grant referred to in the 18 September 2019 email from the Deputy Secretary being discussed at the Executive Board meeting of 18 September 2019 as an example. I also do not recall any other specific grants, including any mental-health related CHHP grants, being discussed as an example to the Executive Board in the meeting of 18 September 2019. I also note that there is no record of this discussion in the minutes of the Executive Board meeting of 18 September 2019.

8.4 Around the time of the Executive Board meeting of 18 September 2019, I was aware that the Deputy Secretary was concerned about delays in delivering some CHHP grants. However, I do not recall concerns being raised with me about delivering the grants without compliance, or being asked to authorise the delivery of grants without compliance. As

noted earlier, I believe I would recall had I been asked to authorise any non-compliance in relation to any grant or group of grants. As I explain further below, it is significant that there is no discussion in the minutes of any authorisation or approval being sought or given in relation to non-compliance.

8.5 I note that there was a record in the minutes regarding the 2018-19 PGPA compliance report. This report concluded that "[n]one of the instances [of non-compliance identified in the report] are considered significant…" This report did not specifically reference CHHP grants. On reviewing this report for the purposes of preparing this response to the Extract, I recall that I was not at the time, and still am not, of the view that there was systemic non-compliance in the Department with respect to the administration and delivery of grants.

Approval of previous non-compliant grants

8.6 Case study 2 in the Extract states that the email of 18 September 2019 refers to previous approvals of other CHHP grants that had been allowed to "progress without full compliance." This does not accurately reflect the contents of the email. The email says the Deputy Secretary raised the issue about current grants that are at risk of serious delay because of the processes required by the CGRGs at the Executive Board meeting with regard to the Indigenous Australians' Health Program, PHN and CHHP "which I had previously agreed could progress without full compliance given the high and public authority to spend which had been provided." Contrary to what is stated in the Extract, this suggests that the Deputy Secretary had agreed these grants could progress without full compliance prior to the Executive Board meeting of 18 September 2019 and that it was the Deputy Secretary and not the Executive Board that had decided the grants could progress.

Approval of non-compliant grants by the Executive Board

8.7 The Extract goes on to state that the First Assistant Secretary was informed that "payment should proceed…the drafting and approval of [grant opportunity guidelines] should not delay prompt execution…", that the email noted that this would constitute a breach of CGRG requirements, and the Deputy Secretary requested that each use of this approach be subject to their approval. Case study 2 and the email of 18 September 2019 appear to suggest that the Executive Board gave some sort of endorsement of this approach.

8.8 However, as noted above, there is nothing in the minutes of the Executive Board to suggest that there was, and I do not recall that there was, any discussion of any specific CHHP grants at the meeting on 18 September 2019, nor any endorsement or approval of non-compliant grants proceeding.

8.9 Endorsement or approval of a proposed breach of the CGRGs is a significant matter of the kind that I would expect to be recorded in the minutes of an Executive Board meeting. The absence of any record of an endorsement or approval of non-compliance in the minutes strongly suggests that no such endorsement or approval was sought or given during the Executive Board meeting of 18 September 2019.

8.10 I note that I have not been provided with, nor do I recall seeing, any other documents recording an endorsement or approval of proposed non-compliant grants, including those related to the CHHP program, by the Executive Board or by me in my capacity as Secretary.

8.11 Case study 2, as drafted in the Extract, suggests that the Executive Board endorsed or approved proposed non-compliant grants progressing at its meeting on 18 September 2019. However, this conclusion is not supported by the records of that meeting and this

should be made clear in the report. Indeed, in my submission the fact that the minutes of the meeting do not record that any such endorsement or approval was sought or given weighs heavily against such a conclusion.

Subsequent approval of non-compliant grants by the Deputy Secretary

8.12 The final paragraph of the Extract states that the First Assistant Secretary wrote to the Deputy Secretary on 28 October 2019 proposing grants to 22 recipients, that four of those grants (one of which did not proceed) were proposed to be made without the creation of GOGs, which would be a breach of the CGRGs, and the Deputy Secretary approved of the proposed approach. This does not accurately reflect the contents of the underlying emails and the approval that appears to have been given by the Deputy Secretary.

8.13 In the email of 28 October 2019 the First Assistant Secretary seeks approval to not have GOGs in place for four of the grants (one of which did not proceed) "prior to offering a Grant Agreement" and this is what was approved by the Deputy Secretary. While this is a breach of the CGRGs, approval was not provided for the requirement to develop GOGs to be disregarded, rather approval was provided for the GOGs to be progressed concurrently with the grant agreement. This is consistent with the email from the Deputy Secretary dated 18 September 2019 and referred to the in Extract, which states that "the drafting and approval of [grant opportunity guidelines] should not delay prompt execution" of a grant agreement.

8.14 I understand that the three breaches which proceeded were reported as significant breaches to the Department and the Finance Minister, as required under the PGPA Act. I also understand that for two of the grants GOGs were subsequently developed and for the third, GOGs would be developed if required in the future.

8.15 The changes that I request include revisions to address the matters set out in paragraphs 8.1 to 8.14.

Yours faithfully
Glenys Beauchamp

Appendix 2 Improvements observed by the ANAO

1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.

2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's 2022–23 Corporate Plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.

3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:

- strengthening governance arrangements;
- introducing or revising policies, strategies, guidelines or administrative processes; and
- initiating reviews or investigations.

4. In this context, the below actions were observed by the ANAO during the course of the audit. It is not clear whether these actions and/or the timing of these actions were planned in response to proposed or actual audit activity. The ANAO has not sought to obtain assurance over the source of these actions or whether they have been appropriately implemented.

