

The Auditor-General  
Audit Report No.38 2005–06  
Performance Audit

# **The Australian Research Council's Management of Research Grants**

Australian National Audit Office

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of Australia 2006

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Canberra ACT  
4 May 2006

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in The Australian Research Council in accordance with the authority contained in the *Auditor-General Act 1997*. 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 and the accompanying brochure. The report is titled *The Australian Research Council's Management of Research Grants*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

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# Abbreviations

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Agreements	Funding Agreements
ANAO	Australian National Audit Office
ARC	Australian Research Council
ARC Act	<i>Australian Research Council Act 2001</i>
BAA	<i>Backing Australia's Ability</i>
Board	Australian Research Council Board
CEO	Chief Executive Officer
Chair	Chair of the ARC Board
DEST	Department of Education, Science and Training
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GAMS	Grants Application Management System
Go8	Group of Eight
IT	Information Technology
Minister	Minister for Education, Science and Training
NCGP	National Competitive Grants Program
NRP	national research priorities
RQF	Research Quality Framework
Secretary	Secretary of the Department of Education, Science and Training
Uhrig Review	Government commissioned review of the governance of statutory authorities and office holders

# Glossary

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Administering organisations	Universities and other research organisations in receipt of ARC funding, that administer grants under Agreements with the ARC
Assessor	A person designated by ARC to assess grant applications
Clients	ARC's Service Charter defines ARC's clients as grant applicants, grant recipients, universities, research institutions, schools, community groups, the media and industry, business and government organisations
College of Experts	A 75-member committee of the ARC Board. Its functions are to assess and rank grant applications, and provide strategic advice to ARC on emerging issues and areas of research
Discovery	Discovery Program, the largest of two elements (sub-programs) within the National Competitive Grants Program (NCGP)
Eligible organisations	An organisation eligible to receive and administer ARC financial assistance, including higher education and other eligible organisations
End of year report	A financial report on the expenditure of funds for all ARC grants, completed and submitted to ARC by administering institutions by March each year
Final report	A report prepared by the researcher, showing the outcomes and achievements of the ARC funded project once it is completed



Funding Agreements	Agreements between the ARC (for the Commonwealth) and the grant administering organisation outlining the terms and conditions of ARC grants
Group of Eight	These are The University of Adelaide, The Australian National University, The University of Melbourne, Monash University, The University of New South Wales, The University of Queensland, The University of Sydney and The University of Western Australia
IntReader	International researchers (and Australia-based researchers who are not OzReaders or College of Experts members) who are assigned grant applications to assess for ARC grant rounds
Linkage	Linkage Program, one of two elements (sub-programs) within the NCGP
OzReader	Australia-based researchers who are assigned grant applications to assess for ARC grant rounds
Progress report	A yearly report submitted by the researcher for each multi-year grant, showing the progress of the project
Rejoinder	A one-page response by an applicant to the assessors' comments on their grant application
Selection advisory panel	ARC panel of twelve to thirteen College of Experts members who decide final scores, rankings and allocation of funds for grant applications, and recommend successful and unsuccessful grants to the ARC Board



# Summary and Recommendations



# Summary and Key Findings

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## This audit

1. The objective of this audit was to form an opinion on the Australian Research Council's (ARC's) management of research grants. To achieve this, ANAO centred the audit around the following aspects of ARC's grants administration:

- governance and structure, particularly the roles and responsibilities of those parties involved in administering ARC's grants (Chapter 2);
- the processes for assessing and selecting ARC grants (Chapter 3);
- post-award management of grants under the Funding Agreements (Agreements) between ARC and those universities that receive and administer the ARC grants to researchers (Chapter 4); and
- ARC's monitoring of its grant programs for management, performance improvement and reporting (Chapter 5).

2. ANAO assessed ARC's performance on these aspects against four criteria:

- ARC has systematic processes for developing and implementing grant programs;
- ARC implements its guidelines effectively and efficiently;
- ARC manages its grants effectively; and
- ARC monitors and evaluates its business.

3. In its assessment, ANAO considered ARC's compliance with relevant sections of the *Australian Research Council Act 2001* (ARC Act) and the *Financial Management and Accountability Act 1997* (FMA Act). The assessment also took account of the ANAO's Better Practice Guides, particularly the *Better Practice Guide—Administration of Grants*.<sup>1</sup>

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<sup>1</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002 was used extensively in planning and conducting the audit. The audit also referred to other ANAO Better Practice Guides, for example, ANAO *Better Practice Guide—Public Sector Governance*, July 2003. All ANAO publications are available on its website <[www.anao.gov.au](http://www.anao.gov.au)>.

4. The audit focused mainly on ARC's administration of Discovery Projects, the largest scheme in ARC's National Competitive Grants Program (NCGP).

## About the Australian Research Council

5. ARC is a small agency of about 65 staff within the Education, Science and Training portfolio. It was established as an independent body under the ARC Act, and is also a statutory agency under the *Public Service Act 1999*, and a prescribed agency under the FMA Act.

6. The role of the ARC Board (Board) is to decide ARC's goals, priorities, policies and strategies, and ensure that ARC's functions are performed properly, efficiently and effectively. It also establishes committees to assist in ARC's work, provides advice to the Minister for Education, Science and Training (Minister) and may initiate inquiries.

7. Under its Act, ARC has two main functions; to advise the Australian Government on research matters, and to administer grants through the NCGP. At any point in time, the NCGP provides around 5 000 new and ongoing research grants in about 40 universities and 15 other eligible research institutions.<sup>2</sup> Grant recipients are largely university-based researchers, with the Group of Eight (Go8) universities receiving the largest number of grants and around 70 per cent of NCGP funding.

8. ARC's 2005–06 budget of \$571 million accounts for about 10 per cent of the Australian Government's \$5.3 billion annual science and innovation budget. Funding for the NCGP in 2004–05 was \$481.4 million, with 54 per cent (\$260 million) of this allocated to Discovery, one of two main elements of the NCGP. Discovery Projects grants range from \$20 000 to \$500 000 per annum, and from one to five years duration.

9. ARC holds one Discovery Projects grant round each year, for which it receives between 3 500 and 4 000 applications. ARC has a complex decision-making process. The round begins when ARC releases the Discovery Projects funding rules (usually in December). To assess and select grants, ARC uses a system of peer review, in which Australian and international assessors in relevant fields of research score and rank each application based on ARC's grant selection criteria. For final assessment and ranking, ARC sends each

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<sup>2</sup> While there are over 60 other institutions that are eligible to apply for ARC grants, ARC usually funds around 15 of these at any point in time.

application to several assessors and then to one of six selection advisory panels constituted from ARC's College of Experts.

10. Selection advisory panels make recommendations for successful and unsuccessful applications to ARC's Board. Once endorsed, the Board forwards its recommendations to the Minister for approval. Around October to November the Minister announces the successful grants; the entire grants cycle taking up to eleven months to complete.

11. ARC's grant processes are underpinned by the ARC Act, funding rules and many procedures. Of crucial importance to the grants process is ARC's implementation and monitoring of its guidelines and processes for the assessment and selection of grants, as well as guidelines for managing conflict of interest.

12. In July 2005, the then Minister announced that he would change ARC's governance in light of the Government-commissioned review of the governance of statutory authorities and office holders (Uhrig Review)<sup>3</sup>, retiring the Board by early 2006. The Australian Government introduced legislation into Parliament to amend the ARC Act on 30 March 2006.

## Key findings

### Structure and governance (Chapter 2)

13. ARC's structure was consistent with the ARC Act, comprising a Board, a Chief Executive Officer (CEO), committees of the Board and staff appointed under the *Public Service Act 1999*. The Board was involved in key functions defined by the ARC Act, including strategic planning and recommending grants for Ministerial approval.

14. Central to ARC's structure are the Executive Directors, who have key responsibilities in overseeing the peer review and grant selection processes in ARC's six discipline areas.<sup>4</sup> ANAO found that while ARC appointed the Executive Directors for three-year terms, it needed to be careful to ensure ARC's business continuity given the likely loss of knowledge with the end of their terms of appointment. While ARC staggered the appointment of the

<sup>3</sup> Commonwealth of Australia, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, June 2003. Mr John Uhrig chaired the review.

<sup>4</sup> The six ARC discipline areas are Biological Sciences and Biotechnology; Engineering and Environmental Sciences; Humanities and Creative Arts; Mathematics, Information and Communication Sciences; Physics, Chemistry and Geoscience; and Social, Behavioural and Economic Sciences.

Executive Directors, the risks associated with their turn-over, such as loss of corporate knowledge, were not identified in ARC's risk management plan. Better documentation of administrative procedures would also assist ARC to maintain business continuity and a sound knowledge of grant processes among ARC staff.

15. ANAO found that while ARC is part of the Education, Science and Training Portfolio, there was little formal documentation describing the arrangements between the Department of Education, Science and Training (DEST) and ARC for key administrative processes such as clearing of key documents or exchanging information and data. ANAO noted that the then Minister intended to 'retire' ARC's Board in 2006. The Secretary of the Department of Education, Science and Training (Secretary) would therefore no longer provide links between the two agencies through her Board membership. ANAO considers there would be benefit in ARC and DEST agreeing on a Memorandum of Understanding about their consultative and reporting activities, to ensure regular and ongoing information exchange on key policy and administrative matters. This step would be consistent with the Government's intent of a clearer role for departmental secretaries in such relationships following the Uhrig Review.

16. ARC operates in an environment where any perceived breaches of conflict of interest could easily undermine its reputation. ANAO found that ARC had developed conflict of interest guidelines and was making a concerted effort to implement these across its various committees. Notwithstanding, the audit identified areas that could be strengthened. To demonstrate sound practice and improve the visibility of ARC's grant selection process, ARC is advised to revise its guidelines, review conflict of interest declarations annually, and establish a register of interests for its College of Experts and other committees.

### **Assessment and selection (Chapter 3)**

17. While ARC had internal timetables for each of its individual funding schemes, ARC's draft business plan did not consolidate timelines, clearly convey ARC's plan for the scheduling and delivery of the grant schemes on an annual basis, or clearly illustrate the links between the key administrative tasks in delivering the funding schemes, ARC's resources, or operational targets.

18. ANAO also found that ARC did not produce an external annual calendar. As preparing an ARC grant application can be lengthy and complex,



ARC should provide stakeholders with timely information on the scheduling of its key activities and timelines. ANAO considers that publication of an annual calendar would strengthen ARC's business planning, and enhance the visibility of the various NCGP schemes, providing ARC staff and stakeholders with timely information on scheduling of key activities. This would assist stakeholders in planning their activities and resources to meet ARC timelines and requirements.

**19.** ANAO found that ARC had a structured process for developing and revising funding rules, and overall, the clarity and consistency of funding rules had improved over the 2004–06 period. While ARC was found to be implementing its funding rules, the timeliness in releasing the funding rules was inconsistent. ANAO surveys also found that ARC's clients rated this aspect of ARC's performance as poor. ANAO suggests that ARC improve its performance in this area by implementing consistent timeframes for release of funding rules and by setting targets to monitor its performance.

**20.** The process for assessment and selection of grants is also complex and lengthy. ARC produced a range of guidelines and procedures to assist staff and committees in carrying out their various roles, although these did not cover all aspects of the grant selection process. There were some processes where documentation should more clearly describe the roles and responsibilities of those involved in decisions, and the basis for making decisions, for example, the determination of eligibility, and requests from researchers for particular assessors to be excluded from assessing their applications ('requests not to assess').

**21.** Selection criteria and their overall weightings were available to applicants and grant assessors. However, application forms did not clearly indicate whether applicants had to address all or some of the sub-points under each criteria, whether there was any weighting applied to these sub-points, and how applications were assessed compared with other applications if the applicant had not addressed all points. ARC should revise its instructions to applicants and assessors, to make sure that the intent and relevance of the sub-points to the selection process is fully explained.

**22.** ARC's *Administration Handbook* states that 'workbooks are the official record of selection meetings'. While each project had a workbook record, ANAO found that in most instances these did not provide a complete record of the selection panel's key actions and decisions. For example, while reasons for ineligibility were recorded in the workbook, reasons for excluded (not funded)

applications or key actions taken at the meeting were not routinely recorded in the workbooks. A better approach would be for ARC to document a more comprehensive summary of key actions and decisions from selection meetings, as a hard-copy record on each researcher's file.

23. ANAO also found that while the majority of approved grants received less funding than requested, ARC's decision making in this area was not transparent. For example, ARC maintained limited documentation of each panel's discussions or reasons for reducing funding. It also provided little or no information to grantees on this part of the grant process, so grant recipients were unaware of which areas of their projects were considered strengths or weaknesses by grant selection advisory panels. Notifying successful applicants of the reasons for significant budget reductions would allow greater understanding of the funding process, help applicants to develop future applications, and assist grantees in making informed decisions about the best use of ARC grant money.

#### **Post-award grant management (Chapter 4)**

24. ARC has a decentralised model of grants management whereby each administering organisation (mainly universities) coordinates and administers grants on behalf of ARC. ARC had established Agreements with the universities to support the administration of grants. These reflected the legislative requirements of the ARC Act and FMA Act and followed ANAO's Better Practice Guide. Universities generally found the conditions on the award of grants clear, although they identified some areas that caused them difficulty in administering the grants.

25. Significant weaknesses were found in ARC's post-award management of grants, with few systematic processes in place to monitor progress and final reporting of grants under the conditions of the Agreements. In particular, ARC awarded full funding to few successful Discovery Projects applications. In 2003 and 2004, less than five per cent of Discovery Projects grants received 100 per cent of requested funding, about 30 per cent received 80 per cent or more, and 20 per cent received less than 50 per cent of their requested funding. Despite this, neither the Agreements nor ARC procedures clearly defined ARC's expectations for partially funded grants or the process for researchers to submit revised project plans.

26. ANAO also found that ARC frequently approved project variations through annual progress reports. This meant that ARC was approving

variations retrospectively, often a year or more into the project, or when finished in the case of one-year projects. At this stage substantial funds could already have been spent. ARC had not analysed whether partial funding of grants affected the success of projects or the quality of research results.

27. ANAO sampling showed that ARC was making timely and accurate monthly grant payments to universities. However, ANAO also found that reporting requirements under the Agreements were often not fully met, with a substantial number of progress reports and final reports on projects either not submitted or submitted late. This diminished ARC's ability to assure the Government that all grants met their objectives, that funds were used as intended, and that ARC goals were being fully met.

28. ANAO noted that ARC was aware of weaknesses in this area of administration, recognising that its existing systems could not effectively handle key aspects of post-award management. ANAO considers that ARC should give further priority to improving post-award management, while maintaining its focus on selecting projects and paying grants. ARC advised that it was undertaking an Information Technology (IT) system redevelopment to address these weaknesses.

29. ARC had recently carried out audits in two universities, and advised ANAO that it would commence a rolling institutional review program in the second quarter of 2006. ANAO considers that implementing such a program would help ARC and universities to improve the compliance and accountability of projects under the Agreements.

## **Monitoring and performance (Chapter 5)**

30. ARC complied with the ARC Act's requirement of preparing strategic plans and reporting progress against these in its annual report. However, ANAO detected areas where ARC could improve its performance management framework and be more consistent with the Department of Finance and Administration's (Finance) outcomes and outputs framework.

31. In particular, ANAO found there was no obvious link between ARC's effectiveness indicators and its 10 Key Performance Indicators, and reporting against the effectiveness indicators was minimal. The separation of indicators against administered and departmental items or output and outcomes in the *Portfolio Budget Statements* was also not well defined. ANAO suggests ARC use more targets and a wider range of quality and quantity measures to describe its performance, and its performance reporting to Finance's requirements.

32. ARC draws on several sources of data to generate information for internal performance management and external reporting. However, there were a significant number of final reports submitted late or not at all. This limited ARC's capacity to generate accurate aggregate data to support its performance management and monitoring, and inform policy.

33. While ARC periodically commissioned reviews and studies to measure performance, a more planned approach to reviews, to provide information at regular intervals, would assist ARC in determining the long-term results of ARC funded grants. During the audit, ARC advised that it was now staffing a Research Evaluation Team, which will assist in addressing these issues.

34. ANAO found that ARC had incorporated the national research priorities (NRPs) into the NCGP, as directed by the Minister under the Australian Government's *Backing Australia's Ability (BAA)* initiatives.<sup>5</sup> Most researchers responding to ANAO surveys were aware of the NRPs. However, there was uncertainty about how these influenced the grant selection process, or whether it was to the applicant's advantage to designate an NRP in their grant application. ANAO considered that greater clarification was required to ensure that researchers were providing all necessary information.

35. ANAO also found that ARC was not capturing all relevant information from grant applicants, due to limitations of the application form. One way for the ARC to improve the validity and reliability of its data on NRPs is by implementing a more rigorous approach to data collection and monitoring. ARC advised ANAO that its IT system redevelopment project currently underway is designed to address this.

36. ANAO found that, for many years, ARC had not commissioned research to determine client needs. ANAO surveys showed that although universities were generally satisfied with ARC's level of service, there were specific services where ARC could better meet client needs, for example by: producing a calendar showing major ARC events and timelines to help researchers and universities in planning for ARC grant rounds; enhancing information to unsuccessful applicants; by providing clearer information to grantees who receive partially funded grants; and by informing clients in a clearer and more comprehensive way of its monitoring of its performance.

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<sup>5</sup> Australian Government, *Backing Australia's Ability—An Innovation Action Plan for the Future 2001*, January 2001, and *Backing Australia's Ability—Building Our Future through Science and Innovation*, May 2004. Available at <<http://backingaus.innovation.gov.au>>.

## Overall audit conclusion

37. The audit identified that ARC was meeting the requirements of the ARC Act in administering grants for basic and applied research. However, shortcomings in ARC's administrative processes meant that ARC was not in a position to determine and inform the government about whether all grants met their objectives, that funds were used as intended, and that ARC goals were being fully met. While ARC had a strong focus on selecting the best applications, it had few systematic processes to enable effective or timely post-award management of grants.

38. ARC had established governance and organisational structures that supported the National Competitive Grants Program (NCGP), ARC's vehicle for administering grants. Overall, the ARC had developed a workable decentralised model with universities for administering grants on ARC's behalf. Funding Agreements were in place and ARC's monthly payments to universities were accurate and timely. However, ARC had few systematic processes to monitor progress and final reporting of projects. As a result, ARC could not fully account that grants were used as intended, or assess the extent that ARC's output and outcome were being met.

39. ARC has a substantial peer-review process in place, with a strong focus on research merit and national benefit. This enables ARC to select and fund high calibre research.

40. ANAO has made nine recommendations and a number of suggestions to strengthen ARC's management of grants, with particular emphasis on improving the effectiveness, transparency and accountability of ARC's grants administration. These recommendations are particularly important in light of changes to ARC's governance announced by the then Minister following the Uhrig Review.

## Agency responses

41. ANAO provided the draft audit report to ARC, as the agency audited, and to DEST for comment.

42. ARC provided the following short form response on the audit:

The audit found that the ARC was meeting the requirements of the ARC Act in administering grants for basic and applied research. It made a number of recommendations and suggestions to strengthen the process.

The ARC acknowledges that it has to date focussed its efforts on the selection process and that ideally additional work is required to strengthen its capability in the area of post-award management and monitoring. To assist with this process, the ARC is undertaking an extensive systems redevelopment project aimed at integrating all aspects of grants management (scheduled for completion in 2007). It also conducted a number of pilot post-award institutional reviews during 2005 as a precursor to an ongoing program of reviews which now will commence in June 2006.

The ARC agrees with the report's nine recommendations and is proceeding with their implementation.

**43.** In addition, ARC provided a response to each of the recommendations. The relevant responses appear immediately following each recommendation in the body of the report.

**44.** ARC's full response is in Appendix 5.

**45.** DEST's full response to the report and Recommendation No.1 is in Appendix 6.

# Recommendations

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Set out below are ANAO's recommendations aimed at improving ARC's management of research grants. Report paragraph references and abbreviated ARC responses are also included. ANAO considers that ARC should give priority to recommendations 5, 6, 7, and 8.

**Recommendation No.1**  
**Para 2.26**

Consistent with the Government's expectation following the *Review of the Corporate Governance of Statutory Authorities and Office Holders* and to ensure regular and ongoing information exchange and reporting, ANAO recommends that ARC and DEST develop a Memorandum of Understanding or similar arrangement.

*ARC's response: Agreed.*

*DEST's response: Agreed.*

**Recommendation No.2**  
**Para 2.42**

ANAO recommends that ARC strengthen its processes for managing conflicts of interest for the College of Experts and other ARC committee members, by revising its guidelines in line with better practice, including the ANAO *Better Practice Guide—Administration of Grants*. Revision would involve:

- reviewing conflict of interest declarations annually, as a way of maintaining compliance with conflict of interest principles;
- developing new protocols for a register of private interests; and establish and regularly revise the register; and
- clearly identifying responsibility for managing and resolving conflict of interest matters and implementing a regular monitoring process.

*ARC's response: Agreed.*

**Recommendation No.3**  
**Para 3.23**

ANAO recommends that, to assist researchers in planning and preparing their grant applications, ARC publish, on a trial basis, an annual calendar, which includes standard or indicative dates for release of funding rules and submission of applications.

*ARC's response: Agreed.*

**Recommendation No.4**  
**Para 3.37**

ANAO recommends that ARC implement a consistent method for considering 'requests not to assess', documenting reasons for decisions and informing applicants of the results of their 'request not to assess'.

*ARC's response: Agreed.*

**Recommendation No.5**

ANAO recommends that ARC amend its processes for assessing and selecting grants by:

**Para 3.57**

- clearly defining responsibility for assessing eligibility at all stages of the selection process, particularly for assessors and selection advisory panels;
- developing clear instructions for applicants and assessors on how sub-points (sub-criteria) should be addressed; and
- adequately documenting decisions and recommendations of selection advisory panels (including budget reductions) on workbook pages to fully reflect all actions and decisions made by panel members.

*ARC's response: Agreed.*



**Recommendation  
No.6  
Para 4.16**

In light of the large proportion of partially funded grants ARC awards each year, ANAO recommends that ARC:

- develop strategies to improve information to grant recipients who have been partially funded, to assist them in determining the best use of grant funds consistent with their project objectives;
- define its requirements for submitting and processing revised research plans, to ensure that grants are spent as intended;
- clarify the obligations and responsibilities of ARC, universities and researchers where ARC awards partial funding, to enable more effective post-award grants management; and
- examine the consequences and impacts of partially funding grants on the success of projects, and the quality of research outcomes.

*ARC's response: Agreed.*

**Recommendation  
No.7  
Para 4.36**

ANAO recommends that ARC strengthen management of its Funding Agreements by:

- implementing procedures and systems to enable more rigorous monitoring and follow-up of overdue progress and final reports; and
- developing clear policies to manage individual researcher's non-compliance with final reporting requirements and their eligibility for further ARC grants.

*ARC's response: Agreed.*

**Recommendation  
No.8**

**Para 5.33**

ANAO recommends that ARC improve internal management and external reporting by:

- ensuring that ARC's output and outcome are supported by appropriate performance indicators;
- specifying appropriate targets and a balanced set of quality and quantity measures against ARC's Key Performance Indicators for administered and departmental items;
- enhancing ARC's data collection systems to allow more effective analysis of final report project outcomes; and
- establishing a more planned approach to determining long-term outcomes including through regular commissioning of studies and reviews.

*ARC's response: Agreed.*

**Recommendation  
No.9**

**Para 5.45**

ANAO recommends that ARC clarify to stakeholders the role of the national research priorities in ARC's selection of grants, and improve the measurement and reporting of its performance in implementing the national research priorities by:

- amending funding rules and guidelines to grant applicants, to clearly define the role of national research priorities in the grant application and selection process;
- revising application forms to enable ARC to capture more complete data on national research priorities for the purposes of monitoring progress, reporting and evaluation; and
- implementing procedures to monitor the completeness and consistency of information on grant applications.

*ARC's response: Agreed.*

# **Audit Findings and Conclusions**



# 1. Introduction

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*This Chapter provides a brief background on the Australian Research Council and outlines the audit objective and approach.*

## The Australian Research Council

**1.1** The Australian Research Council (ARC) was established on 1 July 1988 under the *Employment, Education and Training Act 1988*. On 1 July 2001, ARC became an independent body under the *Australian Research Council Act 2001* (the ARC Act). It is also a statutory agency under the *Public Service Act 1999*, and a prescribed agency under the *Financial Management and Accountability Act 1997* (FMA Act). ARC is part of the Education, Science and Training portfolio.

**1.2** Under the ARC Act, ARC has two primary functions.<sup>6</sup> These are to advise the Australian Government on research matters and, through its National Competitive Grants Program (NCGP), administer grants for basic and applied research in all fields of science, social sciences and the humanities.<sup>7</sup> This audit focuses on the second of ARC's primary functions—the administration of grants under the NCGP.

**1.3** ARC's mission is:

to advance Australia's research excellence to be globally competitive and deliver benefits to the community.

**1.4** In pursuing its mission, ARC plays an important role in fostering innovation and competitive research in Australia. With a 2005–06 appropriation of \$571 million, ARC accounts for 10 per cent of the Australian Government's \$5.3 billion annual science and innovation budget and around 20 per cent of the Government's research funding to the higher education sector.

**1.5** ARC funds around 5 000 new and ongoing research grants annually in about 40 universities and 15 other research institutions.<sup>8</sup> Grant recipients are largely university-based researchers, with the Group of Eight (Go8) universities receiving the largest number of grants and around 70 per cent of

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<sup>6</sup> Section 6 of the *Australian Research Council Act 2001* (Cth) provides a detailed list of ARC's functions.

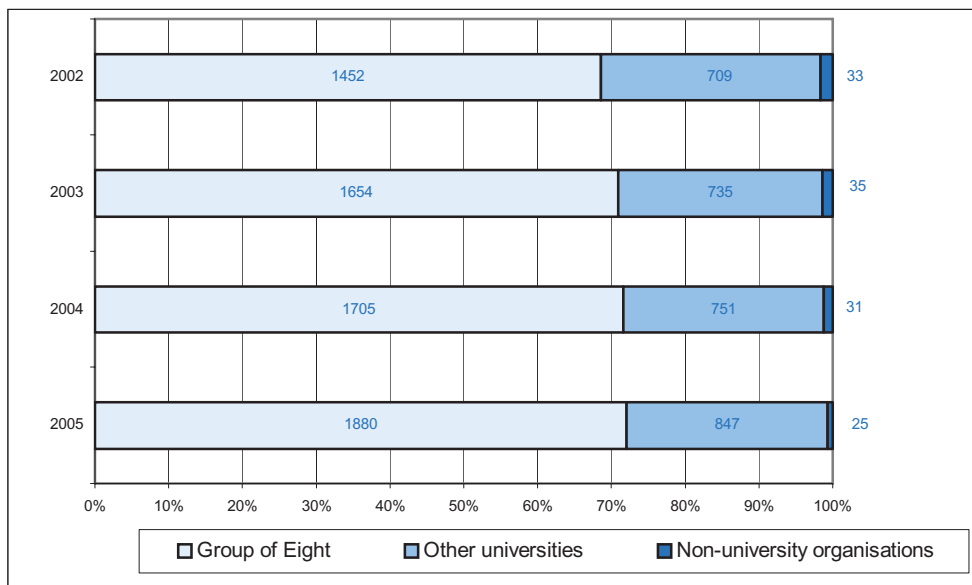
<sup>7</sup> ARC does not fund research in clinical medicine or dentistry.

<sup>8</sup> While there are over 60 other institutions that are eligible to apply for ARC grants, ARC usually funds around 15 of these at any given time.

NCGP funding. Figure 1.1 demonstrates this for Discovery Projects, the largest of ARC's grant schemes (discussed later).

**Figure 1.1**

**Division of ARC's Discovery Projects funding between different groups of funded organisations 2002 to 2005**



Source: ARC Annual Reports.

Note: 100 per cent (%) indicates total ARC funding for Discovery Projects in each year. The blue numbers indicate the number of grants funded in each group: Group of Eight universities; other universities; and non-university organisations.

## The National Competitive Grants Program

**1.6** The NCGP is ARC's vehicle for administering grants, and is an important funding source for both new and experienced researchers seeking financial support. However, the NCGP is highly competitive. Each year, ARC receives around 5 000 applications for NCGP grants.<sup>9</sup> Of these, about one-third are successful, receiving either full or partial funding.<sup>10</sup> Individual grants vary considerably in size: \$20 000 per annum for small grants to individual researchers, and \$2 to 3 million per annum for ARC Centres of Excellence to

<sup>9</sup> Applications must be from eligible organisations. These are listed in the funding rules on ARC's website at <[http://www.arc.gov.au/pdf/DP06\\_Funding\\_Rules.pdf](http://www.arc.gov.au/pdf/DP06_Funding_Rules.pdf)>.

<sup>10</sup> Success rates vary between schemes. For further details see Appendix 1.

\$25 million per annum for the Centre of Excellence in information and communications technology.<sup>11</sup>

**1.7** The NCGP is comprised of several grant schemes grouped under two main elements: Discovery and Linkage (see Appendix 1). Discovery is the larger of the two in terms of applications received and funding. In 2004–05 the Discovery element accounted for 54 per cent of total NCGP funding. Discovery Projects, the main funding scheme under the Discovery element of the NCGP, received 3 414 new grant applications for funding commencing in 2005. Discovery Projects grants range from \$20 000 per annum to \$500 000 per annum, and may be funded from one to five years. The average total grant size for Discovery Projects commencing in 2005 was \$282 030.

**1.8** Administration of NCGP funding schemes generally follows the cycle shown in Figure 1.2 (also see Appendix 2). Researchers who are eligible under the schemes' funding rules, prepare applications which are submitted to ARC through their respective administering organisations (mostly universities).

**1.9** For Discovery Projects, grant selection involves a peer review assessment of applications by ARC's College of Experts members, and international and Australian assessors with relevant expertise.<sup>12</sup> This process takes several months to complete.

**1.10** Under Part 7 of the ARC Act, the ARC Board (Board) recommends which grants should be funded (as well as those that should not) to the Minister for Education, Science and Training (Minister), for approval.<sup>13</sup> Once approved, ARC notifies individual applicants of the funding decision. For successful applications, ARC establishes Funding Agreements (Agreements) with the grant administering organisations for post-award management of the grants.

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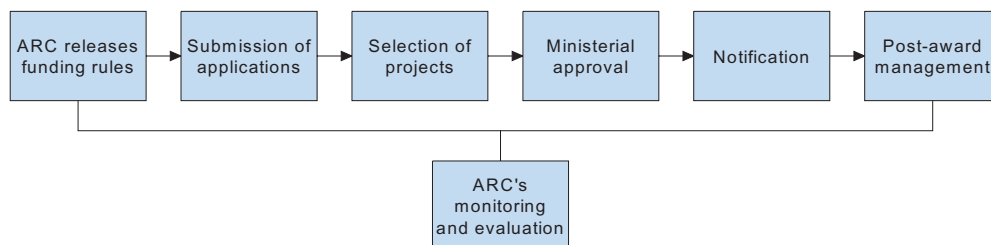
<sup>11</sup> Centres of Excellence were not part of this audit.

<sup>12</sup> ARC has an extensive list of assessors—IntReaders and OzReaders—to whom it sends applications for assessment. Each assessor scores and ranks the applications based on ARC's selection criteria. Chapter 3 discusses this process in more detail.

<sup>13</sup> The then Minister foreshadowed changes to ARC's current governance arrangements, announcing he would retire the Board by early 2006. Media release, The Hon Dr Brendan Nelson MP, *Enhancing governance arrangements—Australian Research Council*, 15 July 2005. The Government introduced legislation into Parliament to amend the ARC Act on 30 March 2006.

**Figure 1.2**

**Main administrative components of NCGP funding schemes**



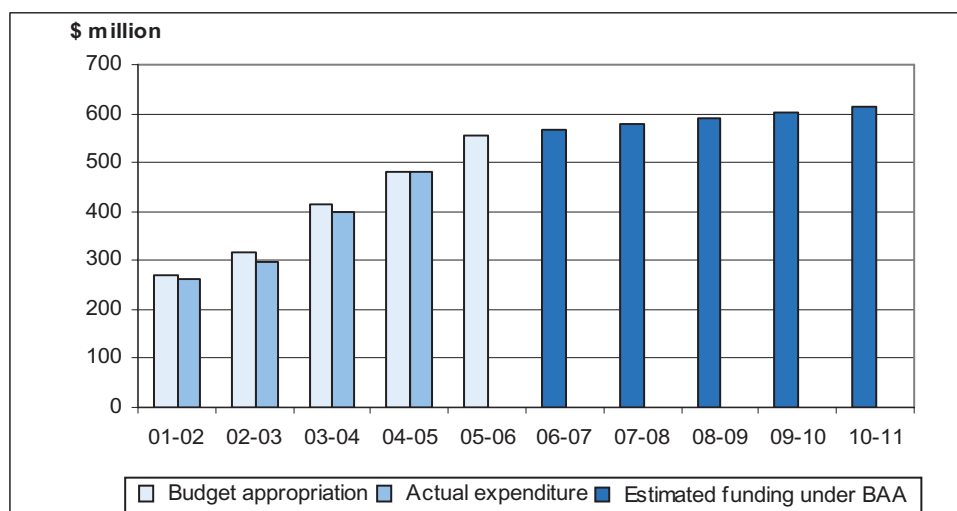
Source: ANAO.

**Funding**

**1.11** The *Backing Australia's Ability (BAA)*<sup>14</sup> statements, released by the Australian Government in January 2001 and May 2004 respectively, identified science and innovation as one of the Government's strategic policy priorities. Through *BAA*, the Government provided an additional \$2 billion for the NCGP through to 2010–11 (Figure 1.3).

**Figure 1.3**

**NCGP funding 2001–02 to 2010–11**



Source: Education, Science and Training Portfolio Budget Statements 2001–02 to 2005–06, ARC Annual Reports 2001–02 to 2004–05 and An Australian Government Initiative: *Backing Australia's Ability—Building Our Future through Science and Innovation*, May 2004.

<sup>14</sup> Australian Government, *Backing Australia's Ability—An Innovation Action Plan for the Future 2001*, January 2001, and *Backing Australia's Ability—Building Our Future through Science and Innovation*, May 2004. Available at <<http://backingaus.innovation.gov.au>>.



**1.12** ARC funds are appropriated from the Consolidated Revenue Fund in accordance with section 57 of the ARC Act. Funds are appropriated for the purpose of paying financial assistance under sections 55 and 56 of the ARC Act.

**1.13** In 2005–06 ARC’s total budget is \$571 million, of which \$556 million is for grants under the NCGP. The balance is ARC’s departmental funding, used to administer the NCGP. After consideration of advice from the Board, each year the Minister approves a funding split between the NCGP’s two main elements: Discovery and Linkage. In 2004–05 this funding split was Discovery 54 per cent (\$261 million), and Linkage 46 per cent (\$220 million).

**1.14** ARC’s departmental funds for 2004–05 were \$13 million or approximately 2.7 per cent of program costs. The 2005–06 Budget re-allocated \$2 million of ARC’s administered (program) funds to its departmental (operating) funds, increasing ARC’s operating budget to \$15 million (Table 1.1), and maintaining the proportion of operating to program costs at 2.7 per cent.<sup>15</sup>

**Table 1.1**

**ARC’s operating costs 2001–02 to 2005–06**

	Actual 2001–02	Actual 2002–03	Actual 2003–04	Actual 2004–05	Estimate 2005–06
Operating costs (\$m)	9.7	11.2	12.6	13.0	15.1
Percentage of program costs (%)	3.6	3.1	3.1	2.7	2.7

Source: *ARC Strategic Plan 2005–2007* p. 26 and *Education, Science and Training Portfolio Budget Statements 2005–06* p. 221.

## External reviews

**1.15** As part of the BAA initiatives, in May 2004 the Prime Minister announced that the Government would establish a new research quality framework (RQF), *Quality and Accessibility Frameworks for Publicly Funded*

<sup>15</sup> Departmental items are those ‘assets, liabilities, revenues and expenses controlled by agencies in providing their outputs’. Administered items are those ‘assets, liabilities, revenues and expenses managed by agencies on behalf of the Commonwealth. Agencies do not control administered items’. Department of Education, Science and Training website <[www.dest.gov.au](http://www.dest.gov.au)>, *Portfolio Budget Statements 2005–2006*, Glossary and Acronyms.

Research.<sup>16</sup> In its Preferred Model paper, the Expert Advisory Group recommended that the RQF be implemented in 2007 to:

provide the Australian Government with the basis for redistributing research funding to ensure that areas of the highest quality of research are rewarded. This will involve all of the Institutional Grants Schemes (IGS) and at least fifty per cent of the Research Training Scheme (RTS). My Department will conduct a process, with the ARC and the National Health and Medical Research Council, to develop the way in which the outcomes of the RQF will impact on the funding distributed by the research councils. It is expected that any impact on research council funding would not occur until after the first RQF assessment process has been completed.<sup>17</sup>

**1.16** In December 2002, the Prime Minister announced four national research priorities (NRPs).<sup>18</sup> On 2 March 2005, the then Minister announced the establishment of a National Research Priority Standing Committee, to oversee implementation of the Australian Government's national research priorities. The Committee provided comments to ARC on ARC's progress reports in May 2005 and in January 2006.

**1.17** In June 2003, the Government-commissioned review of the corporate governance of statutory authorities and office holders (Uhrig Review)<sup>19</sup> was presented to the Prime Minister and the Minister for Finance and Administration. In August 2004, the Minister for Finance and Administration announced the Government response to the Uhrig Review endorsing its governance principles and templates. In implementing the Uhrig Review's recommendations, on 15 July 2005, the then Minister for Education, Science and Training announced that he would 'retire' the ARC Board by early 2006, meaning that ARC would no longer have a Board. The then Minister indicated that ARC would remain a statutory authority. The Government introduced legislation into Parliament to amend the ARC Act on 30 March 2006.

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<sup>16</sup> Available from the Department of Education, Science and Training website at: [http://www.dest.gov.au/sectors/research\\_sector/policies\\_issues\\_reviews/key\\_issues/research\\_quality\\_framework/rqf\\_preferred\\_model.htm](http://www.dest.gov.au/sectors/research_sector/policies_issues_reviews/key_issues/research_quality_framework/rqf_preferred_model.htm).

<sup>17</sup> Department of Education, Science and Training, *Research Quality Framework: Assessing the quality and impact of research in Australia—The Preferred Model, Ministers Foreword*, September 2005 available at: [http://www.dest.gov.au/sectors/research\\_sector/policies\\_issues\\_reviews/key\\_issues/research\\_quality\\_framework/adv\\_approaches\\_paper.htm](http://www.dest.gov.au/sectors/research_sector/policies_issues_reviews/key_issues/research_quality_framework/adv_approaches_paper.htm).

<sup>18</sup> An Environmentally Sustainable Australia, Promoting and Maintaining Good Health, Frontier Technologies for Building and Transforming Australian Industries, and Safeguarding Australia.

<sup>19</sup> Commonwealth of Australia, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, June 2003. Mr John Uhrig chaired the review.

## Audit approach

**1.18** ANAO selected ARC for audit on the basis of ARC's importance to research in Australia, its increasing budget under the BAA initiatives, and changes to ARC's environment between 2001 and 2005. These changes included the establishment of ARC under its own Act in July 2001, and the Government's introduction of national research priorities in December 2002. This is ANAO's first performance audit of the ARC.

## Audit objective and scope

**1.19** The audit objective was to form an opinion on ARC's management of research grants. To achieve this, ANAO assessed ARC's performance against four criteria to determine whether ARC:

- had a systematic process for developing and implementing grant programs;
- was implementing its guidelines effectively and efficiently;
- managed its grants effectively; and
- monitored and evaluated its business.

**1.20** The audit examined the NCGP, particularly Discovery Projects and aspects of the Linkage program and new schemes. It did not examine ARC Centres,<sup>20</sup> the appropriateness of funding decisions, or detailed acquittal of grants administered by universities or other research organisations. ANAO did not audit ARC-funded organisations.

## Audit methodology

**1.21** ANAO's Better Practice Guides, particularly ANAO *Better Practice Guide—Administration of Grants*,<sup>21</sup> were used in the design and conduct of the audit.

**1.22** The audit methodology included reviews of relevant aspects of the legislation, literature and Government strategies relevant to ARC's business.

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<sup>20</sup> ARC's Centres scheme supports large research teams that undertake focused and sustained investigations. Centres include ARC Centres of Excellence, Special Research Centres, Key Centres for Training and Research (which ended in 2004), and co-funded Centres of Excellence.

<sup>21</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002. ANAO *Better Practice Guide—Public Sector Governance*, July 2003, was also used during the audit.

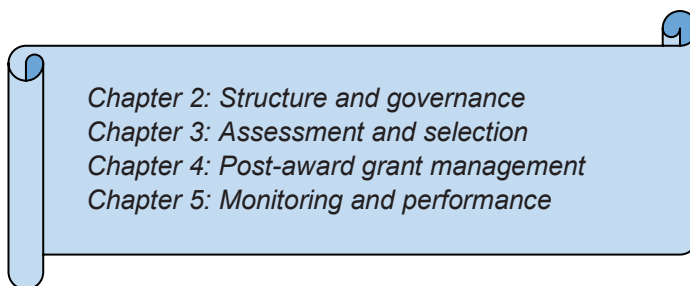
**1.23** ANAO undertook fieldwork at ARC, which involved interviews with staff and examination of guidelines, operational documents, files and electronic records. Fieldwork included sampling of Discovery Projects files and other records for consistency and compliance with ARC processes and policy guidelines. ANAO also observed meetings of the grant selection advisory panels (College of Experts) and the Board.

**1.24** ANAO invited comments from ARC stakeholders and clients through meetings with senior officers in the Department of Education, Science and Training (DEST), interviews and focus groups in six universities, and questionnaires and surveys of university administrators and researchers across all States and Territories. ANAO received responses from 29 of the 40 universities invited to participate in the first survey, and 277 responses from 11 of the 15 universities in the second (researcher) survey.

**1.25** The audit was conducted in accordance with ANAO Auditing Standards and cost \$485 700.

## Structure of the report

**1.26** The remainder of this report is structured around key elements of ARC's administration of grants and the audit criteria.



## 2. Structure and Governance

This Chapter considers aspects of ARC's governance, in particular the roles and responsibilities of those parties involved in administering ARC's grant programs, and conflict of interest provisions.

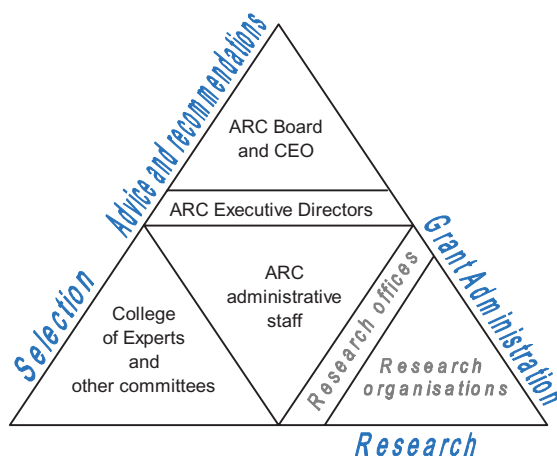
### Background

**2.1** The administration of ARC grants is a complex, multi-step process. It relies heavily on the academic communities in Australia and overseas to provide expert advice through assessment of thousands of ARC grants each year.<sup>22</sup> The ARC grants process relies on ARC maintaining a sound working relationship with administering organisations,<sup>23</sup> as these have a crucial role in promoting, coordinating and administering ARC research grants.

**2.2** Figure 2.1 illustrates the key groups involved in ARC's grants process. Appendix 2 also provides a flow chart of the grants process.

**Figure 2.1**

#### Key groups involved in the administration of ARC research grants



Source: ANAO.

Note: Research offices and research organisations are external to ARC and play a key role in administration of ARC grants.

<sup>22</sup> Chapter 3 gives a more detailed account of academics' roles in the assessment–selection process.

<sup>23</sup> Administering organisations are predominately universities. The main point of coordination between the universities and ARC is through university research offices.

**2.3** ARC, through its governance processes, needs to ensure that all of these groups work effectively together, complying with legislation and ARC guidelines, to achieve an accountable, transparent and effectively delivered grants program.