- In 2022 the Department of Health and Aged Care (Health) commissioned Protiviti to undertake a 'risk snapshot', which was completed in May 2022. The 'risk snapshot' notes that the work was initiated by the Community Health and Hospitals Program (CHHP) Senior Responsible Officer as a part of Health's assurance planning to assist in preparing for a potential ANAO audit of CHHP (see paragraph 2.11).
- In October 2022 Health completed the revision of internal guidance and process documentation to formalise improvements to the approach to monitoring, managing and reporting on project performance under both grants and national partnership agreements. This included revisions to the guidance associated with 'designated use periods' (see paragraph 3.24). The development of this guidance and process documentation commenced in March 2023.
- In October 2022 Health formalised its expectations with state and territory contacts responsible for national partnership agreements. These communications are targeted at enhancing the effectiveness of ongoing project management by improving the quality and clarity of project milestones recorded in each agreement.
- In November 2022 the Portfolio Programs Branch implemented a standard operating procedure for record keeping, including for CHHP projects.

- In November 2022 a CHHP lessons learned register was initiated (see paragraph 3.36).
- In December 2022 Health developed a draft CHHP program monitoring and evaluation framework (see paragraph 3.27).
- In December 2022 Health finalised a revised CHHP service level agreement with the Department of Social Services Community Grants Hub (which at February 2023 was being considered by the Department of Social Services). The revised agreement is more explicit on the process, timeframes and administration of grants. It also clarifies the roles of both agencies for risk and issue management (see paragraph 2.104).
- In December 2022 the Executive Board, in response to CGRG non-compliances identified by the ANAO and discussed with Health in November 2022: issued a directive to senior executive service (SES) staff stating that the behaviours were not acceptable; included finance law compliance in all SES performance agreements; and stated an intent to initiate financial literacy training (see paragraph 2.57).
- In February 2023 Health reported three instances of 'significant' non-compliance with finance law identified during the audit to the Minister for Health and the Minister for Finance (see paragraph 2.61).

Appendix 3 Community Health and Hospitals Program and associated projects, November 2022

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Community-based residential eating disorder treatment centre (ACT)	Yes	National Partnership Agreement (NPA)	ACT	13.5
Expansion of the Intensive Care Unit at the Canberra hospital.	Yes	NPA	ACT	13.5
Youth Mental Health and Suicide Prevention	Yes	NPA	ACT	6.0
Alcohol and Other Residential Rehab Expansion and Modernisation	Yes	NPA	ACT	4.3
Shellharbour Hospital redevelopment	Yes	NPA	NSW	128.0
Comprehensive Children's Cancer Centre at Sydney Children's Hospital, Randwick	Yes	NPA	NSW	100.0
Cystic Fibrosis Specialist Service Unit at Westmead	Yes	NPA	NSW	65.0
Establishment of an Eating Disorders Treatment Centre (NSW) (4 of 4)	Yes	NPA	NSW	13.0
Improving stroke care in regional NSW via telehealth	Yes	NPA	NSW	9.4
Central Coast Linear Accelerator	Yes	NPA	NSW	3.9
Concord Hospital Maternity Ambulatory Care Services	Yes	NPA	NSW	2.2
Establish a nurse-driven pilot program at Heart Centre for Children at Westmead Hospital	No	NPA	NSW	1.8
Refurbishment of Deniliquin Hospital	No	NPA	NSW	1.4
PA NT 2020–21 Mental Health Inpatient Facility – Royal Darwin Hospital	No	NPA	NT	30.0
New Ambulatory Care Centre at Alice Springs Hospital	Yes	NPA	NT	25.7
Staff accommodation block at Tennant Creek Hospital	Yes	NPA	NT	3.3
Remote Point of Care Pathology Testing	Yes	NPA	NT	0.7
Logan Urgent and Specialist Care Centre	Yes	NPA	QLD	33.4
Redland Hospital Redevelopment	Yes	NPA	QLD	30.0

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Improving Health Services for People with Brain and Spinal Cord Injuries	Yes	NPA	QLD	24.0
Redlands Hospital Car Park	No	NPA	QLD	16.0
New 33 Bed Ward at Townsville Hospital	Yes	NPA	QLD	13.0
Chemotherapy at Caboolture Hospital	Yes	NPA	QLD	10.0
Emerald Emergency Department Upgrade	No	NPA	QLD	10.0
Redcliffe Hospital Paediatric Emergency Department Redesign	Yes	NPA	QLD	10.0
Computed Tomography Scanner for Bowen Hospital	No	NPA	QLD	5.0
Refurbishment of the Children's Space at Logan Hospital	No	NPA	QLD	0.1
Construction of a new Brain and Spinal Injury facility at the Repatriation Hospital	Yes	NPA	SA	30.0
Redevelopment of the Accident and Emergency Department at the Whyalla Hospital	Yes	NPA	SA	11.4
Redevelopment of the Accident and Emergency facility at Mount Barker District Soldiers' Memorial Hospital	Yes	NPA	SA	8.6
Redevelopment of hospital infrastructure at Southern Fleurieu Health Service, Victor Harbour	Yes	NPA	SA	8.4
Expansion of renal dialysis unit six chairs and additional sterilisation services at the Southern Fleurieu Health Service	No	NPA	SA	5.1
Partnership development of a new Statewide Eating Disorder Service facility at the Repatriation Hospital	No	NPA	SA	5.0
Hospital Discharge Pilot	Yes	NPA	SA	3.9
Additional elective surgery and endoscopy procedures in Tasmania from 2019–20 onwards	Yes	NPA	TAS	20.0
Improved Access to Health Services in Regional, Rural and Remote Areas of North and North West Tasmania (TAZReach)	No	NPA	TAS	12.0
Establishment of an Eating Disorders Treatment Centre (TAS) (2 of 4)	Yes	NPA	TAS	10.0

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Improvements to the acute medical facilities at the North West Regional Hospital	No	NPA	TAS	10.0
Redevelop and extend the existing Kings Meadows Community Health Centre	No	NPA	TAS	10.0
Perinatal and infant mental health services in the North and North West	No	NPA	TAS	4.5
Purchase and installation of a Linear Accelerator for the North West Regional Hospital from 2019–20 onwards	Yes	NPA	TAS	4.4
Delivery of diagnostic mammography services in Launceston and Hobart	No	NPA	TAS	3.0
Improvements to the West Coast District Hospital, including aged care and allied health facilities	No	NPA	TAS	1.0
Improvements to the Birthing suite at Launceston General Hospital	No	NPA	TAS	0.4
Geelong Women's and Children's Hospital – planning and partial construction of Stage 1 facilities	Yes	NPA	VIC	50.0
Paediatric Emergency facilities for Geelong, Maroondah, Frankston and Casey Hospitals – planning and partial construction	Yes	NPA	VIC	40.0
Aikenhead Centre for Medical Discovery	Yes	NPA	VIC	30.0
Upgrade the Swan Hill District Hospital and planning for a new Emergency Department	No	NPA	VIC	30.0
Goulburn Valley Hospital Cancer Centre – planning and partial construction of new facility	Yes	NPA	VIC	30.0
Wodonga Hospital – development of Mental Health Rehabilitation Unit and delivery of an expanded range of consulting clinical suites	No	NPA	VIC	14.5
Establishment of an Eating Disorders Treatment Centre (VIC) (3 of 4)	Yes	NPA	VIC	13.0
Victorian Children's Colorectal Service	No	NPA	VIC	5.9
Redevelopment of Rosebud Hospital Land Acquisition	No	NPA	VIC	5.0
East Gippsland Regional Cancer Treatment Centre for Radiation Therapy	No	NPA	VIC	4.5

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Expand Cancer Infrastructure in the West Gippsland Region	No	NPA	VIC	4.5
Bass Coast Health – Phillip Island Health Hub expansion of radiology and chemotherapy chairs and a surgical and paediatric wards	No	NPA	VIC	3.5
WA Country Health Service (WACHS) Cancer Strategy (including Radiation Oncology at the Geraldton Health Campus)	Yes	NPA	WA	25.1
Expansion of the Peel Hospital Campus	Yes	NPA	WA	25.0
Comprehensive genomic testing	Yes	NPA	WA	19.0
Construction of a new Laverton Health Service	Yes	NPA	WA	16.8
Construction of a new Women and Newborn service at the King Edward Memorial Hospital	Yes	NPA	WA	15.2
Youth Forensic Inpatient Service	Yes	NPA	WA	14.8
Ellenbrook Mental Health Facility – provision of mental health and support services at the St John of God Midland Hospital	Yes	NPA	WA	6.0
Sideffect Australia – School Drug/Alcohol Education	Yes	Other Grant	National	3.0
Royal Far West National Paediatric Telecare Service	No	Other Grant	National	19.7
The Mindgardens Alliance – Black Dog Institute	Yes	Other Grant	National	7.0
Men's Shed Initiatives	No	Other Grant	National	3.5
Hospital to Home Project (Previously SANDS – Hospital to Home – Support following stillbirth)	Yes	Other Grant	National	1.7
Mates in Construction	Yes	Other Grant	National	1.2
Caravan Park Defibrillator Subsidy Program	No	Other Grant	National	1.0
Adapting Compassion Focused Therapy for Indigenous Community Wellbeing	Yes	Other Grant	National	0.8
Central Coast Medical Precinct – Medical School & Research – Gosford	No	Other Grant	NSW	18.0
Youth Suicide Programs – Indigenous Suicide Prevention Leadership – Gayaa Dhuwi	No	Other Grant	National	4.5

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Youth Suicide Programs – Kids Helpline (yourtown)	No	Other Grant	National	4.0
Youth Suicide Programs – Child Wellness Centre of Excellence (Ngaoara Ltd)	No	Other Grant	National	3.0
Youth Suicide Programs – batyr OurHerd (previously Batyrs Amplified Voices of Young People)	No	Other Grant	National	2.8
Youth Suicide Programs – Smiling Mind School Program	No	Other Grant	National	2.5
Youth Suicide Programs – Raising Children Networks Supporting Parent Mental Health Literacy	No	Other Grant	National	1.5
Youth Suicide Programs – Way Back Peer Support (Beyond Blue)	No	Other Grant	National	0.6
Youth Suicide Programs – The Banksia Project	No	Other Grant	National	0.4
Youth Suicide Programs – Zero Suicide Initiative	No	Other Grant	National	0.2
Charles Sturt University Regional Health Research Institute (previously Health and Medical Research Institute Orange)	No	Other Grant	NSW	18.0
The Glen Centre – Women's Indigenous Facility	Yes	Other Grant	NSW	9.0
Triple Care Farm – Batemans Bay	Yes	Other Grant	NSW	8.0
To support the work of the sarcoma surgical research centre at Chris O'Brien's Lifehouse (previously Chris O'Brien Lifehouse)	No	Other Grant	NSW	6.0
Grafton and Clarence Valley Regional Cancer Treatment Centre for Radiation Therapy Funding Recipient: Northern NSW Local Health District	No	Other Grant	NSW	5.0
Far North Coast (Tweed) Regional Cancer Treatment Centre for Radiation Therapy Funding Recipient: Northern NSW Local Health District	No	Other Grant	NSW	5.0
South Coast (Eurobodalla / Bega) Regional Cancer Treatment Centre for Radiation Therapy	No	Other Grant	NSW	5.0
Armidale Regional Cancer Treatment Centre for Radiation Therapy	No	Other Grant	NSW	5.0