**2.4** In this context, ANAO sought to establish whether:

- ARC complied with the ARC Act in terms of organisational structure, functions, roles and responsibilities;
- ARC's governance was effective, and consistent with ARC guidelines and ANAO guides to better practice;<sup>24</sup> and
- ARC was implementing its policies and monitoring its practices for managing conflict of interest, to maintain public confidence in its grant selection process.

## Structure and functions under the ARC Act

**2.5** Consistent with section 5 of the ARC Act, ARC comprises:

- the Board (including the CEO);
- the committees established by the Board; and
- the staff engaged under the *Public Service Act 1999*.

### The Board and the CEO

**2.6** The Board was established in accordance with Part 3 of the ARC Act. It has fourteen members, including ARC's CEO, the Secretary of the Department of Education, Science and Training (Secretary), three other ex officio appointments, eight Ministerial appointments, and a Chair appointed by the Governor-General for a period not exceeding three years.

**2.7** The role of the Board, defined in section 9 of the ARC Act, is to decide ARC's goals, priorities, policies and strategies, and ensure that ARC's functions are performed properly, efficiently and effectively. It also establishes committees to assist in ARC's work, provides advice to the Minister, and may initiate inquiries.

**2.8** ANAO's observation of one Board Meeting and examination of Board documents for a four-year period indicated that the Board's activities fell

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<sup>24</sup> In particular, ANAO *Better Practice Guide—Administration of Grants*, May 2002, and ANAO *Better Practice Guide—Public Sector Governance*, July 2003.

within the requirements of the ARC Act. There was evidence of the Board's involvement in developing ARC's strategic plans, and ARC forwarded policies and proposals for new schemes to the Board for discussion and endorsement. ARC also followed a structured process for referring grant selections to the Board for recommendation, and subsequently to the Minister for approval.

**2.9** ARC provided secretariat support to the Board, which demonstrated sound administrative procedures and maintained satisfactory records of the Board's proceedings. The conduct of Board meetings complied with the ARC Act and ARC guidelines.

**2.10** The Minister appoints the CEO under Part 5 of the ARC Act, for a period not exceeding five years.<sup>25</sup> The ARC Act specifies that the CEO is responsible for the day-to-day administration of the ARC. The CEO has powers and delegations under the *Public Service Act 1999* and the FMA Act, and is responsible for the efficient and effective management of ARC resources.

## **Appointment of committees of the Board**

**2.11** The Board's committees include the College of Experts, from which ARC draws together six inter-disciplinary selection advisory panels. These panels meet twice each year, to make final assessments of applications for Discovery Projects and Linkage Projects grants. For other schemes ARC establishes specialist selection committees to assess and recommend grants.

**2.12** ANAO found that ARC followed a structured and consistent process for appointing College of Experts members and other committees of the Board. Committee members received information outlining their committee's roles and responsibilities, and signed declarations for codes of conduct, including conflict of interest guidelines and confidentiality.

**2.13** Chapter 3 includes a more detailed account of the role of the College of Experts in assessing and selecting grants.

## **ARC's structure**

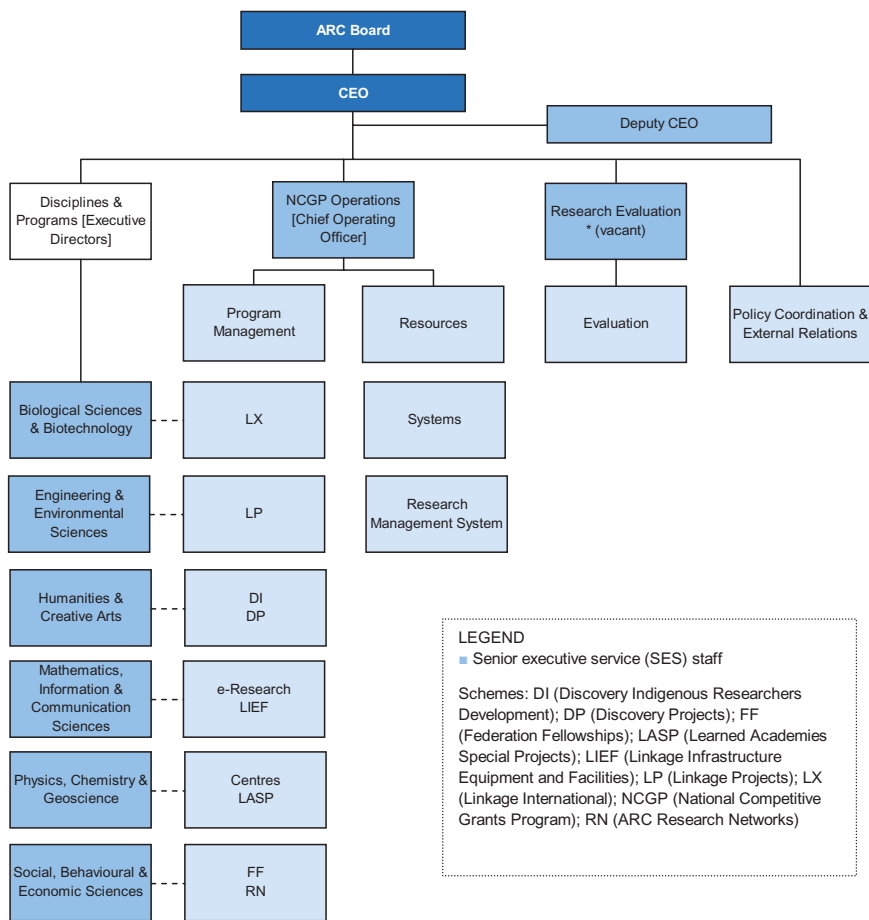
**2.14** ARC's structure is shown in Figure 2.2. The agency has about 65 staff. Eight of these staff are SES officers, of whom six are Executive Directors. These six are accomplished academics usually appointed to ARC for a three-year

<sup>25</sup> Professor Vicki Sara was CEO of ARC from July 2001 to 30 June 2004. Dr Stephen Walker was acting CEO from 17 May to 30 September 2004. The current CEO is Professor Peter Høj, appointed by the Minister from 1 October 2004.

term, to provide expertise across ARC's six discipline areas (shown on the left in Figure 2.2).

**Figure 2.2**

**ARC's organisational structure**



Source: ARC 2004–05 Annual Report p.18.

Note: \*ARC advised that it has no current intention to fill the Executive Director Research Evaluation position.

**2.15** ANAO found that the Executive Directors' roles were integral to ARC's work. Their main responsibilities included overseeing the peer review and grant selection process, liaison and strategic policy advice, approving project variations, and assessing progress and final reports. As well as managing a discipline area, each Executive Director was responsible for one or more of the NCGP's grant schemes (Figure 2.2).



**2.16** ANAO noted that the appointment of Executive Directors was staggered, providing opportunity for the transfer of knowledge from the more experienced to new Executive Directors. However, ANAO found that ARC had not identified the risks associated with the loss and re-hiring of Executive Directors in its risk management plan or developed a clear strategy to manage these risks.<sup>26</sup>

## Supporting documentation

**2.17** Each Executive Director was supported by a small team of between three and six administrative officers, involved in the day-to-day management of the grant schemes. ANAO examined whether ARC provided adequate instruction manuals, protocols and file records to support staff at the various levels in administering the different schemes within the NCGP.

**2.18** ANAO found that staff had access to a wide range of information through ARC's Intranet, although:

- not all significant ARC processes were documented;
- ARC had no general training manual for new staff;
- ARC had produced a NCGP Procedures Manual in late 2004, to help improve consistency and knowledge of the NCGP processes across the discipline groups. However, less than half of the 251 supporting documents (called HOWTOs)<sup>27</sup> listed in the Appendix to the Manual were prepared; and
- while the NCGP Procedures Manual was available to staff electronically, few of those staff interviewed during the audit used it.

**2.19** ANAO found that the discipline groups sometimes adopted different approaches to similar processes, for example, in allocating funds to projects during the selection meetings and in ARC's assessment of 'requests not to assess' (discussed in later Chapters). Such differences, if not treated, can increase the risk of inequitable treatment of applications or inconsistent decisions during the grant selection process.

**2.20** ANAO noted that in April 2005, ARC had appointed a manager to help coordinate work and encourage consistency of administration across the six discipline areas. Around this time, ARC also implemented a more structured

<sup>26</sup> ANAO *Better Practice Guide—Business Continuity Management*, ANAO, January 2000.

<sup>27</sup> The HOWTOs were protocols and instructions on each aspect of grants administration for the NCGP.

approach to program coordination through regular meetings of senior officers across discipline groups and at senior executive level. Late in the audit, ARC advised ANAO that ‘as part of the systems redevelopment project, it had undertaken a process of documenting all business processes and that this project had overtaken preparation of HOWTOs for the NCGP Procedures Manual’.

**2.21** While the above actions should help to improve ARC’s documentation of key NCGP processes, it is important that ARC makes sure that it clearly defines responsibility for documenting administrative procedures, and incorporates regular and systematic reviews of documentation in its work planning and resource allocation. This approach would assist ARC in maintaining business continuity and in promoting a sound understanding of ARC’s grant processes among its staff. In turn, benefits to ARC would be not only in the effectiveness of processing applications, but in underlining the importance of transparent and equitable treatment of applicants.

## **Administrative arrangements between ARC and DEST**

**2.22** The Uhrig Review emphasised the primary role that departments and portfolio secretaries have in providing advice and support to their Ministers. The Government endorsed the report’s governance principles.<sup>28</sup>

Departments are the primary source of public sector advice to Ministers and are best placed to support Ministers in the Governance of the statutory authorities. In this respect they are akin to an advisory function within a parent company in providing advice to the CEO about activities of the company’s subsidiaries.<sup>29</sup>

**2.23** ARC is an integral component of broader government initiatives, particularly in the areas of national research priorities and development of a new research quality framework. To ensure a well-coordinated and complementary approach to implementing Government policies and programs, it is important for ARC and DEST to develop and maintain clear links through formal as well as informal arrangements.

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<sup>28</sup> Senator the Hon Nick Minchin, Minister for Finance and Administration, Media Release 57/04, 12 August 2004, *Australian Government Response to Uhrig Report*, <[www.financeminister.gov.au/media/2004/mr\\_5704](http://www.financeminister.gov.au/media/2004/mr_5704)>.

<sup>29</sup> Commonwealth of Australia, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, June 2003, p.63.

**2.24** ANAO found that while ARC sits within the Education, Science and Training portfolio, ARC had little documentation describing formal arrangements between ARC and DEST for key administrative processes, such as clearing of key documents or exchanging information and data. ANAO also noted that, as a result of the then Minister's impending retirement of the Board,<sup>30</sup> the DEST Secretary would no longer link ARC and DEST through her Board membership.<sup>31</sup> This raised a risk that advice and information from DEST on issues such as strategic planning would be diminished.<sup>32</sup>

**2.25** ANAO found sufficient business risks in the current process to recommend that ARC and DEST formalise their consultative and reporting activities, to ensure regular and ongoing information exchange between ARC and DEST on common policy areas such as national research policy, and on broader significant administrative matters. This could be through a Memorandum of Understanding or other similar means.

## Recommendation No.1

**2.26** Consistent with the Government's expectation following the *Review of the Corporate Governance of Statutory Authorities and Office Holders* and to ensure regular and ongoing information exchange and reporting, ANAO recommends that ARC and DEST develop a Memorandum of Understanding or similar arrangement.

**ARC's response:** Agreed.

**DEST's response:** Agreed.

DEST agrees with Recommendation 1 and notes the importance of requiring a Memorandum of Understanding between DEST and the ARC.

This is consistent with the Government's expectation following the *Review of the Corporate Governance of Statutory Authorities and Office Holders* and will ensure regular and ongoing information exchange and reporting between the two agencies.

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<sup>30</sup> Refer also to Chapter 1. The then Minister announced that he would 'retire' the current Board in early 2006. Effectively this means that ARC will not have a Board and ARC's governance arrangements will change.

<sup>31</sup> The DEST Secretary is an ex-officio member of the Board under section 12(b)(iv) of the ARC Act.

<sup>32</sup> The Secretary of the Department of Prime Minister and Cabinet reinforced the Uhrig report's findings in reiterating the importance of whole of government approaches to the making and delivery of public policy. P Shergold, 'Regeneration: New Structures, New leaders, New Traditions', *Australian Journal of Public Administration*, 64 (2), 2005, p.4. Speech delivered at the Institute of Public Administration National Conference, Canberra, 11 November 2004.

DEST enjoys a good working relationship with the ARC and will work with the ARC to ensure that the Memorandum of Understanding formalises consultative and reporting activities on national research policy matters.

## Administering organisations

**2.27** Universities (ARC's primary administering organisations) play a crucial coordination and administration role in the grants process. Their role in administering successful grants is defined through Agreements between individual universities and ARC (on behalf of the Commonwealth).

**2.28** Each Agreement outlines the university's responsibilities and obligations on key administrative matters, including: making grant payments; variations to grant conditions; and reporting requirements.

**2.29** An ANAO survey of university research offices<sup>33</sup> found that over 80 per cent of responding research offices rated their working relationship with ARC staff as good to very good. Around 15 per cent (and 25 per cent of Group of Eight universities) commented that they needed more comprehensive information to assist them in meeting ARC's administrative requirements. Other, more specific issues are discussed in Chapters 4 and 5.

✿✿✿✿ ANAO acknowledges that ARC is addressing issues raised by universities. For example, ARC held a conference for university research offices in May 2005, which gave their representatives the opportunity to discuss issues of concern. ARC also recently consulted with universities for its review of funding rules. ARC advised ANAO that it will hold a Research Administrators Conference each year.

## Managing conflict of interest

✿✿✿✿ An important component of governance is the establishment of appropriate guidelines on ethical conduct and declaring conflicts of interest. ANAO examined ARC's management arrangements for conflict of interest against ANAO's *Better Practice Guide*. The guidelines emphasise the importance of addressing conflict of interest:

Actual or perceived conflicts of interest can be potentially damaging to the funding organisation and its programs. Ensuring that relevant guidelines clearly outline what constitutes a conflict of interest, and that procedures are in

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<sup>33</sup> ANAO surveyed research offices in 40 universities (29 responded).

place for staff to declare their interests can mitigate that risk. A regularly updated register of interests assists transparency and accountability.<sup>34</sup>

**2.32** As conflict of interest was an issue raised by ARC's stakeholders early in the audit, ANAO discussed this and other concerns with academic and administrative staff at several universities.

**2.33** ANAO found that many researchers<sup>35</sup> considered that conflicts of interest were an unavoidable consequence of the peer review process. This was particularly the case in Australia because of the relatively small pool of researchers available to assess applications in some specialist areas. However, researchers expected ARC to have the best possible process to minimise the effect of conflicts of interest on the grant selection process.

**2.34** ARC reported that it deals with conflict of interest at three levels: the Board; committees; and assessors. ANAO found that, on appointment, members of these groups received guidelines and signed confidentiality and conflict of interest declarations to address the requirements of the ARC Act:

The legislative requirement to disclose pecuniary interests is contained in section 27 of the Act. Sections 22(2)(d) and 29(4) require the Minister to terminate a Board member's appointment for failure to disclose interests without reasonable excuse. Non-disclosure also puts at risk any consultancy contract, grant or other award.<sup>36</sup>

**2.35** ANAO noted that ARC was making a concerted effort to implement its guidelines to address conflict of interest. For example, selection advisory panel members did not receive papers for grants in their own institutions. At the selection advisory meeting, the Chair asked relevant members to leave the meeting when the committee discussed applications for which conflicts of interest were declared.

**2.36** ANAO observed that this occurred in almost all instances. However, the process would be improved if, in all instances, the ARC secretariat alerted the Chair and panel members to potential conflicts of interest prior to commencing discussion on a particular grant, and monitor the process to ensure that conflicts were always appropriately handled.

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<sup>34</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002, p.24.

<sup>35</sup> Participants in ANAO interview groups held at several universities were at various stages of their careers, including early career researchers and Federation Fellows.

<sup>36</sup> Australian Research Council, *ARC Administration Handbook*, March 2005, p.53. Internal publication.

**2.37** Outside of these processes, ARC is largely dependent on the ethical behaviour of individuals in declaring conflicts of interest. While this is not unusual, there are steps that ARC could take to strengthen its conflict of interest process. For example, ARC could maintain a register of private interests, as some agencies do.

**2.38** ANAO also found that ARC did not have a clearly documented method for monitoring conflicts of interest. ARC did not ask individual members of committees to renew their declarations on an annual basis, and therefore could not ensure that information on a member's conflict of interest was up to date.

**2.39** As the Board will soon be retired, and ARC's legislation revised, there is an opportunity for ARC to review and strengthen its confidentiality and conflict of interest procedures to meet current better practice. The opportunity exists for ARC to:

- examine other agencies' practices and consider revising its guidelines in line with recent advice on better practice, including the ANAO *Better Practice Guide—Administration of Grants*;
- review conflict of interest declarations annually, as a way of maintaining compliance with conflict of interest principles;
- develop new protocols for a register of private interests; and
- establish and regularly revise the register.

**2.40** The ANAO *Better Practice Guide—Public Sector Governance* also advises that the requirements for disclosure and management of conflicts need to be monitored and enforced.<sup>37</sup> ARC should ensure that it clearly defines where responsibility sits for monitoring, enforcing and advising conflict of interest matters at all levels of the ARC, and include these in its guidelines.

**2.41** ANAO also suggests that ARC could enhance the visibility, public understanding and confidence of its conflict of interest activities by publishing its guidelines on its website.

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<sup>37</sup> ANAO *Better Practice Guide—Public Sector Governance*, Guidance Paper No.6: Conflicts of Personal Interest and Conflicts of Role, July 2003.

## Recommendation No.2

**2.42** ANAO recommends that ARC strengthen its processes for managing conflicts of interest for the College of Experts and other ARC committee members, by revising its guidelines in line with better practice, including the *ANAO Better Practice Guide—Administration of Grants*. Revision would involve:

- reviewing conflict of interest declarations annually, as a way of maintaining compliance with conflict of interest principles;
- developing new protocols for a register of private interests; and establish and regularly revise the register; and
- clearly identifying responsibility for managing and resolving conflict of interest matters and implementing a regular monitoring process.

**ARC's response:** Agreed.

## Conclusion

**2.43** ARC's structure was consistent with requirements of the ARC Act, comprising a Board, a CEO, committees of the Board and staff appointed under the *Public Service Act 1999*. The Board and the CEO performed their respective roles and functions as described in the ARC Act. ARC had implemented sound processes for the appointment and operation of the Board and its committees, and maintained satisfactory records of Board meetings. However, ARC's internal administration would benefit from documentation of key NCGP processes, and greater consideration of the risks associated with loss of senior staff in ARC's risk management planning. These actions would help to ensure business continuity and retention of corporate knowledge.

**2.44** As a result of the Board's impending retirement, the DEST Secretary would no longer link ARC and DEST through her ex-officio Board membership. ANAO considers that a Memorandum of Understanding (or similar document) on cross-agency policy, administrative processes, and reporting matters would ensure accurate and timely coordination of information by DEST and ARC to the Minister. These links would be in keeping with the recommendations of the Government-commissioned 2003 review of corporate governance of statutory authorities and office holders (the Uhrig Review).

**2.45** Over 80 per cent of university research offices responding to an ANAO survey indicated that their working relationship with ARC staff was good to very good. However, around 15 per cent commented that they needed more comprehensive information to assist them in meeting ARC's administrative requirements.

**2.46** ANAO found that ARC had guidelines and processes for managing conflicts of interest. However, ARC operates in an environment where any perceived breaches of conflict of interest could easily undermine its reputation. Therefore, ANAO considers that to maintain public confidence and the accountability of ARC's administrative and decision making processes, ARC needs to strengthen its guidelines to meet current standards of better practice. In particular, ARC needs to regularly update conflict of interest declarations and establish mechanisms to monitor its processes in this area.



## 3. Assessment and Selection

*This Chapter examines ARC's grant selection process. The focus is largely on Discovery Projects, some cross-program aspects of the NCGP, and on universities.*

### Background

**3.1** A good grant selection process aims to select projects that best represent value for money in the context of the objectives and outcomes of the grant program.<sup>38</sup> In accordance with better practice, the design of a grant program should ensure that decisions in relation to the approval or refusal of grants are soundly-based and well documented.

**3.2** A clear and systematic approach to grants administration enhances confidence in the selection of applications. Good recordkeeping also assists organisations to demonstrate that they follow due process.<sup>39</sup>

**3.3** ANAO examined the effectiveness, transparency and accountability of ARC's grant selection process, and whether ARC is meeting its relevant program objectives (Figure 3.1).

**Figure 3.1**

#### ARC's strategic objectives

<b>Objective 1</b>	<b>Discovery</b> Develop and maintain a broad foundation of high-quality world-class research across a wide range of disciplines.
<b>Objective 7</b>	<b>Effective Organisation</b> Implement a governance and organisation structure, together with management processes, to enable the ARC to achieve its objectives within a framework of transparency and accountability.

Source: ARC Strategic Plans 2003–2005 and 2005–2007.

Note: The 2005–2007 Strategic Plan has the same objectives as the 2003–2005 Strategic Plan except the title of Objective 7 has changed from Governance to Effective Organisation.

<sup>38</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002, p.39, p.42 and p.45.

<sup>39</sup> *ibid.*, p.22 and p.41.

## Applying for ARC grants

### ARC grant applicants

**3.4** Recipients of ARC's Discovery Projects grants are largely university-based researchers. For some, ARC funding helps to sustain their careers in research by providing personal salaries, for example, through Postdoctoral Fellowships or Australian Research Fellowships. For others it provides the means to employ additional staff for research projects, to travel overseas to conferences, or to purchase equipment essential to their research efforts.

**3.5** ARC's range of funding schemes (as outlined in Appendix 1) targets early career researchers as well as those who are more established. However, regardless of the stage of a researcher's career, preparing an ARC grant application can be a lengthy and complicated process. For example, for those research projects involving collaboration, it may take researchers considerable time to coordinate preparation of an application with other participating universities or partner organisations (such as private industry partners).<sup>40</sup> Researchers may invest substantial time and effort into preparing applications, as they often depend on the success of their grant application as a means of continuing in their chosen field of research for the next one to five years.