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Mid North Coast (Nambucca, Kempsey) Regional Cancer Treatment Centre for Radiation Therapy Funding Recipient: Mid North Coast Local Health District	No	Other Grant	NSW	4.7
Taree Regional Cancer Treatment Centre for Radiation Therapy	No	Other Grant	NSW	4.5
Western NSW (Griffith) Regional Cancer Treatment Centre for Radiation Therapy	No	Other Grant	NSW	4.4
Drug and Alcohol Detoxification and Rehabilitation Facility – Dubbo (previously Dubbo Residential Drug and Alcohol Rehabilitation Facility)	Yes	Other Grant	NSW	3.0
Suicide Prevention and Recovery Centre (SPARC) St Vincent's Hospital (previously Roses in the Ocean)	Yes	Other Grant	NSW	1.3
'Health on the Streets' – Homelessness Outreach - Central Coast Primary Care	Yes	Other Grant	NSW	1.0
Little Wings Aircraft	No	Other Grant	NSW	0.7
Sunflower House Wagga Wagga	No	Other Grant	NSW	0.3
Red Dust - Suicide Prevention for Aboriginal & Torres Strait Islander Children	Yes	Other Grant	NT	1.2
Cairns Tropical Enterprise Centre (previously James Cook University - Cairns Tropical Enterprise Centre)	Yes	Other Grant	QLD	60.0
Sunshine Coast Health Foundation Accommodation Hub	No	Other Grant	QLD	12.0
Mission Australia Cairns	Yes	Other Grant	QLD	10.0
Mater Hospital - New Maternity Block	Yes	Other Grant	QLD	9.0
Fraser Coast Hospice Facility	No	Other Grant	QLD	7.0
Expansion of Services and new Detox Facility at the Salvation Army's Townsville Recovery Service (previously Drug and Alcohol Treatment Services for Salvation Army)	No	Other Grant	QLD	6.1
Eating Disorders – service delivery Butterfly EndED House	Yes	Other Grant	QLD	4.5
Residential Alcohol and Drug Rehabilitation Centres – Mackay	Yes	Other Grant	QLD	3.9
Ronald McDonald House - South East Queensland	No	Other Grant	QLD	2.6

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Sunshine Coast University, Support of the Mind and Neuroscience Thompson Institute (previously Funding for PTSD at Thompson Institute)	Yes	Other Grant	QLD	2.5
Gladstone Regional Cancer Treatment Centre for Radiation Therapy	No	Other Grant	QLD	1.9
Cairns Remote Patient and Carer Accommodation Facility (previously Cairns Organisation United for Cancer Health (COUCH) Wellness Centre Land Acquisition)	No	Other Grant	QLD	1.3
Little Haven Palliative Care	No	Other Grant	QLD	0.8
Pharmaceutical Rehabilitation Service	Yes	Other Grant	QLD	0.6
Logan Street Doctor	No	Other Grant	QLD	0.6
Healthy Options Australia – Drug & Alcohol Community and Family Support Services in Rockhampton	No	Other Grant	QLD	0.5
Hear to Learn Ashgrove Centre – School Hearing Screening Program	No	Other Grant	QLD	0.2
Breaking the Barrier - PILOT – Health Communication - Multicultural	No	Other Grant	QLD	0.1
Mt Gambier and Limestone Coast Regional Cancer Treatment Centre for Radiation Therapy	No	Other Grant	SA	4.3
Drug and alcohol rehabilitation services throughout the Mt Gambier region	Yes	Other Grant	SA	2.5
Drug and alcohol rehabilitation services throughout the Limestone Coast	Yes	Other Grant	SA	0.5
City Mission - Serenity House relocation and establishment of AOD facility in the Smithton region (previously City Mission Drug Res Rehab)	Yes	Other Grant	TAS	6.3
Peter Mac – Cellular Immunotherapy	Yes	Other Grant	VIC	80.0
Victorian Melanoma and Clinical Trials Centre at the Alfred Hospital	No	Other Grant	VIC	50.0
Monash University/Peninsula Health – Health Futures Hub	Yes	Other Grant	VIC	32.0
Alfred Health and Monash University – Australian Clinical Trials Network 'TrialHub'	Yes	Other Grant	VIC	24.6
The Bays Healthcare Group – Comprehensive Cancer Centre	No	Other Grant	VIC	10.0

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Upgrade and rebuild of the Very Special Kids Hospice (previously Very Special Kids)	No	Other Grant	VIC	7.5
Cabrini Institute of Cancer	Yes	Other Grant	VIC	6.0
Health and Wellbeing Service in Ocean Grove	No	Other Grant	VIC	6.0
Development of a new Power House Community Hub (previously Lord Somers Camp and Powerhouse Albert Park)	No	Other Grant	VIC	5.0
The Bays Healthcare Group – Alexandra Park Community Services	No	Other Grant	VIC	2.6
BlueHub Project - Framework for Police and Emergency Services Mental Health	Yes	Other Grant	VIC	2.5
Kyabram District Health Service – Kyabram Regional Medical Clinic/Stanhope Medical Facility	No	Other Grant	VIC	1.7
Cardinia Youth Hub youth facility relocation and expansion project (previously My Place Youth Centre)	Yes	Other Grant	VIC	1.5
Integrated Youth Services Hub Rosebud	No	Other Grant	VIC	1.5
The Cottage – Shepparton	Yes	Other Grant	VIC	0.3
Rosebud Secondary Wellness Pavilion	No	Other Grant	VIC	0.3
St John WA Urgent Care Centres – 4 sites	No	Other Grant	WA	28.0
Edith Cowan University Health Centre Yanchep (previously Yanchep Health Campus)	No	Other Grant	WA	10.4
Dementia Centre of Excellence (Previously Curtin University Dementia Centre of Excellence)	No	Other Grant	WA	10.0
DVassist (Previously Breaking the Silence - Regional WA Domestic Violence Program - 10 sites)	Yes	Other Grant	WA	2.3
Esther Foundation	No	Other Grant	WA	2.0
Outside the Locker Room	Yes	Other Grant	WA	1.8
Goldfields Rehabilitation Services	Yes	Other Grant	WA	1.5
Kojonup Medical Centre	No	Other Grant	WA	0.8
Katanning Medical Centre	No	Other Grant	WA	0.5