**3.6** In this context, it is necessary for potential applicants to have timely and accurate information to assist them in preparing applications that meet ARC's funding rules and timelines. It is also necessary for ARC to have timely, fair and accountable processes by which to select the best research for funding.

### The grant cycle

**3.7** ARC operates on an annual grant cycle driven mainly by the funding rounds for Discovery Projects and Linkage Projects, ARC's two main grant schemes (see Appendix 1). Other schemes are scheduled throughout this annual cycle to allow ARC to distribute its workload and resources.<sup>41</sup> Under the ARC Act, the Minister releases the funding rules and announces the outcomes of the funding rounds.

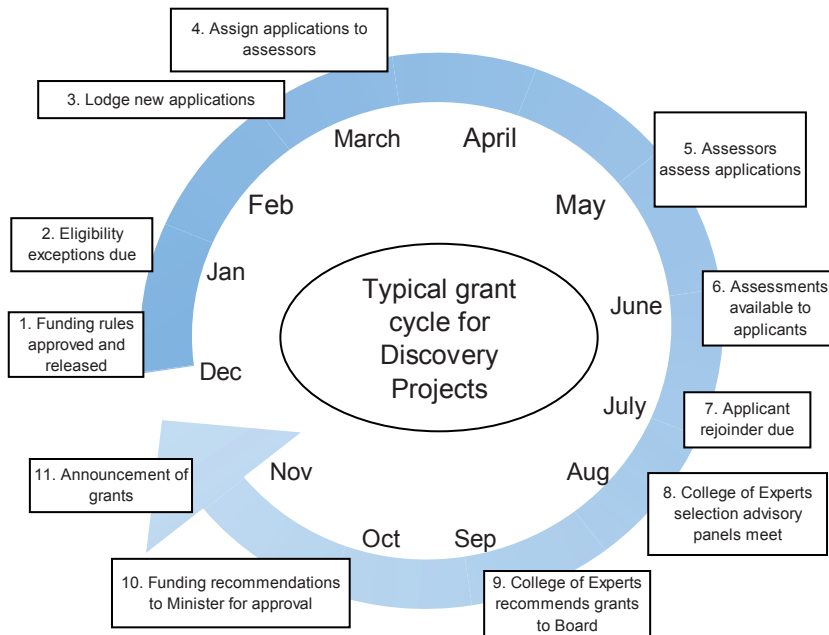
**3.8** Figure 3.2 shows the key steps in a typical grant round for Discovery Projects.

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<sup>40</sup> ARC, *Australian Research Council 2004–05 Annual Report*, ARC, Canberra, 2005 gives many examples of research undertaken with the assistance of ARC grants.

<sup>41</sup> ARC advised ANAO that this also allows universities to distribute workloads and resources accordingly.

**Figure 3.2**  
**Typical grant cycle for Discovery Projects**



Source: ANAO.

**3.9** Potential applicants could access information, funding rules and application forms for each scheme, as they became available, through ARC’s website. ARC also maintained links with universities and other funding organisations to promote new and existing schemes, and to inform the research community about the processes and outcomes of grant rounds.

**3.10** For the main funding schemes, Discovery Projects and Linkage Projects, each scheme’s closing date for applications was similar from one year to the next. There was less consistency in the closing dates for some of the smaller schemes, due to the need for ARC to distribute its workload and resources.

**Calendar of ARC grant activities**

**3.11** ANAO found that ARC did not produce an external annual calendar of timelines and key events for the NCGP. ARC had internal timetables for each

of its individual funding schemes,<sup>42</sup> which it included in its *Administration Handbook*; a document available only to ARC staff and committee members.

**3.12** At the time of audit fieldwork, ANAO found that ARC's draft business plan (developed during the audit) contained no consolidated timelines and, therefore, did not clearly convey ARC's plan for the scheduling and delivery of the grant schemes on an annual basis. Furthermore, the business plan did not clearly illustrate the links between the key administrative tasks in delivering the funding schemes, ARC's resources, or operational targets.

**3.13** In terms of external management of the grant schemes, ARC requires grant applicants (the universities) to meet ARC's funding rules, which include eligibility requirements and deadlines for submitting applications. ARC expected university research offices to check that applications met the eligibility requirements and lodge them with ARC on time. Under ARC's funding rules, applications which are incomplete, or not submitted on time, may be excluded from the funding round. In this context, ARC should ensure that it clearly informs stakeholders of timetables and key dates, and provides sufficient information and time for universities to prepare applications that meet all ARC requirements.

**3.14** ANAO considers that an annual calendar would generate several benefits. In particular, it would support ARC's business planning, and enhance the visibility of the various schemes within the NCGP, providing ARC staff and the research community (ARC's external stakeholders) with timely information on scheduling of key activities. A calendar also has the potential to strengthen ARC-client relationships by improving the visibility of the grants process, and by assisting universities and individual researchers in planning their activities and resources to meet ARC timelines. In the ANAO's interviews with universities, stakeholders said that a calendar would assist them in planning for applying for ARC grants. In turn, this would help to ensure quality applications and assist applicants to meet ARC's requirements.

**3.15** ANAO recognises that under current arrangements, ARC is required to obtain approval from the Board and the Minister for a number of legislated functions, in particular approval of funding rules. This step is not necessarily a barrier to producing a calendar. ARC could, for example, advise the research community or publish indicative dates for key events, subject to confirmation.

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<sup>42</sup> See Appendix 1 for a list of funding schemes available in 2004 and 2005.

**3.16** ANAO recommends that ARC develop a calendar for internal and external management purposes. The calendar should be trialled and evaluated in consultation with ARC's key client groups to determine its ongoing feasibility and usefulness (refer to Recommendation No.3 later in this Chapter). ANAO suggests that a two-year trial period should be sufficient time to make this assessment.

## **Funding rules**

**3.17** As discussed previously, each NCGP funding scheme has specific funding rules. These contain essential information, including eligibility and grant selection criteria that applicants must satisfy in order to compete for ARC grants. Under section 59 of the ARC Act, the Board is responsible for preparing funding rules for Ministerial approval. Once the Minister approves them, ARC releases the funding rules through its website.

**3.18** ANAO examined a sample of funding rules for schemes with grants commencing in 2004 to 2006. ANAO found that ARC had a structured process for developing funding rules, consistent with the requirements of the ARC Act, and followed the necessary approval procedures. ARC also has mechanisms for annual review of the funding rules, which include consultation with the administering organisations and seeking legal advice on contentious or new issues.

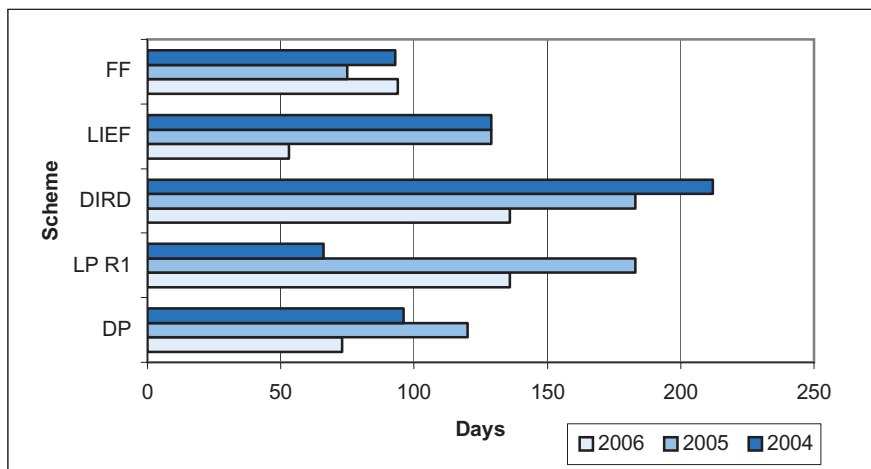
**3.19** The funding rules routinely included key information on scheme objectives, the process for submitting and assessing applications, eligibility criteria, and key dates (including closing dates for applications). ANAO found that overall, the clarity and consistency of the funding rules had improved over the period 2004 to 2006.

**3.20** However, the timeliness of the release of funding rules was variable, which impacted on the time available for preparing applications (that is, the time between the release of funding rules and the due date for applications). ANAO analysis showed that the time available for researchers to prepare their applications, once funding rules were released, varied from 53 to 212 days depending on the nature of the scheme and submission year (see Figure 3.3). ANAO noted that ARC had not set standard timeframes for this part of its grant process to ensure they were addressing stakeholder needs, or set targets to assist in monitoring its own performance in this area.

**3.21** Universities commented that for some schemes the release of the funding rules had been too close to the due date for applications, making it difficult for applicants and university administrators to meet ARC’s deadlines.<sup>43</sup> This was particularly the case if funding rules changed significantly from those of the previous year.

**Figure 3.3**

**Time between release of funding rules and the due date for applications**



Source: ANAO analysis of ARC data.

Notes: FF = Federation Fellowships, LIEF = Linkage Infrastructure Equipment and Facilities, DIRD = Discovery Indigenous Researchers Development, LP = Linkage Projects and DP = Discovery Projects.

0 Days = day the Minister approved the funding rules.

ARC advised that the 2004 Federal election impacted on the release of the 2006 funding rules.

**3.22** ANAO suggests that ARC review the process for developing and releasing funding rules, with a view to implementing consistent timeframes for preparation of applications after the release of funding rules. Setting of targets would assist administration, and ensure timely and appropriate access to ARC grant schemes by its clients.

<sup>43</sup> ANAO survey of university Research Offices showed that 47 per cent of respondents (75 per cent in Go8) found the timeliness of the release of funding rules as poor to very poor. Some 29 per cent of researchers (40 per cent of in Go8) responding to the ANAO survey rated timeliness of the release of funding rules as poor to very poor (see Table 5.2).

## Recommendation No.3

3.23 ANAO recommends that, to assist researchers in planning and preparing their grant applications, ARC publish, on a trial basis, an annual calendar which includes standard or indicative dates for release of funding rules and submission of applications.

ARC's response: Agreed.

## ARC's processing of applications

### Determining eligibility

3.24 The ARC Act specifies that only applications that satisfy the requirements set out in the approved funding rules should be recommended to the Minister for funding.<sup>44</sup> To meet this requirement, ARC established funding rules and processes to assess an applicant's eligibility. Each scheme's funding rules contained detailed eligibility criteria (Figure 3.4), in addition to grant selection criteria (discussed later in this Chapter).

Figure 3.4

#### Examples of eligibility criteria

- ❖ A researcher may not hold more than two Discovery Projects grants on which she/he is a Chief Investigator or ARC Fellow.
- ❖ A researcher may not be named as a Partner Investigator on more than four Discovery Projects grants.
- ❖ To be eligible for consideration each application in Discovery Projects must be submitted by an organisation which is eligible to receive and administer ARC financial assistance (an eligible organisation).
- ❖ To be eligible to apply as a Chief Investigator, the applicant must reside predominantly in Australia for the full term of the grant. If the applicant does not have permanent resident status she/he must obtain temporary resident status from the Department of Immigration and Multicultural and Indigenous Affairs before taking up the grant.
- ❖ Discovery Projects will not fund research already funded by a Commonwealth funded Research Centre or which could reasonably be expected to be supported by the Centre given its research program and its level of funding.

Source: ARC, *Discovery Projects Funding Rules for Funding commencing in 2006*.

3.25 Applicants had ready access to funding rules (and thereby eligibility criteria) through ARC's website. While it was each applicant's responsibility to meet the eligibility requirements, including those for researchers, ARC also expected administering organisations to check that researchers met eligibility requirements prior to submitting an application.

<sup>44</sup> *Australian Research Council Act 2001* (Cth), sections 52 and 53.

**3.26** Researchers who were unsure of their eligibility could seek advice through their university research offices prior to submitting an application. If the research office was uncertain of a researcher's eligibility, it could seek an eligibility ruling or request an eligibility exemption from ARC. ANAO noted that ARC had effective mechanisms to assess such applications.

**3.27** ANAO examined ARC's process for determining eligibility once an application was submitted to ARC, and found discrepancies between ARC's process as described in its funding rules, and ARC's preferred practice. ARC's *Administration Handbook* and funding rules stated:

exclusion of ineligible applications by the ARC may take place at any time during the selection process. Applications which contravene the funding rules in any way will be excluded.<sup>45</sup>

**3.28** ARC also informed ANAO that:

the selection advisory panel formulates views on eligibility. ARC prefers all applications to be assessed so that if there is an appeal, and if upheld, it is easy to determine the priority order for funding recommendation.

**3.29** ANAO found that, once submitted, ARC checked applications and notified universities of those applicants with possible eligibility issues. This early checking mechanism allowed ARC and universities to resolve most cases of ineligibility before the grant selection meeting. Where an eligibility issue is not resolved early in the grant process, the application is forwarded to the selection panel for consideration.

**3.30** However, ANAO found that ARC had not revised its supporting documentation and guidelines to clearly define the roles and responsibilities of assessors and selection advisory panels in assessing eligibility. Without well-defined responsibilities and processes, there is a risk that applications will pass through ARC's selection process without due attention to eligibility issues, and inadvertently be funded. One way for the ARC to address this risk would be by clarifying its eligibility process to ensure that it continued to meet the legislative requirement not to fund ineligible applications.

**3.31** ANAO also noted that in referring eligibility issues to the selection advisory panels, ineligible applicants would remain in the grants process longer. This could lead to additional administrative cost. Therefore, ANAO

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<sup>45</sup> Australian Research Council, *ARC Administration Handbook*, March 2005, p.13 (internal publication), and ARC, *Discovery Projects Funding Rules for Funding commencing in 2006*, p.21.



suggests that ARC evaluate its current approach with respect to its cost effectiveness and the risks involved, and then determine the best approach.

### Requests not to assess

**3.32** As discussed in Chapter 2, perceived or actual conflicts of interest can affect an agency's credibility and the integrity of the selection process. ARC's 'requests not to assess' process is one mechanism that aims to avoid conflicts of interest in the assessment of applications, by providing applicants with the opportunity to ask ARC to exclude particular assessors from assessing their application.

**3.33** The process for grant applicants to make a 'request not to assess' was outlined in ARC's funding rules:

applicants may name any person whom they do not wish to assess the application. Detailed written justification, which will be considered by the ARC, must be submitted through the administering organisation's Research Office, in a separate letter, and it must not accompany the application. The ARC will consider the justification put forward by an applicant to exclude any person as an assessor. However, the ARC may not give effect to an applicant's request.<sup>46</sup>

**3.34** ANAO examined the 'request not to assess' process and associated documentation for three grants rounds. ANAO observed that several aspects of ARC's process impacted on the consistency of ARC's decision making and the administrative effectiveness of the 'request not to assess' process, for example:

- ARC did not provide applicants with guidelines outlining acceptable or unacceptable grounds for lodging 'requests not to assess';
- many 'request not to assess' letters contained in-confidence, sensitive or potentially defamatory information. Therefore, ARC needed to maintain appropriate security and systems for the information, but this was not the case;
- the process was not well documented, with no criteria or rules to assist ARC staff in assessing the letters. This resulted in ARC making inconsistent decisions in assessing the 'requests not to assess';

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<sup>46</sup> ARC, *Discovery Projects Funding Rules for Funding commencing in 2006*, p.22.

- ARC's records did not always show ARC's decisions in accepting or denying the applicants' 'requests not to assess' or the reasons for decisions; and
- ARC did not routinely inform applicants about whether their requests were accepted or denied.

**3.35** ANAO concluded that while the 'request not to assess' process did not affect a large number of applications, it was an important process because it involved potential conflict of interest issues which, if not appropriately addressed, could impact on the integrity of the grant selection process. Therefore, it was necessary for ARC to have well established and documented processes to manage this aspect of grants administration.

**3.36** A clearer methodology for managing 'requests not to assess' would assist ARC in avoiding possible conflicts of interest and the making of inconsistent or unfair decisions. The methodology should be adopted across all discipline groups. It would also be good administrative practice for ARC to notify applicants whether their 'requests not to assess' were accepted or denied. The purpose would be to reduce the need for applicants to submit the same requests each year, and to save ARC time.

## Recommendation No.4

**3.37** ANAO recommends that ARC implement a consistent method for considering 'requests not to assess', documenting reasons for decisions and informing applicants of the results of their 'request not to assess'.

**ARC's response:** Agreed.

The ARC operates an Eligibility Committee which is responsible for considering all formal requests for eligibility rulings for applications and the provision of advice to applicants on the outcomes. The role of this Committee has been expanded to consider 'requests not to assess'.

## Assignment

**3.38** Once received by ARC, the standard process is to assign Discovery Projects applications to two College of Experts members, two OzReaders and up to four IntReaders, for assessment. Allocation to external assessors (OzReaders and IntReaders) helps ARC to address its first objective, which is to develop and maintain a broad foundation of high-quality world-class

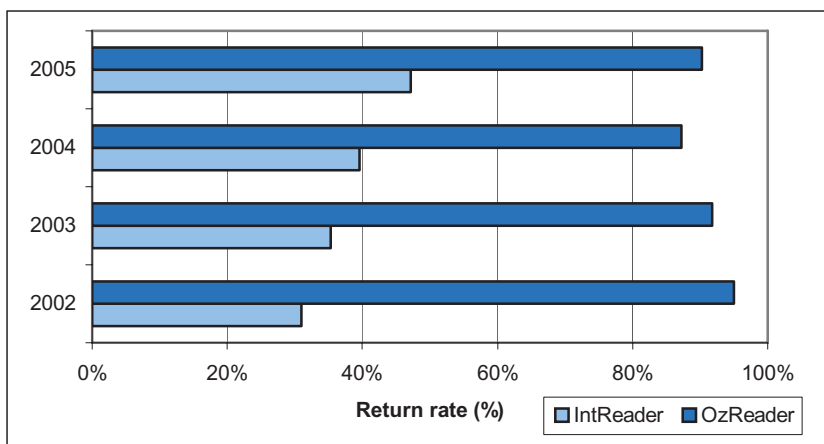
research. ARC offers a nominal payment to OzReaders of \$30 per application. IntReaders receive no payment for assessing applications.

**3.39** ARC data (Figure 3.5) showed that while OzReaders completed assessments for around 90 per cent of applications sent to them by ARC, the IntReader response rate was consistently lower. ANAO found there had been an increase in the response rate of about 20 percentage points over the four years 2002–2005, with the response rate reaching almost 50 per cent in 2005.

**3.40** ARC had reviewed the IntReader database in 2004 to help improve the response rate. However ARC data did not show a significant increase in the response rate for IntReaders following this review. ANAO also noted that ARC's review did not include an assessment of ARC's assignment process, to substantiate whether the low IntReader response rate compromised the assessment process.

**Figure 3.5**

### Response rates for OzReaders and IntReaders 2002 to 2005



Source: ARC.

**3.41** ANAO suggests, that in conjunction with the next annual review of the Reader database, ARC set targets to measure its performance in improving IntReader return rates. This would assist ARC in managing its assignment process and help to inform business planning and future strategies to improve program performance.

## Documentation of decision making

**3.42** Following the completion of assessments, selection advisory panels meet to make funding recommendations to the Board. Each panel considers assessments provided by OzReaders and IntReaders in making their recommendations on successful, unsuccessful, ineligible or reserve grants.

**3.43** ANAO examined the assessment and selection processes for Discovery Projects for compliance with the ARC Act, ARC's guidelines and procedures, and better practice principles. ANAO's *Better Practice Guide* states that public accountability is largely dependent on transparency, which is dependent on the proper maintenance and availability of relevant documentation.<sup>47</sup> In light of this, ANAO examined whether ARC (including assessors and selection advisory panels) documented:

- assessments against selection criteria and sub-criteria;
- rankings and scores; and
- reasons for the decisions and recommendations at selection meetings, including budget reductions.

## Assessments

**3.44** ARC provides selection criteria to assessors through ARC's *Assessor Handbook*<sup>48</sup> and to applicants through the funding rules. The criteria for Discovery Projects, shown in Figure 3.6, form the basis of applications and assessments.

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<sup>47</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002, p.47.

<sup>48</sup> ARC Discovery Projects and Linkage Projects, *Assessor Handbook: A Guide for Assessing Grant applications submitted in 2004 with Funding to Commence in 2004 or 2005*. Internal publication.

**Figure 3.6****Example: Discovery Projects selection criteria****Investigator(s) (40%)**

- Track record relative to opportunities.
- Capacity to undertake the proposed research.

**Project Content (60%) made up of:**

- Significance and innovation (30%)
  - Does the research address an important problem?
  - How will the anticipated outcomes advance the knowledge base of the discipline?
  - Is the research principally focused upon a topic or outcome that falls within one of the national research priorities and associated priority goals, and if so how does it address the national research priority?
  - Are the project aims and concepts novel and innovative?
  - Will new methods or technologies be developed?
- Approach (20%)
  - Are the conceptual framework, design, methods and analyses adequately developed, well integrated and appropriate to the aims of the project?
- National Benefit (10%)
  - What is the potential of the research project to result in economic and/or social benefits for Australia from the expected results and outcomes of the project?
  - What is the potential for the research to contribute to the national research priorities?

Source: ARC, *Discovery Projects Funding Rules for Funding commencing in 2005*.

Notes: Five primary criteria are represented by the five dot-points under two main areas of 'Investigator(s) (40%)' and 'Project Content (60%)'. The three criteria under 'Project Content' contain eight sub-points, shown as dashes.

ANAO used the 2005 Discovery Projects funding rules for audit sampling. However, ANAO noted that ARC used different numbering in Discovery Projects funding rules for funding in 2006 and 2007. In the 2006 and 2007 funding rules (not shown) the two main areas are labelled (a) and (b), with the five primary criteria denoted by roman numerals (i, ii, or iii). ARC's use of sub-points (dashes) remained the same.

**3.45** ANAO's analysis of a sample of Discovery Projects applications indicated that College of Experts members, OzReaders and IntReaders met ARC's guidelines by providing numerical scores against the five selection criteria (represented by five dot-points in Figure 3.6). OzReaders and IntReaders also provided written comments against each of the criteria in all but one instance.