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Youth Challenge Park (previously City of Albany Youth Hub)	Yes	Other Grant	WA	0.3
National Headspace Network – Waitlist Reduction Growth Funding	No	Primary Health Network (PHN) Grant	National	152.0
Prioritising Mental Health – Adult Mental Health Centres	No	PHN Grant	National	114.5
Integration of pharmacists into aged care facilities to optimise resident safety and reduce medication-related adverse effects and hospitalisation	Yes	PHN Grant	ACT	3.7
Community Withdrawal Support Service	Yes	PHN Grant	ACT	3.6
Community Driven Cancer Care: Boosting Primary Care	Yes	PHN Grant	NSW	6.9
Comprehensive Community Based Addictions Services	Yes	PHN Grant	NSW	5.5
Taking an alternative road to recovery: Two mobile alcohol and other drugs (AOD) day rehabilitation programs on the NSW South Coast	Yes	PHN Grant	NSW	5.0
Suicide Prevention Collaborative	Yes	PHN Grant	NSW	1.5
Safe Spaces – alternatives to emergency departments for people in mental distress	Yes	PHN Grant	QLD	10.5
Thriving and On Track Program (formerly Kids and Family Link)	No	PHN Grant	QLD	1.5
Way Back Support Services	Yes	PHN Grant	QLD	1.2
Bundaberg Community Diabetes Service	Yes	PHN Grant	QLD	0.7
Community residential withdrawal management service	Yes	PHN Grant	QLD	0.7
Primary Health Care (PHC) delivery through community paramedicine/nurse practitioner models	Yes	PHN Grant	SA	3.0
Headspace Flying headspace	Yes	PHN Grant	SA	0.7
Mental Health/Alcohol and Drug Comorbidity Workers	Yes	PHN Grant	TAS	1.1
Strength to Strength Program	No	PHN Grant	TAS	0.5
Community transport service for rural Victoria	Yes	PHN Grant	VIC	5.6

Community Health and Hospitals Program (CHHP) and associated projects[a]	Identified by Health as CHHP	Funding type[b]	State/ territory	Total funding commitment[c] ($million)
Youth Hub Lilydale	Yes	PHN Grant	VIC	4.5
Hope Assistance Local Tradies (HALT) suicide prevention community worker - North Western Melbourne PHN	Yes	PHN Grant	VIC	1.0
Hope Assistance Local Tradies (HALT) suicide prevention community worker - South East Melbourne PHN	Yes	PHN Grant	VIC	1.0
Expansion of the Choices service – reducing the treatment gap and failure to engage with care for high frequency Mental Health and Alcohol & Other Drug service users	Yes	PHN Grant	WA	5.2
Primary healthcare hubs – enhancing primary care led mental health and drug and alcohol support services	Yes	PHN Grant	WA	4.8
Primary care led multidisciplinary care for Chronic Heart Failure	Yes	PHN Grant	WA	3.8
Expansion of the Choices service – reducing the treatment gap and failure to engage with care for high frequency Mental Health and Alcohol & Other Drug service users	No	PHN Grant	WA	1.3

Note a: The ANAO identified two additional projects totalling $5.5 million that were included in a national partnership agreement with other projects identified by the ANAO as part of CHHP. These projects are not tracked by the Department of Health and Aged Care (Health) and are not considered to be part of CHHP by Health or the ANAO.

Note b: The 'Total Funding Commitment' and 'Funding Type' reflect variations and other changes and may be different from the initial commitment.

Note c: Total funding commitment figures are rounded so may not sum to overall figures quoted elsewhere in the report. Figures are GST exclusive and accurate as at November 2022.

Source: Health CHHP and associated projects data.

Appendix 4 Non-compliance with ethical requirements

1. The Australian Parliament has established requirements in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) including to require the Commonwealth and Commonwealth entities to use and manage public resources properly (section 5). The accountable authority for an entity responsible for relevant money has a duty under section 15 of the PGPA Act to promote the proper use of the money for which the accountable authority is responsible. 'Proper', when used in relation to the use or management of public resources, means efficient, effective, economical and ethical (section 8).

2. The Department of Finance PGPA Glossary defines ethical as:

> the extent to which the proposed use of public resources is consistent with the core beliefs and values of society. Where a person behaves in an ethical manner it could be expected that a person in a similar situation would undertake a similar course of action. For the approval of proposed commitments of relevant money, an ethical use of resources involves managing conflicts of interests, and approving the commitment based on the facts without being influenced by personal bias. Ethical considerations must be balanced with whether the use will also be efficient, effective and economical.

3. The Australian Parliament has also established, through the *Public Service Act 1999* (PS Act), the APS Values set out in section 10. Subsection 10(2) states that 'The APS demonstrates leadership, is trustworthy, and acts with integrity, in all that it does'. The APS Commissioner has made directions under the PS Act including in subsection 16(f) requiring accountability of APS members by 'being able to demonstrate clearly that resources have been used efficiently, effectively, economically and ethically'. A mandatory code of conduct is set out in section 13 of the PS Act for APS employees.