**3.46** However, ANAO found that in many cases OzReader and IntReader comments did not specifically address the eight sub-points (represented by dashes in Figure 3.6). ARC advised ANAO that it did not consider these points to be sub-criteria. Rather, ARC viewed these as 'guides to the selection criteria and assessors are not expected to score applications against them.' Notwithstanding this, ANAO found that the funding rules did not specify whether applicants were expected to address the sub-points, and whether the sub-points were weighted or of equal value in the selection process.

Instructions to assessors also contained little guidance on how to score applications against the sub-points.

3.47 In light of this, ANAO suggests that ARC review its guidelines to applicants and assessors, to make sure that the intent and relevance of the sub-points to the selection process are fully explained.

### **Decisions and actions at selection meetings**

3.48 To instil confidence about ARC processes among stakeholders, it is important that decisions and actions of selection meetings are and are seen to be soundly-based.<sup>49</sup> ARC's *Administration Handbook* states that 'workbooks are the official record of decisions made at the meeting'.<sup>50</sup> ARC requires all decisions, recommendations, and conflict of interest declarations for each application to be recorded on a workbook page. The Chair of each selection advisory panel signs each workbook page as the official record of decisions made at the grant selection meeting.

3.49 ANAO examined a sample of workbook records. All workbooks contained scores, rankings, and indications (tick-box) of whether the grant was ineligible, funded or excluded. Each was signed and dated by the Chair, and placed on the applicant's file as an official record.

3.50 However, ANAO found that not all workbooks provided a complete official record of the selection process. In most instances they provided little documentation or clear justification for the selection advisory panel's recommendation to fund or exclude an application. While a reason was recorded on the workbook page for ineligible applications, reasons for excluded applications (not funded) or key actions taken, were not routinely recorded on the workbook page.

3.51 ANAO acknowledges that ARC is able to draw on other information (funding rules, internal documentation, and application forms) to help explain the actions and recommendations of the selection advisory panel in regard to individual grants. However, it is the workbook that constitutes the official, signed record of the selection advisory panel's recommendations at the selection meeting. Therefore, ANAO considers that ARC should record sufficient information in workbooks to clearly explain the selection advisory panel's decisions, reasons for these decisions and any key actions undertaken at the meeting.

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<sup>49</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002, Chapter 3.

<sup>50</sup> Australian Research Council, *ARC Administration Handbook*, March 2005, p.16. Internal publication.

## Allocating budgets

**3.52** ANAO found that while the process for determining final rankings was similar for all six selection advisory panels, the panels used two methods for allocating budgets. The first assigned final rankings and allocated a budget one project at a time. The second assigned final rankings for all projects before considering funding.

**3.53** As research merit is the fundamental basis of ARC's grant selection process, ANAO suggests that ARC assure itself that the two methods deliver comparable and equitable results.

**3.54** There was often considerable discussion by the panel about project budgets and areas where they could be reduced. Despite this, ANAO found that in most cases the workbooks contained little or no reasons for budget reductions. ARC provided grantees with a 'one-line budget' and did not advise them of where, or why, the selection advisory panel had made reductions. Two examples are shown in Figure 3.7.

**Figure 3.7**

### Examples of budget cuts not adequately recorded

- ❖ A project requested a budget of \$260 000 for a three year project and was awarded \$190 000 (73 per cent of the requested budget). The selection advisory panel discussed the budget at length, debating where it could be reduced and if there were any budget items that were too high. The workbook provides no record of this discussion, or where budget items were reduced, showing only the allocated budget total for each year.
- ❖ A project requested a budget of \$730 000 for a four year project and was awarded three years funding totalling \$500 000 (68 per cent of the requested budget). The selection advisory panel discussed the budget and in particular, the panel decided that the requested travel budget was too high. It reduced the overall budget, particularly the travel budget. The workbook only provides the total year allocated budgets.

Source: ANAO observations from selection meetings and selection meeting workbooks.

Note: The examples used do not contain actual grant figures, to prevent identification of grantees.

**3.55** ANAO acknowledges ARC's policy in providing one-line funding, and also of ARC's practice to place special conditions on grants in some instances.<sup>51</sup> However, in order to provide clarity in the awarding of partial funds, ANAO suggests that ARC record details of funded, partially funded or not funded budget items in the workbooks, and the reasoning behind the selection advisory panels' budget decisions. Providing more information to grantees of these decisions, will allow greater understanding of the funding process and

<sup>51</sup> Special conditions may be placed on a grant, for instance, if the Research Fellowship on a grant application is not funded. However, ARC confirmed that special conditions do not apply to the bulk of grants where funding is reduced.

help applicants to develop future applications. It will also assist grantees in making informed decisions about the best use of ARC grant money. This is further discussed in Chapter 4.

**3.56** ANAO concluded that by clearly documenting key decisions and actions from selection meetings in workbooks (including reasons for reducing budgets), ARC will have a stronger basis for advising the Minister of successful and unsuccessful grants. It is suggested that ARC examine options which include use of codes, redesign of workbooks, and direct electronic recording of information, to help achieve this within existing resources.

## Recommendation No.5

**3.57** ANAO recommends that ARC amend its processes for assessing and selecting grants by:

- clearly defining responsibility for assessing eligibility at all stages of the selection process, particularly for assessors and selection advisory panels;
- developing clear instructions for applicants and assessors on how sub-points (sub-criteria) should be addressed; and
- adequately documenting decisions and recommendations of selection advisory panels (including budget reductions) on workbook pages to fully reflect all actions and decisions made by panel members.

**ARC's response:** Agreed.

- The ARC acknowledges that its Funding Rules may not have been clear regarding responsibility for assessing eligibility. The ARC and its College of Experts form views regarding eligibility which are provided to the Minister, who makes the final funding decision. The ARC will seek to clarify the responsibilities in future Funding Rules.
- As part of its ongoing review of scheme documentation, the ARC will review its instructions to applicants and assessors to ensure that the intent of the sub-points listed under the selection criteria is clear.
- As part of its regular review of processes (carried out after each selection round), the ARC will consider possible changes to the way its selection advisory panels document decisions. The systems redevelopment project currently being undertaken by the ARC is expected to enable improvements to the documentation of assessment and other processes.



## Approval and notification

**3.58** Once the Minister has announced successful grants, ARC notifies all applicants of the outcome of the selection round.

**3.59** ARC releases information on successful applicants (including researcher name, university and funding) on its website following Ministerial announcements. It also publishes selection reports for each round detailing success rates and average funding for grants.

**3.60** ANAO found that in the 2004 Discovery Projects round, ARC improved feedback to unsuccessful applicants by including graphs in letters to unsuccessful applicants. These showed the applicant their performance against each of the selection criteria. Many researchers commented to ANAO that this was useful and that they would welcome similar information for other schemes. However, ARC advised ANAO that it was not intending to do this for other schemes due to limited resources.

**3.61** As mentioned previously (paragraph 3.55) ARC places special conditions on some partially funded grants, and notifies grantees of these. However, ARC provides little feedback to the majority of grantees receiving partially funded grants. Chapter 4 further discusses the impacts of this on post-award management of grants, and makes a recommendation which encompasses this issue (Recommendation No.6).

## Appeals

**3.62** Funding rules for ARC funding schemes include provision for applicants to appeal against a funding decision on administrative grounds. Appeals cannot be made against selection advisory panel recommendations or assessor ratings and comments. Applicants must lodge appeals through their university research offices within 28 days of notification of the outcome of their grant applications.

**3.63** ANAO examined ARC's appeals process for Discovery Projects and Linkage Projects grants for the 2003, 2004 and 2005 rounds. Appeals for both schemes were recorded and referred to the Appeals Committee.<sup>52</sup> ANAO found the Appeals Committee followed a consistent process for considering evidence and determining whether an error of process occurred. It forwarded its recommendations to the Board for approval.

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<sup>52</sup> The Appeals Committee is a Committee of the ARC Board.

**3.64** ANAO noted that the number of appeals ARC receives each year is small. For example, for the Discovery Projects 2005 round ARC received 3 414 applications, of which 1 055 were successful. For this Discovery Projects round, ARC received twelve appeals of which four were upheld, each on administrative grounds.

## Conclusion

**3.65** ANAO found that ARC complies with the ARC Act in providing funding rules for applicants and in following the requirements for Ministerial approval of grants. ARC produced funding rules and guidelines to support its grant process and had a systematic process for reviewing these.

**3.66** While ARC had internal timetables for each of its individual funding schemes, ARC's draft business plan did not consolidate timelines, clearly convey ARC's plan for the scheduling and delivery of the grant schemes on an annual basis, or clearly illustrate the links between the key administrative tasks in delivering the funding schemes, ARC's resources, or operational targets.

**3.67** ANAO also found that ARC did not produce an external annual calendar. As preparing an ARC grant application can be lengthy and complex, ARC should provide stakeholders with timely information on the scheduling of its key activities and timelines. ANAO considers that publication of an annual calendar would strengthen ARC's business planning, and enhance the visibility of the various NCGP schemes, providing ARC staff and stakeholders with timely information on scheduling of key activities. This would assist stakeholders in planning their activities and resources to meet ARC timelines and requirements.

**3.68** ARC's approach to assessment and selection of grants draws on expertise from ARC's College of Experts and an extensive pool of assessors. This supports ARC in pursuing its objective to fund 'high-quality world-class research across a wide range of disciplines'. However, ARC would improve the efficiency, accountability, and transparency of its grants program by more clearly defining the process for determining eligibility, the responsibilities of selection panels in assessing an applicant's eligibility, and by clearly documenting processes and decisions concerning 'requests not to assess'.

**3.69** Selection criteria and their overall weightings were available to applicants and grant assessors. However, application forms did not clearly indicate whether applicants were required to address all or some of the sub-points under each criteria, whether there was any weighting applied to these sub-points, and how applications were assessed compared with other applications if the applicant had not addressed all points. ARC should revise its instructions to applicants and assessors, to make sure that the intent and relevance of the sub-points to the selection process are fully explained.

**3.70** ARC refers Discovery Projects applications to OzReaders and IntReaders for review. This referral system is important in appraising the potential national and international importance of the proposed research. While there was a 90 per cent response rate (returning completed assessments to ARC) among ARC's OzReaders, the IntReader response rate was lower, at around 50 per cent. Because of the importance of the perspective of this latter group in appraising the potential international significance of proposed research, ANAO suggests that, in conjunction with the next annual review of the Reader database, ARC set targets to measure its performance in improving IntReader return rates.

**3.71** ANAO found that ARC had not adequately documented decisions and actions from selection meetings (including budget reductions) in workbooks, which were ARC's official records of selection advisory committee meetings. While ARC placed special conditions on some grants, and notified researchers of these, ARC did not routinely notify applicants of the details of, or reasons for, significant budget reductions to project applications for the majority of grants where this occurred. Providing such information, would allow greater understanding of the funding process, help applicants to develop future applications, and assist grantees in making informed decisions about the best use of ARC grant money.

## 4. Post-award Grant Management

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*This Chapter examines ARC's management of grants through Funding Agreements with universities.*

### Background

**4.1** Post-award management arrangements of grants are established through Funding Agreements (Agreements) between ARC (for the Commonwealth) and the administering organisations (mostly universities)—the grant recipients. ARC does not have Agreements with individual researchers.

**4.2** In effect, ARC has a decentralised model of grants management, whereby each university coordinates and administers grants on behalf of ARC. Once an Agreement is in place, ARC pays the university monthly, and expects the university to inform it of any variations to the grant or the grant recipient's situation. Researchers and universities are required to report to ARC annually on the progress of projects against their objectives, budget, and other conditions outlined in the Agreements.

**4.3** Each university is responsible for ensuring that grants are used for the purposes intended. ARC's CEO also has an obligation, defined in the FMA Act, to manage the affairs of the agency in a way that promotes the proper use of Commonwealth resources.<sup>53</sup> In this context, to help ARC confirm that grants (Commonwealth funds) are spent as intended, better practice suggests that ARC's administrative arrangements with universities include regular reporting and evaluation.

### Funding Agreements

**4.4** Agreements outline the grants' conditions and the responsibilities of the ARC and administering organisations. ANAO examined a sample of Agreements and found these were consistent across a range of ARC grant schemes and administering organisations. Each was appropriately signed and dated, and kept on file by ARC.

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<sup>53</sup> Section 44 of the *Financial Management and Accountability Act 1997* defines 'Proper use' as 'efficient, effective and ethical use'. Also refer to *ANAO Better Practice Guide—Administration of Grants*, May 2002, p.6.

**4.5** Overall, the Agreements reflected the legislative requirements of the ARC Act, the FMA Act, and followed ANAO better practice principles.<sup>54</sup> ANAO found the Agreements were generally well-constructed and informative, although there were some areas where clarity could be improved. To assist universities in administering the grants, ARC provides advice by phone and email. Problems or questions from researchers are directed through their university research office to ARC; ARC having little direct contact with researchers over grant management issues.

**4.6** University research offices indicated that they found that the ‘terms of the grants are clearly stated in the Agreements.’<sup>55</sup> However, ANAO identified aspects of the Agreement where greater clarity would lead to better management of the Agreement by ARC, and assist universities in meeting the terms of the Agreements. For example, Agreements did not clearly explain ARC’s expectations and processes where universities accepted partially funded grants (referred to previously in Chapter 3). Figure 4.1 shows some of the comments from universities concerning this issue.

**Figure 4.1**

**Comments from ARC clients about partially funded grants**

The following comments are from university research offices that responded to ANAO’s survey, and interviews conducted by ANAO in several universities across Australia. The comments relate to ARC communicating what is expected of universities when they accept a partially funded grant.

‘Important issue that the ARC should address.’

‘No clear details on how to modify research plan and notify ARC.’

‘There isn’t any communication by the ARC to researchers on this matter. The research office is required to interpret the funding rules to answer queries from researchers.’

‘Please advise which goals you wish to see achieved or what items you cut out. It would help us a lot.’

‘For successful grants with reduced funding there is no meaningful feedback, even for such crucial issues as which items on the budget were not regarded as necessary or appropriate.’

‘It would be helpful to have a breakdown of the areas (as in the application) that have been funded and those that have not.’

‘Conditions imposed are often unworkable, for example, post-doctoral fellowships salary provided but no project operating funding approved.’

‘As most grants in my area are in the partially funded category, the lack of information of what is expected of them, what parts of the budget request have been struck out etc. is a major problem, and leads directly to the lack of accountability.’

‘I have not ever had a clear picture of what is expected from partially funded projects.’

Source: ANAO.

<sup>54</sup> ANAO *Better Practice Guide—Administration of Grants*, May 2002, Chapter 6.

<sup>55</sup> In the ANAO survey, university research offices were asked to rate their level of agreement with the statement ‘the terms of the grants are clearly stated in the Agreements’. Results showed that 26 per cent of respondents ‘strongly agree’, 66 per cent ‘agree’, 4 per cent ‘neither agree nor disagree’; and 4 per cent ‘disagree’.

**4.7** ANAO found that Agreements conveyed ARC's expectations of universities that accepted grants, although the Agreements made no distinction between fully or partially funded grants:<sup>56</sup>

...Each project and/or Fellowship will be conducted in accordance with the Project Description contained in the Project Application, or any revised budget, aims and research plan, submitted by the Organisation and approved by the ARC.

**4.8** Researchers are under no obligation to accept an ARC grant if they feel they cannot meet the application's original objectives. However, ANAO sampling and interviews with university staff suggests that many researchers accept grants with reduced funding, intending to scale down the research to fit the budget. This often means that researchers are faced with revising the project's objectives and methods, or reducing the number of personnel.

**4.9** ANAO found that Agreements did not state the circumstances in which a revised research plan was necessary, or at which point in the grant process the researcher should submit it to ARC. Further, rather than submitting a revised research plan, most researchers informed ARC of changes to their original project plan through their first progress report, submitted one year after commencement of the project, through subsequent progress reports, or in their final report, which is required six months after the project is completed.

**4.10** ARC's progress report and final report templates ask Chief Investigators to report any revisions (variations) to their projects. They also state that 'a satisfactory assessment of the report and the project means that the revision has been approved'. In most cases ARC approved these revisions. This meant that, for many projects, ARC was approving project variations retrospectively, a year or more into the project, or when finished in the case of one-year projects.

**4.11** The Agreements gave universities the responsibility to advise ARC where there were changes to projects. Notwithstanding this, ARC was not always monitoring the performance of projects in such a way as to detect instances where partially funded projects were experiencing delays, difficulties, or were underperforming (see Table 4.1). ARC's retrospective approval of project variations also meant that ARC was not managing the risk

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<sup>56</sup> ANAO interprets partially funded projects as those that receive less than the full amount requested on the application form. Partial funding in this context does not differentiate between the various reasons for the reduced funding of a project, for example, non-award of a Fellowship, or a 50 per cent reduction of a travel budget. ANAO refers to full funding where ARC funds a project for the full amount requested by the researcher on their application form.

that substantial grant funds could already have been spent, with little accountability for their use.<sup>57</sup>

**Table 4.1**

**Examples of the effect of reduced funding on projects**

Funding requested (\$)	Funding awarded (\$)	Effect of reduced funding on projects
300 000 over 3 years	50 000 over 1 year	Focused research and publications on one of three major objectives from the original application.
650 000 over 3 years	50 000 over 1 year	Researcher made it a priority to seek funding from other grant bodies over the year of this grant. Research assistant employed and some of their time was spent on this rather than on the planned project.
200 000 over 3 years	50 000 over 1 year	Project delayed due to difficulty attracting staff for a one year grant.
250 000 over 3 years	50 000 over 1 year	Objectives limited to one out of the original three and took considerable time to find research assistant with appropriate skills in light of funds available.

Source: ANAO, from analysis of researchers' final reports on Discovery Projects.

Notes: In all of these examples the ARC approved the project variation described in the final report.

Many of these projects still reported significant contributions as a result of the funding, or reported that they were able to progress their research and apply for other grants.

Figures shown for funding requested and funding awarded are rounded, not actual figures.

**4.12** ANAO concluded that ARC needed to more clearly define its administrative obligations and responsibilities, as well as those of universities and researchers where grants are partially funded. This clarification would support researchers in meeting ARC's requirements. It would also better prepare ARC in monitoring the progress of projects, and in determining whether partial funding affected the achievement of the goals stated in the original project application. ARC should also develop strategies to improve information to grant recipients who have been partially funded, to assist them in determining the best use of grant funds consistent with their project objectives.

**4.13** Overall, these actions would enable more effective post-award grant management, thereby helping ARC to improve accountability of its grants process, reduce the risks to the Commonwealth of funding incomplete or unsuccessful projects, and planning of future strategies.

<sup>57</sup> This does not preclude recovery of any misspent funds.

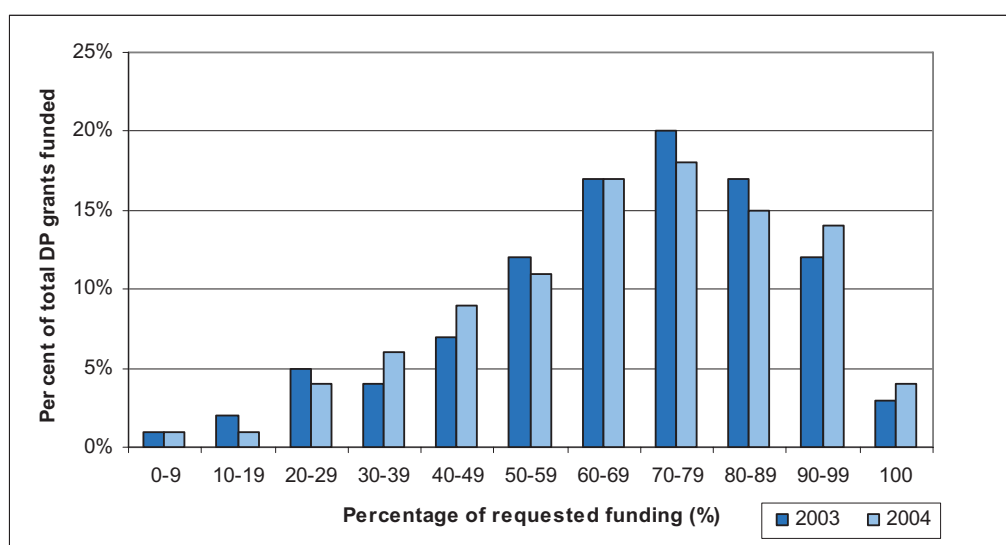


## The majority of Discovery Projects grants are not fully funded

**4.14** ANAO sampling indicated that ARC only awarded full funding to four per cent of successful Discovery Project grants. ANAO asked ARC to provide data to demonstrate the extent of partial and full funding of grants. The data, shown in Figure 4.2, demonstrates that in 2003 and 2004, less than five per cent of Discovery Projects grants received 100 per cent of requested funding, about 30 per cent received 80 per cent or more, while 20 per cent received less than 50 per cent of their requested funding. This trend was similar for the two earlier years.

**Figure 4.2**

**Funding awarded for Discovery Projects grants as a percentage of the amount requested on application: 2003 and 2004 funding years**



Source: From ARC data, included in full in Appendix 3.

**4.15** ANAO found that while ARC generated data on funding trends, it had not analysed whether reduced funding affected the success of projects or the quality of research outcomes. Given that such a large proportion of the grants receive less than their requested budgets, ANAO suggests that ARC examine the impacts and consequences of this funding practice on the cost-effectiveness of the grants program, the success of projects, and the quality of research outcomes.



## Recommendation No.6

**4.16** In light of the large proportion of partially funded grants ARC awards each year, ANAO recommends that ARC:

- develop strategies to improve information to grant recipients who have been partially funded, to assist them in determining the best use of grant funds consistent with their project objectives;
- define its requirements for submitting and processing revised research plans, to ensure that grants are spent as intended;
- clarify the obligations and responsibilities of ARC, universities and researchers where ARC awards partial funding, to enable more effective post-award grants management; and
- examine the consequences and impacts of partially funding grants on the success of projects, and the quality of research outcomes.

**ARC's response:** Agreed.

## Payment of grants

**4.17** The university's return of the signed Agreement triggers ARC's payments. ANAO reviewed ARC's payment of grants. Overall, it found that ARC's budget and payment systems were satisfactory. ARC set cut-off dates for its Finance Section's work, and provided schedules for its monthly payments to universities. ARC paid funds directly to universities' bank accounts, and there were no cheques or cash payments.