4. PGPA Act requirements, including ethical requirements, directly inform key public sector resource management frameworks for specific Australian public sector activities addressed through performance audits. These frameworks contain ethical requirements specific to the activity they regulate. For government grants, ethical expectations are set out in paragraphs 3.5 to 3.11 and section 13 of the Commonwealth Grants Rules and Guidelines 2017 (CGRGs), made by the Finance Minister under the PGPA Act. Section 13 of the CGRGs provides further detail on probity and transparency in grants administrations, the seventh of seven key principles for grants administration set out in the CGRGs. For the ANAO, in conducting performance audits of grants activities in entities subject to the PS Act, compliance with the CGRGs is assessed against the background of the requirements of the PS Act.

5. In conducting performance audits of entities, the ANAO obtains evidence to inform an assessment of whether the audited entity executes its activities in accordance with the requirement to promote proper use of public money. Findings may be made as to whether the use or management of public money was efficient, effective, economical and ethical. In forming an overall conclusion in a performance audit, the ANAO may also form a view on whether the entity's activities have been executed in accordance with both compliance with the grants framework and the intent of that framework, including the requirements of the PS Act for the APS (the entity) to act with integrity in all that it does.

6. Where ANAO findings or a conclusion are made as to whether the use or management of public resources by the entity has been ethical, it is a matter for an accountable authority to assess

whether the audit findings in the particular case reflect the broader posture of the entity or relate to individual APS staff conduct.

Table A.1: Key ethical behaviour requirements and instances of entity non-compliance

Key ethical requirements in the CGRGs	Instances of non-compliance identified during the audit
Officials should consider the options available for selection processes … Where it is proposed to use a method other than a competitive, merit-based selection process, officials should document why this approach has been used (CGRGs, paragraphs 13.11 to 13.13). Transparency refers to the preparedness of those involved in grants administration, including officials and grantees, to being open to scrutiny about grants administration and grant opportunity processes. This involves providing reasons for decisions and the provision of two-way information to government, the Parliament, potential grantees, grantees, beneficiaries and the community (CGRGs, paragraph 13.2).	• The justification for the classification of grants as primarily 'ad hoc / non-competitive' was not clearly documented (discussed at paragraph 2.51).
The PS Act (subsection 13(4)) requires an APS employee when acting in connection with APS employment to comply with all applicable Australian laws. Section 32 of the PGPA Act states that the finance law is an Australian law for the purposes of PS Act (subsection 13(4)). Section 8 of the PGPA Act defines finance law as including any instrument made under the PGPA Act. This includes the CGRGs. Probity and transparency in grants administration is achieved by ensuring: that decisions relating to grant opportunities are impartial; appropriately documented and reported; publicly defensible; and lawful (CGRGs, paragraph 13.3).	• Health did not establish grant opportunity guidelines for CHHP grants in all instances (discussed at paragraph 2.54). • The decision to not develop grant opportunity guidelines was made consciously and deliberately by senior officials (discussed at paragraph 2.54 and Case study 2). • Following risk assessments from the Australian Government Solicitor which determined that there was no legislation that could reasonably be relied on to authorise expenditure on the whole of some grant proposals, Health advised the Minister that it would proceed to execute grants despite there being no legislative authority to do so in some cases (discussed at paragraph 2.94).

Key ethical requirements in the CGRGs	Instances of non-compliance identified during the audit
The PGPA Act and Rule, and the CGRGs, include requirements that apply to Ministers. Officials *must* advise the relevant Minister on these requirements. (CGRGs, paragraph 3.10)	• Health's advice to the Minister stated that its approach to grants assessment was compliant with the CGRGs. Although it explained that it was undertaking a 'condensed' grants administration process, it did not describe the 'condensed' process or explain to the Minister how the 'condensed' process might cause or create the risk of non-compliance with the CGRGs (discussed at paragraph 2.88). • Health advised the Minister that value with relevant money had been achieved when recommending that the Minister approve grants. This advice was not fully supported by Health's grants assessment activities, which often noted that insufficient information was available to make a value for money assessment (discussed at paragraphs 2.80, 2.98 and 2.99).
Establishing and maintaining probity involves applying and complying with public sector values and duties such as honesty, integrity, impartiality and accountability (CGRGs, section 13.1). Transparency in grants administration requires being open to scrutiny in relation to grants administration and opportunity processes. This involves providing reasons for decisions (CGRGs, section 13.2) Probity and transparency is achieved through appropriately documenting and reporting decisions. (CGRGs section 13.3)	• Health dismissed some advice provided by the Department of Finance about CGRG compliance (discussed at paragraph 2.68). • Health advised the Minister to approve grants prior to receiving AGS advice (discussed at paragraph 2.91). • In describing the outcomes of the Australian Government Solicitor's legal risk assessments to the Minister, Health did not clearly state that, for several grants, the Australian Government Solicitor had indicated that there was no legislation that could reasonably be relied on to authorise expenditure on the proposal (discussed at paragraphs 2.92 and 2.93).
Accountability involves grantees, officials and decision-makers being able to demonstrate and justify the use of public resources to government, the Parliament and the community. This necessarily involves all parties keeping appropriate and accessible records … (CGRGs, paragraph 13.15). Probity and transparency in grants administration is achieved by ensuring: … compliance with the public reporting requirements set out in Part 1 of the CGRGs (section 5, Public Reporting) (CGRGs, paragraph 13.3).	• The ANAO was unable to identify and Health was unable to provide important records for several grants demonstrating CGRG compliance and the basis for assessments of value with relevant money (discussed at paragraph 2.84). • Health failed to correct known inaccuracies in GrantConnect reporting (discussed at paragraph 2.110).

Appendix 5 Community Health and Hospital Program funding by federal electorate

1. The Coalition[80] held 51 per cent of seats prior to and following the 2019 federal election. Excluding funding that was provided to multiple electorates through national or state-wide projects[81], thirty-nine per cent of Community Health and Hospital Program (CHHP) funding (as at November 2022) was allocated to electorates held by the Coalition prior to the 2019 election, and 44 per cent of CHHP funding was provided to electorates held by the Coalition after the 2019 election.