**4.18** ANAO sampling of grant files found no errors in the funding allocated to the various research institutions, except for one set of overpayments that were recovered.<sup>58</sup> The ARC had determined its total liability for the duration of the individual grants, allocated by year, and made monthly payments in accordance with the Agreements and payment schedules.

**4.19** All grant payments are indexed on a yearly basis. The ARC calculates the indexation factor for each year of the individual grants to determine the precise liability amounts (for the current year and the applicable future years).

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<sup>58</sup> This overpayment occurred when ARC paid all the administering institutions the 'indexation' amount twice in the 2002–03 financial year. ARC realised its error the following year when the 'indexation' factor was re-applied to grants. In this case, ARC gave the universities a 12-month grace before having to reimburse ARC for these overpayments.

## Reporting

**4.20** Agreements require universities to submit reports to ARC for all projects receiving ARC grants, including:

- progress reports completed by grant recipients;
- final reports completed by grant recipients; and
- end of year reports completed by universities.

**4.21** Under the Agreement, each university is responsible for ensuring that its reports are submitted on time and are of a suitable quality. ARC's responsibility lies mainly in managing the Agreements and addressing non-compliance in a timely and effective manner to meet its obligations under the ARC Act and the FMA Act.

**4.22** Discussions with ARC indicated an awareness that post-award management of grants, particularly reporting, was an area of vulnerability. ARC acknowledged that while it was the responsibility of the administering organisation to comply with the Agreements and submit reports on time, ARC was not following up on universities' reporting as frequently and effectively as it should. Having recognised this, in April 2005, ARC hired a manager to increase its monitoring and evaluation capacity.

### Progress reports

**4.23** ARC's Agreements state that universities must submit progress reports for each project by 31 January each year, except in the first year of funding. Once received, ARC reviews the outputs and outcomes of the research against the project's objectives provided in the original application, and in consideration of any subsequent notified variations, to determine if progress is satisfactory.

**4.24** ARC had no systematic process for monitoring overdue progress reports, although it did have procedures for processing progress reports once submitted by research offices.

**4.25** ANAO sampled Discovery Projects and Linkage Projects and found a significant proportion of projects with overdue progress reports; some up to three years late. ANAO also found that a large number of submitted progress reports were not assessed, some dating back to 2002. Results from ANAO sampling are shown in Figure 4.3.

## Figure 4.3

### Progress reporting: results of ANAO sampling of grant files

**Sample 1:** In April 2005, ANAO sampled 60 Discovery Projects grant files for projects that commenced in 2003, 2004 and 2005:

- projects commencing in 2003 were expected to have two progress reports on file, the first submitted by 31 January 2004 and the second submitted by 31 January 2005. ANAO found that of sixteen 2003 grant files examined, only eight had the first progress report on file and only four had the second progress report on file.
- projects commencing in 2004 were expected to have one progress report on file, to be submitted by 31 January 2005. ANAO found that of sixteen 2004 grant files ANAO examined, only six had progress reports on file.

**Sample 2:** In April 2005, ANAO counted 215 progress reports (on ARC premises) that had been submitted but were still to be assessed by ARC. Further examination of 76 of these showed that only 21 were submitted by the due date.

**Conclusion:** The above sampling of progress reports found the following:

- progress reports were often submitted late;
- a large number of progress reports that were submitted were still to be assessed by ARC; and
- ARC had no systematic approach by which to follow up late reports.

Source: ANAO.

**4.26** ARC produced little reliable data on the number of un-submitted progress reports, or reasons for their delay. However, for the period 2002–2004, ARC estimated that around 1 000 Discovery Projects and 938 Linkage Projects progress reports had not been submitted.

**4.27** The delays in receiving and assessing progress reports means that ARC cannot give an assurance that all projects are progressing well or achieving the objectives specified in the original applications. ARC needs to monitor all progress reports to validate further payments to projects and to fully account that grant monies are used for their intended purposes. Given this, ANAO recommends that ARC review its processes for submission and assessment of progress reports, with a view to improving performance against the Agreements.

## Final reports

**4.28** ANAO found a similar situation with final reporting of grants. Under the Agreements, researchers must provide ARC with a final report for each project within six months of the final payment to the project. As with progress reports, ARC reviews the outcomes of the research against the objectives stated in the project application and determines if the final report is satisfactory.

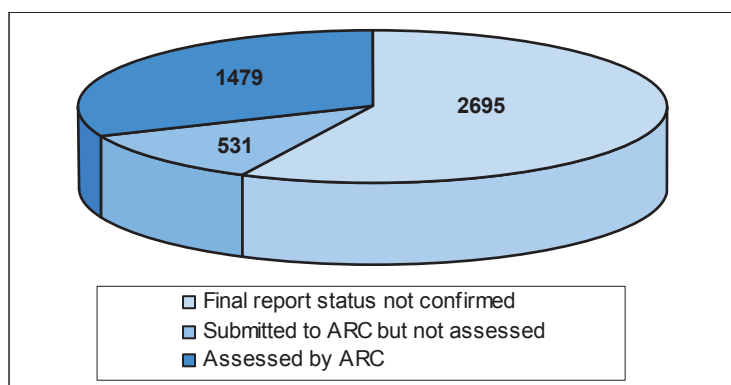
**4.29** Universities submit final reports electronically through ARC's Grants Application Management System (GAMS). ARC had procedures for processing these reports once received, but did not have a systematic process for

monitoring or following up overdue final reports. GAMS also had some limitations, for example, it did not flag grants that were extended, and had no due date for final reports. ANAO noted that ARC was unable to easily determine the status of final reports for the purpose of following up those that were overdue.

**4.30** ANAO examined several sources of ARC data and found a high level of non-compliance by universities in reporting under the Agreements. ARC systems showed that as many as 50 per cent of projects were ‘final report status not confirmed’ (see Figure 4.4). ARC had not established the status of these final reports, and was not systematically monitoring them.

**Figure 4.4**

**Final report status on GAMS as at 5 May 2005**



Source: ANAO from ARC data.

Note: Numbers in the figure are the actual number of final reports in each category.

**4.31** ANAO found that ARC could not easily differentiate between those reports that were overdue and those where approved ‘carry-forward’ of funds had caused the due date for the final report to be postponed.<sup>59</sup> This meant that ARC could not accurately account for those reports that were overdue and those that ARC had approved for later submission.

**4.32** Other ARC data indicated that at the end of 2004, only 59 per cent of all submitted final reports had been assessed. Near the end of the audit, ARC advised ANAO that ‘in early 2006, 95 per cent of submitted reports had been assessed’.

<sup>59</sup> ARC may approve a ‘carry-forward’ for a grant, which means that funds are carried over into the next year, and the project’s time extended. This may be because a grant starts later, due to staffing issues, maternity leave, or other unavoidable situations.

**4.33** ARC's NCGP Procedures Manual outlines the significance of final reports:

Information in the final reports for ARC funded projects is used to determine whether the project has reached satisfactory completion. Statistical information collected in final reports also enables the ARC to account for public funding of research and to promote the value of research to the Australian community.

**4.34** By not having procedures in place to ensure that final reports are submitted and processed on time, the ARC is unable, with confidence, to ensure it complies with its own Procedures Manual and account for public funding of research.

**4.35** Further, ANAO found that ARC had not clearly defined the consequences of not reporting, or developed policies to exclude researchers who had not submitted final reports from applying for new grants. ANAO found that in some instances these researchers were recipients of further grants. ARC needs to take a more rigorous approach to managing final reporting, and to develop policies to ensure that public monies are not used to fund projects where the recipient has a history of non-compliance with previous grant conditions.

## Recommendation No.7

**4.36** ANAO recommends that ARC strengthen management of its Funding Agreements by:

- implementing procedures and systems to enable more rigorous monitoring and follow-up of overdue progress and final reports; and
- developing clear policies to manage individual researcher's non-compliance with final reporting requirements and their eligibility for further ARC grants.

**ARC's response:** Agreed.

### End of year reports

**4.37** Universities must submit end of year reports to ARC by 31 March each year. These provide financial information for each project administered by the institution. ARC provides a template and basic instructions to assist administrators in completing the report.

**4.38** ANAO found that generally, research offices submitted end of year reports on time. ANAO's survey of research offices also found that 85 per cent

of respondents were satisfied with the level of instructions on the end of year reporting process (see Table 5.2). Notwithstanding, some universities that administered large numbers of grants commented that ARC had not provided enough guidance about completing the reports or adequately responded to problems raised by universities.

**4.39** ANAO is aware that ARC is consulting with universities to determine what additional information or advice would help to improve the efficiency of end of year reporting.

## Intended use of grant funds

**4.40** ARC's Agreements state the responsibilities of universities:

If funding is not being expended in accordance with the Agreement, the university shall take all action necessary to minimise further expenditure in relation to the Project and inform the ARC immediately.<sup>60</sup>

**4.41** As discussed above, ARC had established few mechanisms to manage the administering organisations' compliance with key reporting requirements under the Agreements. Also, prior to 2004, ARC had not conducted an audit or in-depth review of universities receiving ARC funds, to determine the effectiveness of its grants management arrangements. Given this, ARC had little evidence on which to base an assurance that universities were monitoring projects or expending funds in accordance with all elements of the Agreements.

## Pilot Institutional Review

**4.42** In 2004 and 2005, ARC's internal auditors completed ARC's first pilot audits at two universities. The purpose of these reviews was to assess whether: ARC funded projects were operating within the terms of the grant agreements; appropriate reporting systems were in place; activities correlated with those in grant agreements; and that budgets and project management systems were appropriate.

**4.43** ARC had recently carried out audits on two universities, and advised ANAO that it would commence a rolling institutional review program in the second quarter of 2006. ANAO considers that implementing such a program

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<sup>60</sup> Funding Agreement between the Commonwealth of Australia as represented by the Australian Research Council and [Administering Organisation] regarding funding for Discovery Projects to commence in 2005, section 26.

should help ARC and universities to improve the compliance and accountability of projects.

## Conclusion

**4.44** ARC has a decentralised model of grants management whereby each administering organisation (mainly universities) coordinates and administers grants on behalf of ARC. ARC had established Agreements with the universities to support the administration of grants.

**4.45** ANAO found that Agreements were generally consistent and well constructed. They reflected the requirements of the ARC Act and defined the reporting responsibilities of universities and grant recipients. Overall, ANAO found that ARC made timely and accurate monthly grant payments to universities.

**4.46** Most recipients of ARC grants received partial funding. Given this, Agreements and ARC procedures needed to more clearly define the obligations and responsibilities of ARC, universities and researchers where grant are partially funded, and the process for submitting revised project plans. By improving information to grant recipients when they are awarded partial funding, ARC would assist grantees in determining the best use of grant funds consistent with their project objectives.

**4.47** ANAO found that reporting requirements under the Agreements were often not fully met, with a substantial number of progress reports and final reports on projects not submitted. This diminished ARC's ability to give assurance that it fully met its obligations under section 44 of the FMA Act to promote efficient and effective use of resources. ARC did not have adequate procedures or systems to monitor and follow-up overdue reports with universities, and lacked clear policies or procedures to prevent researchers with a history of non-compliance in reporting from receiving further ARC funding.

**4.48** ANAO concluded that, collectively, the weaknesses in ARC's post-award management of grants diminished ARC's ability to provide assurance that grant funds were spent for their intended purposes, or that researchers were meeting their funded objectives. ARC has commenced some audit activity in universities to assess compliance with the Agreements. Implementation of a systematic audit program should help to improve compliance and accountability of grant funds.

## 5. Monitoring and Performance

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*This Chapter examines ARC's monitoring of grant programs for the purposes of improving its performance management and external reporting.*

### Background

**5.1** Good governance requires an agency to have a structured and regular system for monitoring and reporting performance.<sup>61</sup> This involves collection and analysis of information to help management assess the agency's progress against planned program goals, and to take timely and effective action to improve performance.

**5.2** The Education, Science and Training *Portfolio Budget Statements* and ARC's strategic plan define ARC's program outcomes, objectives, outputs, activities and performance indicators. Internal monitoring against these should inform the agency of its performance and identify areas for improvement. In addition, external reporting, for example, through the annual report, should aim to inform the Parliament and the public of ARC's progress against its key objectives and program outcomes, including any underperformance and areas for improvement.

**5.3** In this context, ANAO examined:

- whether ARC met the relevant sections of the ARC Act;
- whether ARC's performance framework was consistent with Finance's *Outcomes and Outputs Framework*,<sup>62</sup>
- whether ARC collected accurate and timely data for improving and reporting its performance, including for the national research priorities (NRPs); and
- how effectively ARC monitored and managed client satisfaction and complaints.

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<sup>61</sup> ANAO and Department of Finance and Administration, *Better Practice Guide—Better Practice in Annual Performance Reporting*, 2004, p.1.

<sup>62</sup> Department of Finance and Administration, *Outcomes and Outputs Framework*, September 2003, available at <[www://finance.gov.au](http://www://finance.gov.au)> 10 August 2005.



## Performance management framework

### Compliance with the ARC Act

5.4 Section 42 of the ARC Act requires that the Board produce a strategic plan of at least three years duration, and report against this in accordance with section 45 of the ARC Act.<sup>63</sup>

5.5 As required, the Board had produced strategic plans in 2002, 2003 and 2004, each covering a three-year period; 2002–04, 2003–05 and 2005–07. The strategic plans outlined objectives, key investment strategies, specific actions, and expected outcomes for each of ARC's seven key business areas of activity.<sup>64</sup> The strategic plans also identified ARC's key performance indicators. In its 2005–07 Strategic Plan ARC identified 10 key performance indicators. These are shown in Appendix 4.

5.6 ARC included in its Annual Report an assessment of the ARC's performance against the key performance indicators set out in its strategic plan.

### Consistency with Finance's outcomes and outputs framework

5.7 Finance's *Outcomes and Outputs Framework* guides agencies to report to Parliament in a consistent and informative way on their budgets. Finance expects agencies to identify measurable performance indicators to help demonstrate how they are achieving the goals shown in the agency's *Portfolio Budget Statement*. Finance advises agencies to identify separately performance indicators for administered and departmental items.

5.8 The Education, Science and Training *Portfolio Budget Statements* defined ARC's outcome, its output, two effectiveness indicators,<sup>65</sup> and ten key performance indicators. The relationship between these elements is shown in Figure 5.1. The *Portfolio Budget Statements* also listed ARC's seven key objectives, which it 'pursues in order to deliver ARC's outcome' (see Appendix 4).<sup>66</sup>

<sup>63</sup> *Australian Research Council Act 2001* (Cth) section 42.

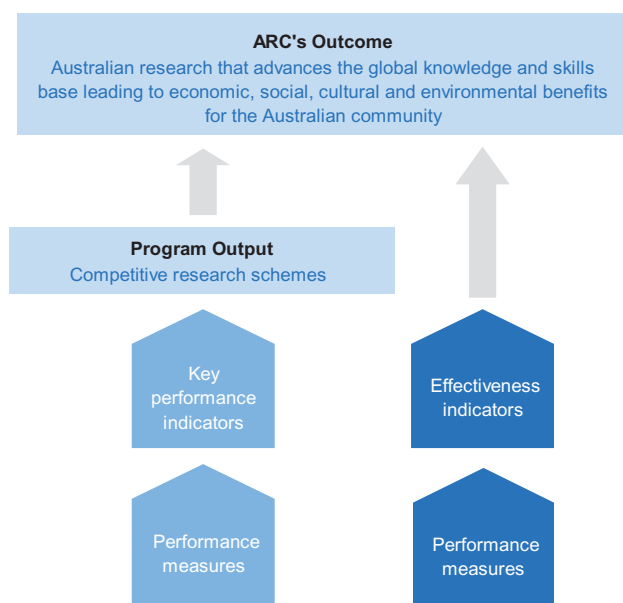
<sup>64</sup> ARC's seven Key Areas (key business areas): Discovery; Linkage; Research Training and Careers; Research Infrastructure; Research Priorities; Community Awareness; and Governance.

<sup>65</sup> The ARC Act requires the ARC to define performance indicators and report against them in its annual report.

<sup>66</sup> Education, Science and Training, 2005 *Portfolio Budget Statements* 2005–06, Commonwealth of Australia, Canberra, p.228.

**Figure 5.1**

**ARC's performance framework**



Source: ANAO and ARC.

**5.9** In line with Finance's *Outcomes and Outputs Framework*, ARC showed the estimated resource cost of providing its competitive research scheme (the output), and the effectiveness indicators reflected the purpose for which funds were appropriated. The strategic plan and budget documentation showed the alignment of the key performance indicators to ARC's seven objectives (shown in Appendix 4). This was also reflected in ARC's 2004–05 Annual Report.

**5.10** However, some aspects of ARC's performance framework were not consistent with Finance's *Outcomes and Outputs Framework*. In particular ARC had not:

- clearly defined which performance indicators related to the output and which related to the outcome;
- separated key performance indicators between administered items and departmental funds; or

- provided a balanced set of qualitative and quantitative measures against each of its key performance indicators or its effectiveness indicators.<sup>67</sup>

**5.11** ARC's budget documentation and strategic plan did not clearly demonstrate the relationship between the two effectiveness indicators and its seven objectives or with the ten performances indicators. There was also no obvious link between these in ARC's 2004–05 Annual Report, which provided minimal information against the effectiveness indicators (see Table 5.1), as measures of ARC's outcome.

**Table 5.1**

**ARC's reporting against its effectiveness indicators**

Effectiveness indicator	Measure
High levels of research excellence and world class research capability in a range of research areas	Citation analysis
Benefits (economic, environmental and social) delivered to the community through the adoption of the outcomes of ARC funded research	Project outcomes and their application  <i>ANAO comment: ARC included examples of seven ARC research projects, but no aggregate data or analysis.</i>

Source: ARC Annual Report 2004–05, pp.72–78.

Note: ARC describes the citation analysis as 'Australia's relative citation impact compared with the world average in each field, in percentage terms.'

**5.12** ANAO suggests that ARC examine options for strengthening its performance framework, to facilitate clearer and more informative analysis, management and reporting of its performance.

**5.13** ARC would achieve a more balanced performance framework, leading to more effective monitoring, management and reporting of performance against its output and outcome, by aligning key performance indicators with the two effectiveness indicators. Use of a broader range of quality measures and targets to complement quantity measures would also enable ARC to assess its performance more thoroughly against key performance indicators and more readily identify areas requiring administrative or policy improvements.

<sup>67</sup> Refer to ANAO and Department of Finance and Administration, Better Practice Guide—*Better Practice in Annual Performance Reporting*, 2004.

## **Use of targets for measuring and managing performance**

**5.14** Finance's *Outcomes and Outputs Framework* indicates the usefulness of targets for monitoring performance, and informing decision making and continuous improvement. ARC sets few performance targets through *Portfolio Budget Statements* or ARC's strategic plan, and generally did not report its performance in terms of targets. This was also the case at operational level, with very few targets set to assist ARC in monitoring its performance.

**5.15** ANAO acknowledges the inherent difficulties that research-oriented organisations such as ARC have in setting targets and collecting data to demonstrate performance in many aspects of their work. ANAO also recognises that the development of appropriate measures to demonstrate achievement of outcomes from research is complex.

**5.16** However, an appropriate set of targets would assist ARC in measuring and managing its administrative efficiency. ANAO identified several operational areas where setting of targets would be useful for monitoring and improving grants administration, for example: final reports cleared by ARC within one month of receipt; grant transfers completed within three months of application; number of final reports submitted on time increased by 50 per cent; and target dates for release of funding rules.

**5.17** ANAO suggests that ARC incorporate appropriate targets, standards and timelines in its business plan, and ensure that the business plan was accessible to all staff. The business plan should also be reviewed annually, revising targets and standards to reflect changes in ARC's, priorities, risks and key performance indicators. These measures would support ARC in planning and monitoring resources to meet key objectives.

**5.18** ANAO notes that, since audit fieldwork, ARC has progressed development of its business plan. ARC advised ANAO that the business plan is now available to ARC staff and will be updated annually.

## Collection and use of performance information

5.19 ARC draws on three main sources of data to generate information to support its performance measures. These are:

- application forms and workbook records;
- final reports; and
- independent reviews and studies.

5.20 ANAO examined these data to form an opinion on the reliability and appropriateness of ARC's performance measures.

### Data from applications and workbooks

5.21 ARC collects information from applications into its IT systems. It also draws together data from workbook records after grants are approved or excluded. Information from application forms and workbooks<sup>68</sup> was largely quantitative, for example, numbers of applications received, number of applications approved or ineligible, and amount of funding awarded.

5.22 Application forms were stored in GAMS, a computer system, and extraction of data for program monitoring was relatively easy and timely, as ARC had a range of standard reports that it ran regularly. ARC compiled information on each scheme's success rate, some funding trends such as average grant size, and other statistics such as number of female compared to male grant recipients. ARC used these reports largely for monitoring and reporting the outcome of each grant round. It also disseminated aggregate information to other government agencies and advisory bodies.

### Data from final reports

5.23 ARC derived data from the final reports, which it expected researchers (Chief Investigators) to submit electronically six months after the completion of their projects.<sup>69</sup> ANAO found that ARC was able to harness information from final reports more easily than from progress reports. This was because final reports were submitted through GAMS, while researchers submitted progress

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<sup>68</sup> Workbooks are ARC's official record of its grant selection meetings. Chapter 3 contains further information on these.

<sup>69</sup> ARC advised that from 2003, grantees submitted final reports electronically, improving data management.

reports through emails and on paper, requiring greater effort by ARC personnel to identify and analyse data.

**5.24** Final reports contained qualitative and quantitative data on project outputs, for example, numbers of publications, patents and licences, commercialisation activities, and number and type of research personnel. ANAO found that ARC generated a wide range of reports, although these were mainly for the purpose of annual reporting and for selection reports<sup>70</sup> rather than for internal interrogation for the purpose of regular performance management or program evaluation.

**5.25** As mentioned in Chapter 4, a significant number of final reports were submitted late or not at all. This weakened ARC's dataset, increasing the risk of incomplete or inaccurate information and limiting ARC's capacity to develop reliable aggregate data to support performance monitoring. For example, ARC had not collected data to measure the effects of reduced funding on the quality of project outcomes. It had also not analysed whether partial funding affected the timeliness of final reporting by researchers, or assessed the relative risk to ARC in small or larger grants not meeting their reporting obligations. Such analyses would usefully inform strategies to improve final reporting rates.