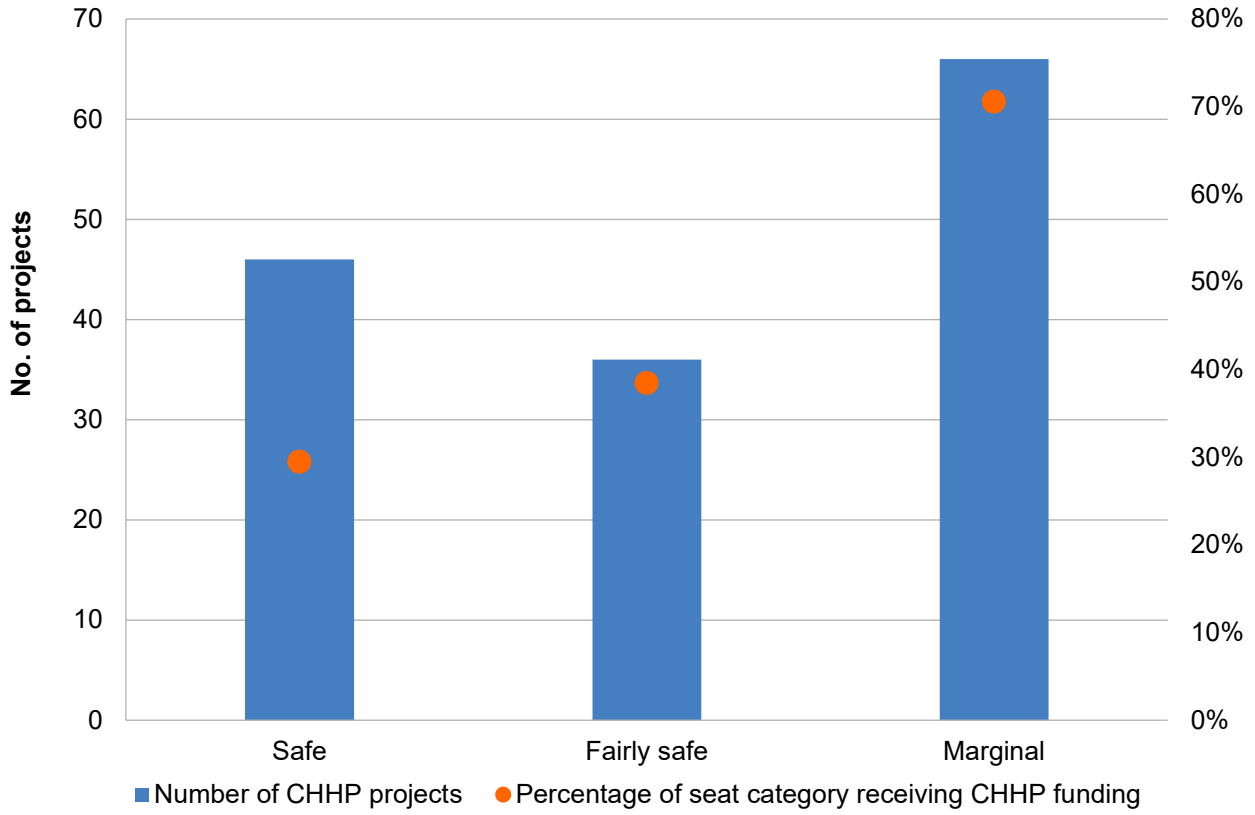
2. ANAO also analysed distribution of CHHP and associated funding and projects based on the Australian Electoral Commission's (AEC's) categorisation of federal electorates as 'safe', 'fairly safe' and 'marginal' prior to the 2019 election. Sixty-one of 151 seats (40 per cent) were considered safe, 39 (26 per cent) were considered fairly safe, and 51 (34 per cent) were considered marginal.

- Funding — Fifteen per cent of total CHHP funding was split across multiple electorates. Considering only funding that was associated with single-electorate projects, electorates categorised as safe and fairly safe received a combined 71 per cent of CHHP funding (excluding funding associated with multiple electorates or national projects), and electorates categorised as marginal received 29 per cent of single-electorate project funding.
- Projects — The following figure shows that electorates categorised as safe were granted 46 projects (31 per cent of all single-electorate projects), electorates categorised as fairly safe were granted 36 projects (24 per cent) and electorates categorised as marginal were granted 66 projects (45 per cent). Looked at another way, 30 and 38 per cent of electorates categorised as safe and fairly safe, respectively, received at least some single-electorate project funding, compared to 71 per cent of electorates categorised as marginal.

80 Coalition includes seats held by the Liberal Party, Nationals and Liberal National Party (LNP).

81 National and state-wide projects covering multiple electorates received $296 million in CHHP funding. National projects include projects such as the $4 million grant for Kids Helpline (Yourtown), which provides mental health services to children and young people across Australia.