**5.26** ANAO sampling found that some Chief Investigators who received less funding than requested on their applications, described difficulties in hiring staff, or meeting original project objectives. While ARC is capturing this information through progress and final reports, extraction and aggregation of such data to help determine the cost-effectiveness or success of ARC's grant programs was constrained by limitations within ARC's current IT systems. The ARC advised ANAO that it was aware of these types of limitations, and was developing a more integrated grants management system.

**5.27** Final reports define, in many instances, short-term rather than longer-term outcomes of research. As research can take from five to ten years (often longer) to realise its full benefits, a five-year post grant report could assist ARC in harnessing more long-term outcome information on a continuing basis. ANAO suggests that ARC consider the practicalities, costs and benefits of this.

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<sup>70</sup> Selection reports are released after the announcement of the outcome of a funding round. These are publicly available through ARC's website, and contain data about the grant round, for example, applications received, and success rates.

**5.28** ANAO also noted that ARC had not reported its rate of overdue final reports (non-compliance with Agreements between universities and the Commonwealth) in its annual report. Balanced reporting (including areas of underperformance) provides the Government with a more accurate assessment of an agency's administrative effectiveness and vulnerabilities.

### **Commissioned reviews or studies**

**5.29** ARC periodically commissions reviews and studies 'aimed at measuring performance and benchmarking this against national and international best practice.' In 2003–04 ARC published the results of three such studies:

- *A Wealth of Knowledge: The return on investment from ARC-funded research* (September 2003) prepared by the Allen Consulting Group;
- *The ARC's Implementation of Government Decisions from the Knowledge and Innovation and Backing Australia's Ability: an Independent Assessment* prepared by the Allen Consulting group (October 2003); and
- *ARC-supported research: the impact of journal publication output 1996–2000* (March 2004) prepared by the Research Evaluation and Policy Project unit at the Australian National University.

**5.30** ANAO recognises the difficulty in measuring grants programs' long-term results. Commissioned studies are one mechanism for obtaining information in these circumstances, providing that both qualitative and quantitative data are considered. ARC reported that it had not commissioned studies aimed at measuring performance in 2004–05.<sup>71</sup>

**5.31** The ARC had set no schedule or priorities through its current strategic plan for commissioning such studies. There was also little indication of how ARC intended to follow up previous studies to enable it to build on them. One approach to following up previous studies would be to ask researchers to submit five year post grant reports. It was also not clear how previous reports had contributed to performance improvements.

**5.32** A more planned approach to review, designed to provide information at regular intervals, would assist ARC in determining longer-term trends on the impact and quality of ARC funded grants. This would also support ARC's program evaluation and strategic planning. ARC advised that it has established a small unit to address such issues.

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<sup>71</sup> ARC, *Australian Research Council 2004-05 Annual Report*, ARC, Canberra, 2005, p.25.

## Recommendation No.8

5.33 ANAO recommends that ARC improve internal management and external reporting by:

- ensuring that ARC's output and outcome are supported by appropriate performance indicators;
- specifying appropriate targets and a balanced set of quality and quantity measures against ARC's Key Performance Indicators for administered and departmental items;
- enhancing ARC's data collection systems to allow more effective analysis of final report project outcomes; and
- establishing a more planned approach to determining long-term outcomes including through regular commissioning of studies and reviews.

**ARC's response:** Agreed

The ARC has publicly stated its desire to increase its focus on the evaluation of the Government's investment in research that is being made through the ARC's funding schemes. To increase its capacity in this area, the ARC has established a Research Evaluation Section which will among other things review the ARC's current performance measurement framework (including the capacity of its data collection systems to support outcome reporting).

## National research priorities

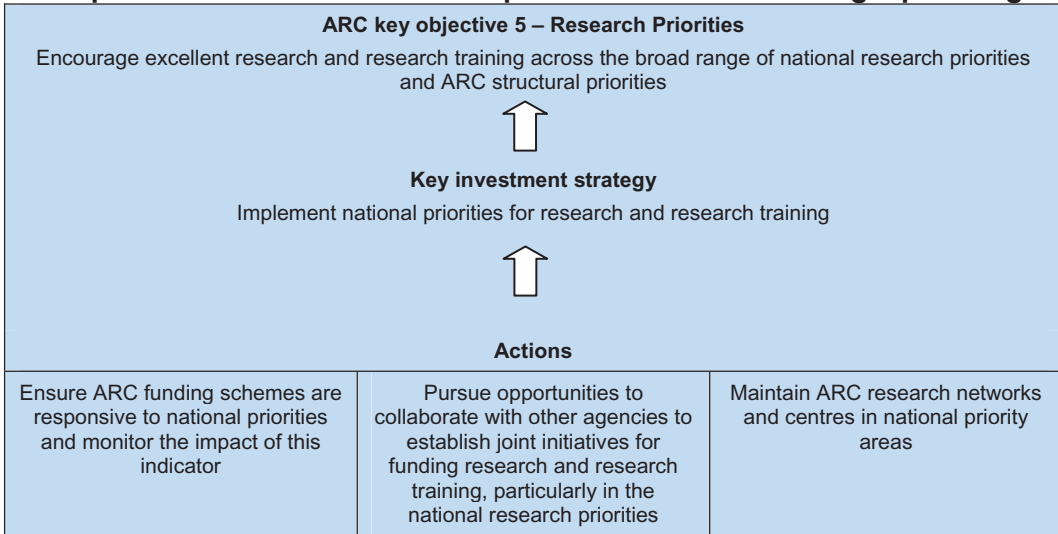
5.34 As mentioned in Chapter 1, in December 2002 the Prime Minister announced four national research priorities (NRPs) within the Australian Government's *Backing Australia's Ability (BAA)* strategy.

5.35 Under subsection 7(1) of the ARC Act, the Minister directed the ARC Board to implement the NRPs set out in the Government's *BAA* strategy, through the NCGP in the 2004 funding round. The Minister's direction also guided ARC in preparing an implementation plan.

5.36 ARC followed both directives. It produced an implementation plan, which the Minister endorsed in May 2003. In August 2004, ARC also produced a progress report, outlining its measures to implement the NRPs.

5.37 ARC identified the NRPs' key objective under 'research priorities' in its 2005–07 strategic plan (Figure 5.2).



**Figure 5.2****Incorporation of national research priorities into ARC strategic planning**

Source: Data from ARC Strategic Plan 2005–07.

**5.38** ANAO found ARC was implementing the Government’s NRPs. It had, for example, incorporated them into its NCGP, including the Discovery Program. It had also established new research centres and networks, consistent with its NRP implementation plan and ARC strategic plan.

**5.39** ARC’s significant level of investment in NRPs was visible, for instance, through the \$138 million funding allocated over the five years 2003–07 for Centres of Excellence, additional funding of \$71.3 million for Discovery Projects, and \$10.4 million for Linkage Projects. ARC also established new Research Networks which brought together more than 3 400 participants from Australia and overseas.<sup>72</sup>

**5.40** ANAO found that ARC had incorporated information into the NCGP in several ways:

- in application forms, grant funding rules and information to applicants;
- in key documents and information to assessors; and
- through publications, the ARC website, and its annual report.

**5.41** However, despite the many sources of information, ANAO found ambiguity in the extent to which NRPs influenced the grant selection process,

<sup>72</sup> Figures reported in ARC’s progress report *Backing Australia’s Ability: national research priorities—A Progress Report On Implementation*, The Australian Research Council, August 2004, pp.4–8.

and whether it was to the researchers' advantage to designate one in their grant applications. ANAO's surveys of research offices and researchers also indicated uncertainty in this area. ANAO concluded that there would be benefits in ARC making these issues clearer in application forms, guidelines and other key documents, to ensure that applicants identify NRPs, where appropriate, in their applications.

**5.42** ARC collects quantitative performance data from the application forms, for example, the number of grants and total funding which fall within each of the four NRPs, and how this compares to previous years. ARC was able to demonstrate to ANAO that these data were extracted accurately into ARC's statistical database for monitoring and reporting purposes. However, ANAO's file sampling showed (Figure 5.3) that ARC's processes did not capture all available data on NRPs; even though such data would be useful in evaluating the NRPs' broader impacts on research direction.

**Figure 5.3**

**ANAO analysis of national research priorities**

ANAO examined Discovery Projects applications and assessor reports, and observed selection meetings for Linkage Projects and Discovery Projects. It found the following:

- ❖ the Discovery Projects application form allowed applicants to select only one of the four NRPs. However, grant descriptions often showed overlap with two or three NRPs. Re-design of the form to allow applicants to indicate the percentage of their project they considered overlapped with each NRP, would provide ARC with more comprehensive data on NRPs;
- ❖ the application form did not provide a 'no NRP' option. Some applications did not identify an NRP in the field provided, but descriptive text in other parts of the application showed that their project did address the NRPs. Also, some grants indicated an NRP, but provided little information in the descriptive field to support this claim. ARC provided no evidence that it systematically monitored or corrected this data. This reduced the validity and comprehensiveness of the NRP data; and
- ❖ ANAO observed little consideration of NRPs in either the assessor comments on grant files, or at selection meetings. It was not clear whether NRPs were a consideration of funding a project or not during the assessment and selection process.

Source: ANAO observations and analysis of ARC grant files.

**5.43** Based on ANAO's observations (Figure 5.3), there was a risk that ARC was not accurately reflecting the proportion of ARC's funds going towards NRPs for Discovery Projects. This was because of limitations in ARC's collection of NRP data from grant applications and insufficient quality control over data. ARC's practice was for applicants to designate only one NRP per application. As some projects overlapped with two or more NRPs, ARC's data did not accurately represent its performance in each of the four NRPs.

**5.44** ARC would enhance the quality and reliability of its NRP data by implementing a more rigorous approach to data collection and monitoring. In turn, this will provide ARC with more accurate and comprehensive information on its progress against the NRPs, and help to inform program improvements. More reliable data should also assist the Government to make a more definitive assessment of ARC's performance in implementing the NRPs in future evaluations.

## Recommendation No.9

**5.45** ANAO recommends that ARC clarify to stakeholders the role of the national research priorities in ARC's selection of grants, and improve the measurement and reporting of its performance in implementing the national research priorities by:

- amending funding rules and guidelines to grant applicants, to clearly define the role of national research priorities in the grant application and selection process;
- revising application forms to enable ARC to capture more complete data on national research priorities for the purposes of monitoring progress, reporting and evaluation; and
- implementing procedures to monitor the completeness and consistency of information on grant applications.

**ARC's response:** Agreed.

The ARC will continue to review its funding rules, instructions to applicants and application forms to improve their clarity with regard to NRPs and also to enhance the effectiveness of data collection activities.

The ARC is required to report each year to the National Research Priorities Standing Committee on its implementation of priorities. In February 2006, the Standing Committee commended the ARC on its excellent (2005) report which provided 'a clear indication of investments in NRP areas and non NRP areas'.

## Client service quality and client satisfaction

**5.46** As discussed in earlier chapters, ARC awards grants to universities, not individual researchers. Universities accept ARC grants under the terms and conditions of their Agreements with ARC (for the Commonwealth), and thereby assume responsibility for administering the grants to grant recipients (researchers) within their individual university. However, researchers themselves are also an integral part of the ARC grants process, in preparing applications and ultimately as recipients of grant monies.

5.47 ARC provides several avenues for its clients, mainly university researchers or research administrators, to seek advice or to comment on the grants process (Figure 5.4).

**Figure 5.4**

### **Avenues for client queries and complaints**

The avenues for client queries and complaints include:

- ❖ individual researchers are encouraged to make enquires through their university research offices in the first instance;
- ❖ ARC enquiry phone line is available for resolving minor queries and problems;
- ❖ email system for more complicated queries;
- ❖ Ministerial system for those who wish to write to the Minister about ARC-related issues;
- ❖ ARC's appeals mechanism for applicants appealing a decision to not fund a grant on administrative grounds;
- ❖ Institutional visits—ARC makes several visits to universities each year, and most visits include discussion sessions with academics and university administrators; and
- ❖ ARC Service Charter provides a general contact number for expressing dissatisfaction, providing email address, phone number, and postal address.

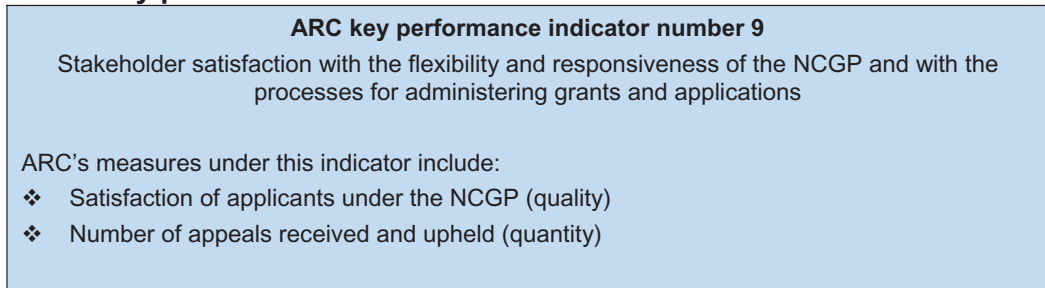
Source: ANAO from ARC information.

5.48 ARC's Service Charter sets a target of 10 days for ARC to respond to client enquires. While ARC does not monitor performance against this target, ANAO surveys indicated that ARC was meeting its 10 day standard in most instances.<sup>73</sup> Over 60 per cent of university research offices responding to the ANAO survey rated ARC's performance in 'responding to general grant enquiries' as good to very good, 30 per cent rated it average, and less than 10 per cent rated it poor.

5.49 ARC's performance indicator for stakeholder satisfaction is shown in Figure 5.5. ANAO found that ARC had few qualitative or quantitative performance measures to support this performance indicator.

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<sup>73</sup> ANAO's survey of university research offices showed that the majority of respondents found that ARC answered enquires within 10 days.

**Figure 5.5****ARC's key performance indicator for stakeholder satisfaction**

Source: ARC.

**5.50** Reporting against this key performance indicator in ARC's 2004–05 Annual Report was brief, focusing mainly on appeals—the second measure shown above. ARC reported little information against the first measure. ANAO suggests this is an area where ARC could improve its reporting, for example, by including data on correspondence received by ARC or answered by ARC on behalf of the Minister, on issues of concern raised by stakeholders and clients.

**5.51** ANAO found that ARC's clients generally regarded the quality of ARC's responses to routine queries highly, although focus groups and interviews conducted by ANAO at six universities indicated dissatisfaction among university staff with ARC's slowness in improving some administrative processes.

**5.52** ANAO noted that, for many years, ARC had not carried out research to ascertain whether clients were satisfied with its level of service. ANAO's survey and focus groups identified several areas of grants administration where clients were satisfied with the level of ARC's service and others where clients said they had encountered difficulties (see Table 5.2). This information reflects many of the issues raised throughout this audit report.

**Table 5.2**

**Results from ANAO surveys showing client satisfaction**

Areas of ARC Performance	University Research Offices' Satisfaction Levels (%)	University Researchers' Satisfaction Levels (%)
Monthly grant payments by ARC are accurate	100% of respondents (and 100% of Go8) rated this as always (100% of the time) to mostly (80% or more of the time) n=21	77% of respondents agree or strongly agree n=87
ARC provides sufficient instruction on the end of year reporting process	85% (75% Go8) of respondents agree or strongly agree n=28	NA
ARC's peer review process	67% of respondents rated this as good to very good (62% of Go8 rated this as good) n=27	NA
ARC provides adequate information about the peer review process and how it works	NA	39% of respondents agree or strongly agree n=264
ARC provides timely instructions and guidelines on administrative processes	38% (63% Go8) rated this aspect of ARC's activities as poor to very poor n=27	NA
ARC provides clear and comprehensive information about ARC's grant programs	NA	70% (68% Go8) rated this aspect of ARC's activities as good to very good n=263
Feedback to successful applicants	35% (50% Go8) of respondents rated the extent of feedback to successful applicants as poor to very poor n=26	39% (40% Go8) of respondents strongly disagree or disagree that the level of feedback to successful applicants was adequate n=217
Feedback to unsuccessful applicants	58% (71% Go8) of respondents rated the extent of feedback to unsuccessful applicants as poor to very poor n=26	74% (80% Go8) of respondents strongly disagree or disagree that the level of feedback to unsuccessful applicants was adequate n=238
ARC's timeliness in releasing funding rules	47% (75% Go8) rated this aspect of ARC's activities as poor to very poor n=27	29% (40% Go8) rated this aspect of ARC's activities as poor to very poor n=255
ARC communicating what is expected of researchers and research offices when accepting a partially funded grant	52% (88% Go8) rated this aspect of ARC's activities as poor to very poor n=27	52% (60% Go8) rated this aspect of ARC's activities as poor to very poor n=171

Source: ANAO survey data analysis.

Notes: NA means the question was not asked in that form for the particular survey group.

Research Office survey had a total of 29 respondents.

Researcher survey had a total of 277 respondents.

n = the number of respondents against the particular question.

**5.53** ARC advised ANAO that it had commissioned client research in 2005.<sup>74</sup> This would provide an opportunity for ARC to more systematically and regularly capture client satisfaction data, and to use this for performance management purposes.

## Handling complaints

**5.54** Recognised better practice is for agencies to have structured complaints handling systems.<sup>75</sup> The ANAO found that ARC's monitoring of enquires and complaints from universities and other clients was limited. For example, the ARC does not log calls through its information phone lines; nor does it have a central register or database for consolidating comments from client and stakeholder correspondence, university visits or other sources. This limits ARC's capacity to monitor queries and complaints for trends or particular problem areas, and to respond with timely administrative improvements.

**5.55** ANAO suggests that ARC implement a more systematic approach to recording and analysis of client enquiries and complaints. This would help to highlight problem areas, assist ARC in setting priorities for improving grants administration, and improve reporting capabilities against its key performance indicators.

## Conclusion

**5.56** ARC complies with the basic reporting requirements of the ARC Act by producing a strategic plan inclusive of elements specified in the Act, and through reporting against the strategic plan in its annual report.

**5.57** However, ARC is encouraged to adopt more of the principles of sound practice contained in Finance's performance reporting framework, and consider using targets and clearly defined quality and quantity measures to assist in managing and reporting its performance. ARC had not:

- clearly defined which performance indicators related to the output and which related to the outcome;
- separated key performance indicators between administered items and departmental funds; or

<sup>74</sup> The tender process was near completion during the audit.

<sup>75</sup> Better practice in complaint handling is set out in the Commonwealth Ombudsman's Office, *A Good Practice Guide for Effective Complaint Handling*, 1997.

- provided a balanced or wide range of qualitative and quantitative measures against each of its key performance indicators or its effectiveness indicators.

**5.58** Targets at the operational level would also help to inform performance improvement.

**5.59** Information from application forms provides generally reliable data for reporting purposes. ARC had not reported its rate of overdue final reports in its annual report. There was a problem with data aggregated from final reports due to the significant number that were submitted late, or not at all. This limited ARC's capacity to generate accurate aggregate data to support its performance monitoring and inform policy. A further limitation was ARC's IT systems which had a limited capacity to produce useful reports. ARC was aware of these limitations and was redesigning its IT systems.

**5.60** While ARC periodically commissioned reviews and studies to measure performance, a more planned approach to reviews, to provide information at regular intervals, would assist ARC in determining long-term trends on the results of ARC funded grants.

**5.61** ANAO found that ARC had made considerable progress in implementing the NRPs through the NCGP, and had provided information to researchers on the nature and purpose of the NRPs. However, this information did not clearly convey to grant applicants (including researchers) and grant assessors how NRPs were considered in the grant selection process, leading to uncertainty among researchers. ANAO also found that application forms only allowed applicants to select one of the four NRPs, although projects sometimes encompassed more than one, and there was no clear process for monitoring the completeness and consistency of NRP information in grant applications. In view of these weaknesses, ARC could not ensure that it was reporting the full extent of ARC's performance in the NRPs. ARC would enhance the validity and reliability of its reporting by implementing a more rigorous approach to data collection and monitoring.



**5.62** ARC had not conducted research to establish the service needs of its clients for many years, although it had started work in this area during the audit. A more systematic approach to the recording and analysis of client enquiries and complaints would help to highlight problem areas, allowing ARC to set priorities for improving grants administration and reporting capabilities against its key performance indicators.

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Ian McPhee  
Auditor-General

Canberra ACT  
4 May 2006



# Appendices

## Appendix 1: NCGP success rates and funding

### NCGP schemes: success rates and funding for grants commencing in 2004 and 2005

	2004 funding round			2005 funding round		
	Applications submitted	Success rate (%)	Funding (\$)	Applications submitted	Success rate (%)	Funding (\$)
<b>Discovery</b>						
Discovery Indigenous Researchers Development	13	23.1	115 815	9	55.6	247 932
Federation Fellowships	143	17.5	7 598 550	188	12.8	(1)9 254 561
Discovery Projects Fellowships	871	19.4	12 220 425	1010	16.5	12 718 347
Discovery Projects	3240	27.0	73 552 289	3414	30.9	99 528 276

(1) Includes start-up project grants awarded to eight Federation Fellows in 2005; start-up grants were made available for the first time in 2005.