Figure A.1: Distribution of Community Health and Hospitals Program and associated projects by electorate status at December 2018

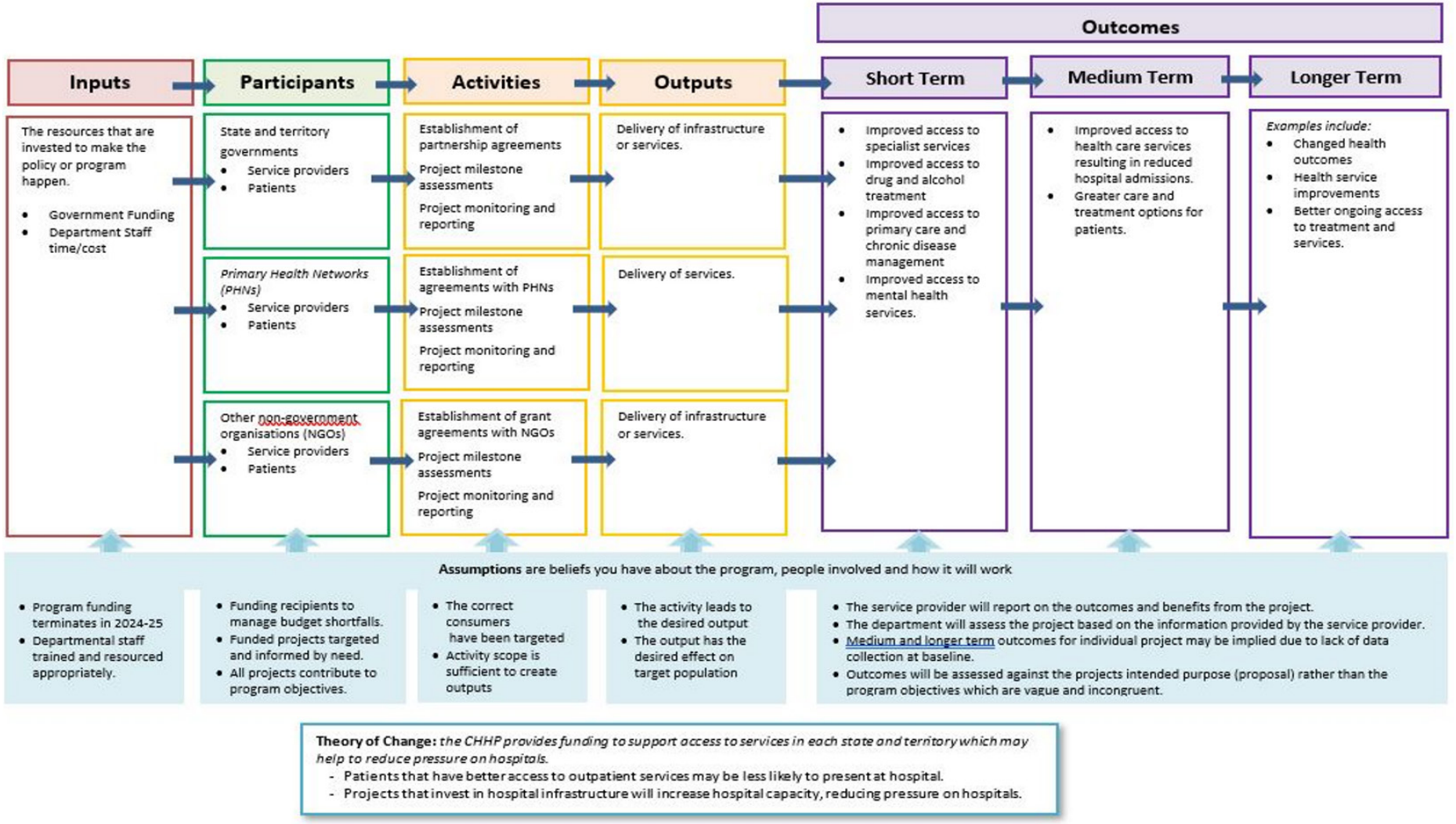


Note: The AEC defines a 'marginal' electorate as an electorate where the winning candidate received less than 56 per cent of the vote after the full distribution of preferences, a 'fairly safe' electorate as an electorate where the winning candidate received 56 to 60 per cent of the vote, and a 'safe' electorate as an electorate where the winning candidate received more than 60 per cent of the vote. Categorisations are based on AEC reported status in the lead up to the 2019 federal election. Total number of projects (148) excludes projects covering multiple electorates. ANAO analysis is based on Health records supplemented by GrantConnect reporting of grant recipient location for single-electorate projects. Grant delivery location data was incomplete or unspecific. Potential errors and inconsistencies in Health records or GrantConnect reporting have not been corrected for the purpose of this analysis.

Source: ANAO analysis of Health records, GrantConnect reporting and AEC election data.

Appendix 6 Community Health and Hospitals Program draft program logic, December 2022

Figure A.2: Community Health and Hospitals Program draft program logic



Source: Department of Health and Aged Care draft Monitoring and Evaluation Framework for the Community Health and Hospitals Program, December 2022.

Appendix 7 Draft Community Health and Hospitals Program performance indicators, December 2022

Outputs/outcomes	Monitoring indicators/ measures	Data sources	When/how collected	When analysed/by whom
Project delivery and progress	Assessment against performance milestones and deliverables prescribed by project agreements	Funding recipient	As required by agreement	Portfolio Programs Branch (PPB) project officers assess if deliverables have been met Senior executive makes final determination
Project progress (evidence)	Assessment of annual and bi-annual reports where required by project agreements. Routine engagement with funding recipients	Funding recipient	As required by agreement	PPB project officers assess if expectations have been met Senior executive makes final determination
Project progress (monitoring and governance)	Health Tracker monthly reporting of project status	Project officers	Project officers update Health Tracker	Health Tracker updates approved by senior executive
	Monthly tracking of project spending	Project officers	Project officers update spreadsheet	
Project outcomes	Assessment of final grantee reports	Funding recipient	As projects are completed	PPB project officers assess if funding agreement objectives have been met
	Completion of project closure reports	Project officers		Project officers complete closure reports
Program outcomes	Consolidation of reports	Project officers	When all projects completed in 2024–25	PPB will consolidate lessons learned and determine if program objectives met

Source: ANAO adaptation of Department of Health and Aged Care draft Monitoring and Evaluation Framework for Community Health and Hospitals Program, December 2022.