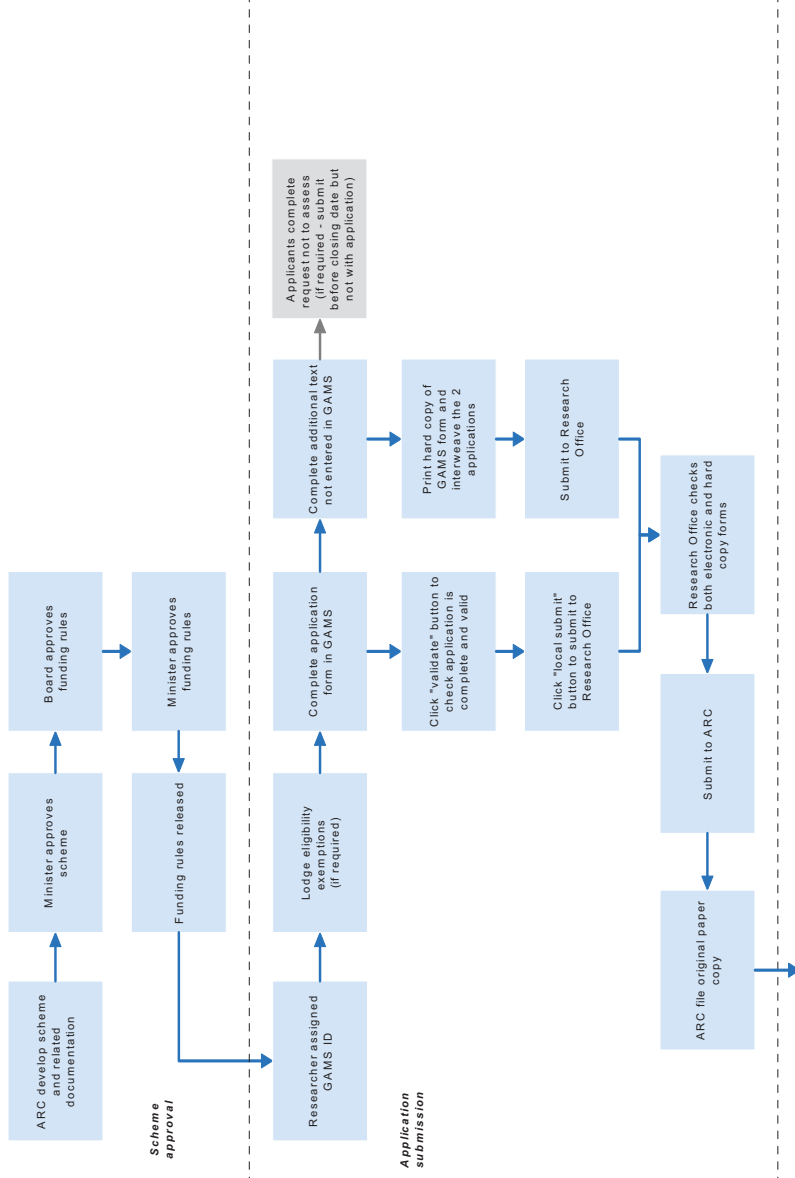
Source: ARC Annual Reports 2003–04 and 2004–05.

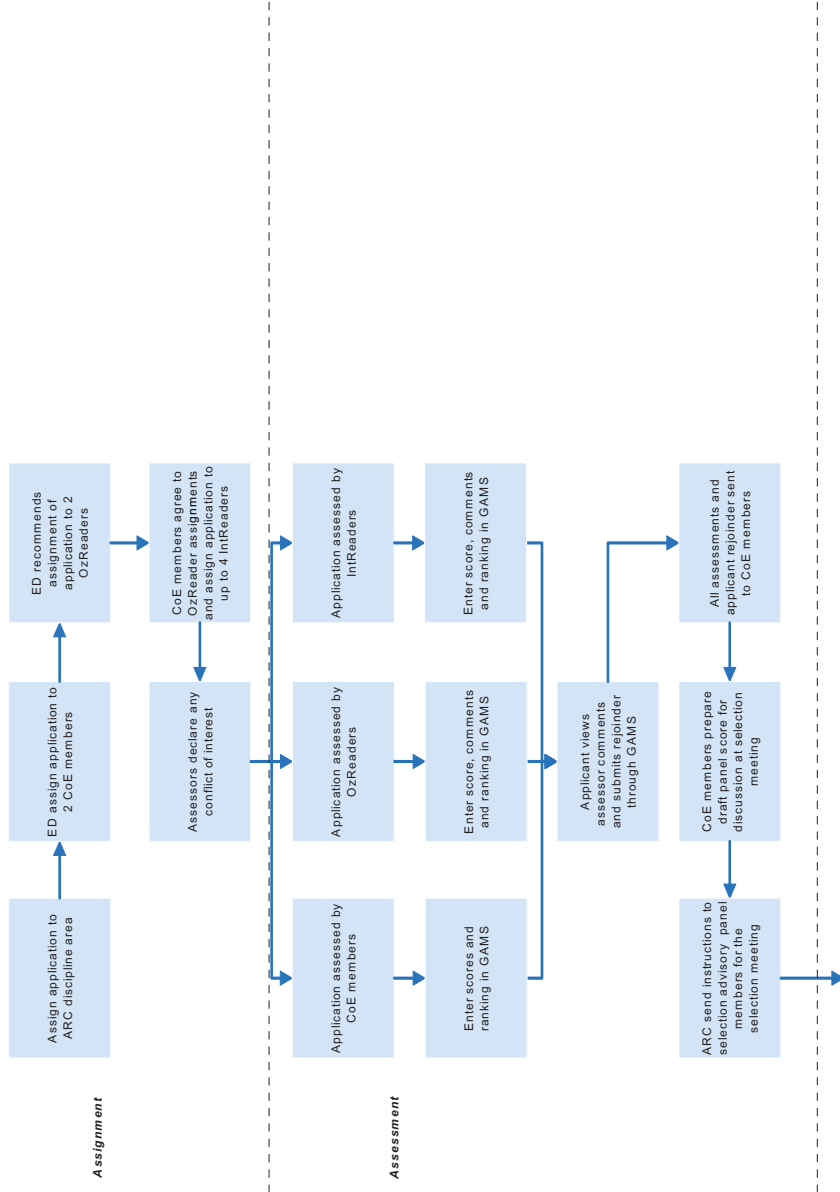
	2004 funding rounds			2005 funding rounds		
	Applications submitted	Success rate (%)	Funding (\$)	Applications submitted	Success rate (%)	Funding (\$)
<b>Linkage</b>						
Linkage Projects Awards and Fellowships: Linkage Industry Fellowships	6	50.0	(2)496 696	7	42.9	(2)266 424
Linkage Learned Academies Special Projects	5	100.0	452 000	7	71.4	472 000
Linkage International Awards <sup>(3)</sup>	107	58.9	728 751	189	51.3	1 338 565
Linkage International Fellowships	23	48.0	970 872	46	41.3	1 671 008
Linkage Projects Awards and Fellowships: Australian Postdoctoral Fellowships Industry	82	56.1	2 139 215	75	44.0	2 227 302
Special Research Initiatives (e-Research support)	Not funded	Not funded	Not funded	73	50.7	3 620 526
Linkage Projects Awards and Fellowships: Australian Postgraduate Awards Industry	775	55.0	7 033 800	878	44.3	9 393 572
Linkage Infrastructure Equipment and Facilities	147	51.4	28 190 991	159	49.1	30 400 105
Linkage Projects	1047	50.8	28 406 538	1048	46.6	37 884 390

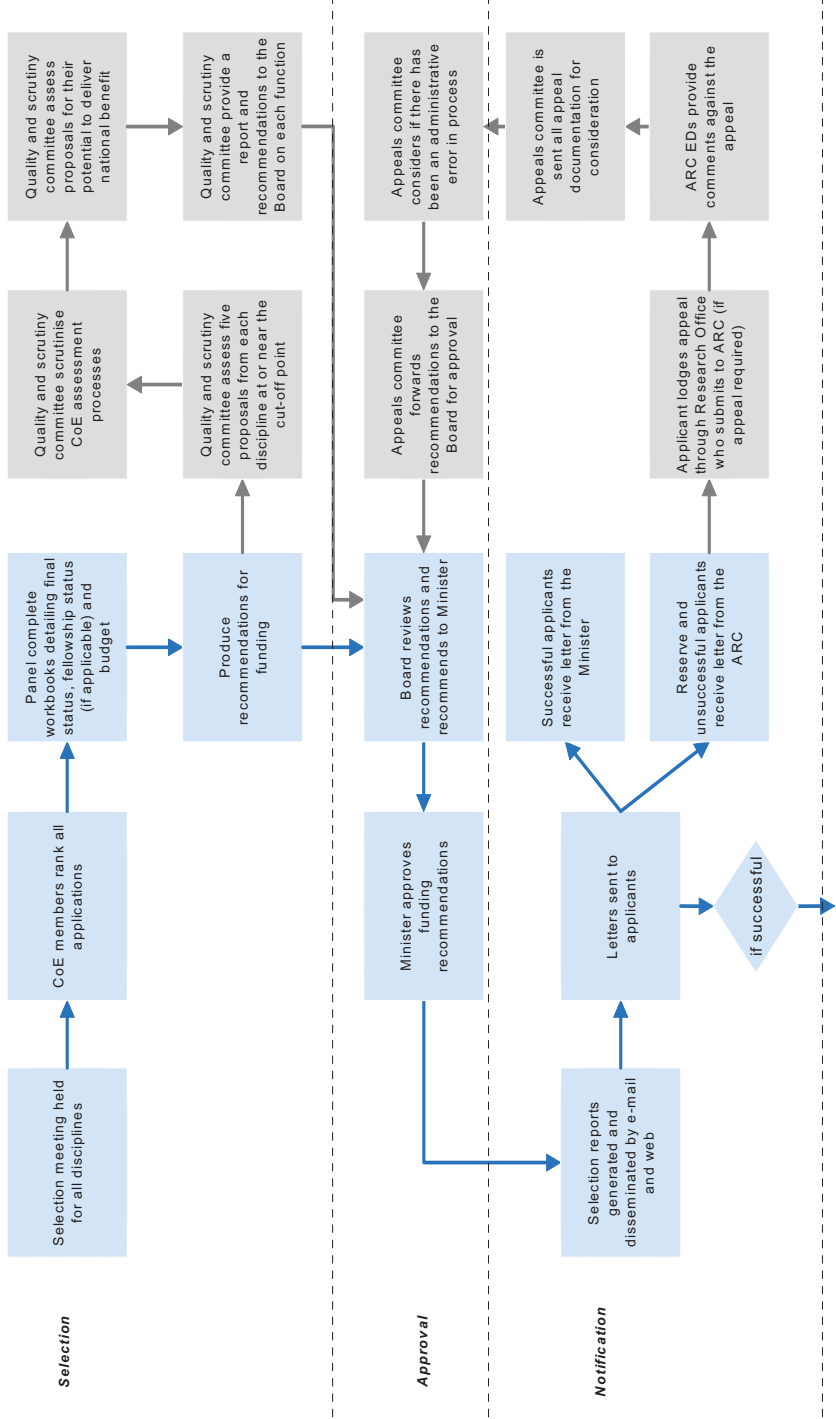
(2) Total Year 1 allocation to Linkage Projects grants involving Linkage Industry Fellowships.

(3) 2005—comprised grants awarded in Rounds 7, 8, 9 and 10. 2004—comprised grants awarded in Rounds 5 and 6.  
Source: ARC Annual Reports 2003–04 and 2004–05.

## Appendix 2: ARC process flow chart

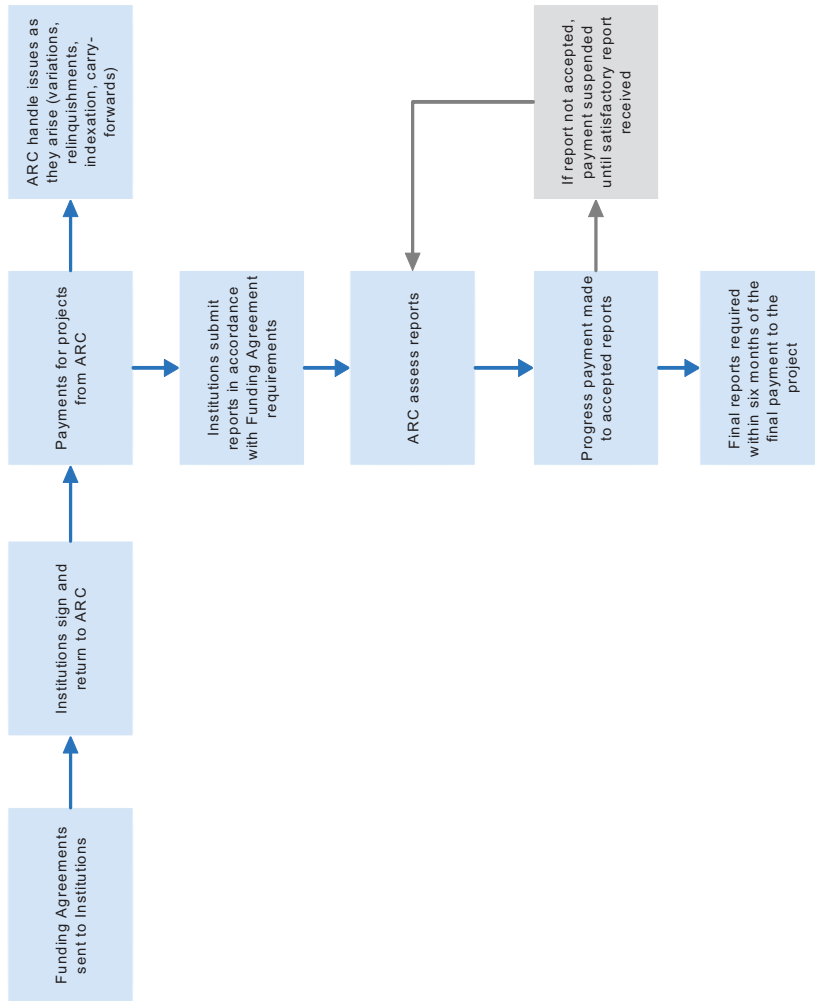








**Post award  
management**



### Appendix 3: Discovery Projects grant funding

Funding awarded to Discovery Projects grants as a percentage of the amount requested on application: 2001 to 2004 submission years

Submit Year	Discipline	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%	Total
2001	BSB	15	21	18	14	14	20	13	17	7	10	1	150
2001	EE	9	33	15	17	10	8	5	5	5	1	-	108
2001	HCA	17	25	33	9	4	5	3	3	8	5	2	114
2001	MIC	3	11	15	12	13	18	4	5	13	7	-	101
2001	PE	15	21	30	25	17	12	6	6	11	6	1	150
2001	SBE	9	9	18	19	17	24	16	10	14	23	1	160
2001	<b>TOTAL</b>	<b>68</b>	<b>120</b>	<b>129</b>	<b>96</b>	<b>75</b>	<b>87</b>	<b>47</b>	<b>46</b>	<b>58</b>	<b>52</b>	<b>5</b>	<b>783</b>
2002	BSB	3	26	26	19	15	19	18	11	13	17	3	170
2002	EE	1	17	19	13	17	18	13	14	7	5	-	124
2002	HCA	7	24	29	38	25	17	5	2	-	1	-	148
2002	MIC	9	3	15	19	18	19	24	16	10	8	-	141
2002	PE	4	34	23	20	24	27	19	8	14	8	3	184
2002	SBE	6	17	37	24	25	24	12	16	7	6	-	174
2002	<b>TOTAL</b>	<b>30</b>	<b>121</b>	<b>149</b>	<b>133</b>	<b>124</b>	<b>124</b>	<b>91</b>	<b>67</b>	<b>51</b>	<b>45</b>	<b>6</b>	<b>941</b>

Submit Year	Discipline	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%	Total
2003	BSB	1	30	14	32	21	19	15	10	11	1	-	154
2003	EE	4	13	20	18	33	15	6	7	9	1	-	126
2003	HCA	5	12	24	29	34	27	7	6	5	6	-	155
2003	MIC	10	4	15	29	25	14	17	8	4	2	-	128
2003	PE	-	39	38	31	15	9	6	2	7	2	1	150
2003	SBE	10	11	36	38	24	20	10	4	5	4	-	162
2003	<b>TOTAL</b>	<b>30</b>	<b>109</b>	<b>147</b>	<b>177</b>	<b>152</b>	<b>104</b>	<b>61</b>	<b>37</b>	<b>41</b>	<b>16</b>	<b>1</b>	<b>875</b>
2004	BSB	6	32	32	36	26	21	18	10	10	-	-	191
2004	EE	2	26	25	32	18	19	7	10	2	1	-	142
2004	HCA	9	32	30	37	39	21	9	4	1	3	-	185
2004	MIC	12	12	13	26	33	13	20	11	11	4	-	155
2004	PE	10	27	25	27	28	14	14	20	11	4	1	181
2004	SBE	6	16	35	35	34	34	22	7	11	1	-	201
2004	<b>TOTAL</b>	<b>45</b>	<b>145</b>	<b>160</b>	<b>193</b>	<b>178</b>	<b>122</b>	<b>90</b>	<b>62</b>	<b>46</b>	<b>13</b>	<b>1</b>	<b>1055</b>

Source: ARC.

## Appendix 4: ARC's Key Performance Indicators and objectives

ARC's key performance indicators (KPIs) reported against each objective

Objective	KPI 1	KPI 2	KPI 3	KPI 4	KPI 5	KPI 6	KPI 7	KPI 8	KPI 9	KPI 10
Discovery										
Linkage										
Research training and careers										
Research infrastructure										
Research priorities										
Public engagement										
Effective organisation										

Source: ANAO, compiled from ARC Strategic Plan 2005–07.

Note: Grey squares indicate the key performance indicators which apply to each objective.

KPI	Description
KPI 1	Research funded through the National Competitive Grants Program produces high quality outputs and outcomes in public and private enterprises.
KPI 2	Development, attraction and retention of high-quality researchers across disciplines, able to pursue careers within universities, industry, government and other sectors of the economy.
KPI 3	A high incidence of collaboration between ARC-funded researchers and those within other sectors of the national and international innovation system including innovative companies.
KPI 4	Increase in the scale of research activities supported through the National Competitive Grants Program.
KPI 5	Contribution of ARC-funded research to the development of research strengths and applications in areas of national need.
KPI 6	Appropriate level of access for Australian researchers (including those in higher education institutions, government research organisations and industry) to high-quality facilities and equipment (including major research facilities located overseas).
KPI 7	Transfer of knowledge to users as shown by trends in knowledge transfer, utilisation and intellectual property measures.
KPI 8	Enhanced stakeholder awareness of and satisfaction with the outcomes of ARC-funded research.
KPI 9	Stakeholder satisfaction with the flexibility and responsiveness of the National Competitive Grants Program and with ARC processes for administering grants and applications.
KPI 10	Ministerial and Parliamentary satisfaction with the performance of the ARC against its accountability and governance requirements.

Source: ARC Strategic Plan 2005–07.

## Appendix 5: ARC's full response to the audit

### INTRODUCTION

The Australian Research Council has appreciated the opportunity to participate in the performance audit of its management of research grants.

The following introductory comments provide further information on aspects of the ARC's management of research grants which were not within the scope of the audit. The comments provide additional context for the ARC's commentary on the nine recommendations contained in the report (see below).

#### *Systems redevelopment project*

The ARC, which is a small organisation with about 65 staff, is responsible for managing 11 funding schemes under the National Competitive Grants Program (NCGP). In 2005 this involved receipt of around 5,000 applications, the conduct of 14 assessment rounds and the processing and analysis of over 28,000 assessor reviews. In the past two years the number of applications has continued to rise above those listed in this report (see Appendix 1). Under the *Discovery Projects* scheme, for example, 4,047 applications were received for funding commencing in 2007, an increase of approximately 19 per cent over the number received in 2005.

In anticipation of increasing demand and following a review of its application and grant management system, the ARC commenced a major systems redevelopment project in 2004 as a means of ensuring that the future business requirements of the organisation could be met. When operational, the new system will support fully electronic processing and management of grants and enable the integration of all aspects of grants management including application, assessment, funding, monitoring and reporting. It is expected that the new system will have the functionality to address concerns raised in this report about a number of grants processes including:

- submission of progress and final reports.
- tracking of (i) the progress of individual grants, (ii) eligibility rulings, and (iii) 'requests not to assess'.
- documentation of recommendations made by the College of Experts.
- analysis of project outcomes described in progress and final reports.
- capture of detailed data on national research priorities.

Parallel testing of the new system will commence during the lodgement and assessment of applications from mid 2006. The ARC expects to commence a rollout of its new system progressively from late 2006 to August 2007 to support its business processes.

### *Consultations with the research sector*

The ARC participates in a wide range of forums to keep administering organisations informed about developments under the NCGP. During 2005, for example, the ARC continued its program of formal institutional visits and report-back tours. It maintained regular contact with research administrators (through email updates forwarded at least weekly to all research offices) and conducted a Research Administrators' Conference (together with the National Health and Medical Research Council) in May. Feedback was also sought from research administrators about the development of funding rules and selection instructions for the 2007 funding round.

The ARC will continue to use these forums to communicate changes to its grants management processes to administering organisations. Following positive feedback, the Research Administrators' Conference has been reinstated as a regular event.

## **RECOMMENDATIONS**

### **Recommendation No.1**

Consistent with the Government's expectation following the *Review of the Corporate Governance of Statutory Authorities and Office Holders* and to ensure regular and ongoing information exchange and reporting, ANAO recommends that ARC and DEST develop a Memorandum of Understanding or similar arrangement.

**ARC response:** Agreed.

### **Recommendation No.2**

ANAO recommends that ARC strengthen its processes for managing conflicts of interest for the College of Experts and other ARC committee members, by revising its guidelines in line with better practice, including the ANAO *Better Practice Guide – Administration of Grants*. Revision would involve:

- reviewing conflict of interest declarations annually, as a way of maintaining compliance with conflict of interest principles;
- developing new protocols for a register of private interests; and establish and regularly revise the register; and
- clearly identifying responsibility for managing and resolving conflict of interest matters and implementing a regular monitoring process.

**ARC response:** Agreed.

### **Recommendation No. 3**

ANAO recommends that, to assist researchers in planning and preparing their grant applications, ARC publish, on a trial basis, an annual calendar which includes standard or indicative dates for release of funding rules and submission of applications.

**ARC response:** Agreed.

### **Recommendation No. 4**

ANAO recommends that ARC implement a consistent method for considering 'requests not to assess', documenting reasons for decisions and informing applicants of the results of their 'request not to assess'.

**ARC response:** Agreed.

The ARC operates an Eligibility Committee which is responsible for considering all formal requests for eligibility rulings for applications and the provision of advice to applicants on the outcomes. The role of this Committee has been expanded to consider 'requests not to assess'.

### **Recommendation No. 5**

ANAO recommends that ARC amend its processes for assessing and selecting grants by:

- clearly defining responsibility for assessing eligibility at all stages of the selection process, particularly for assessors and selection advisory panels;
- developing clear instructions for applicants and assessors on how sub-points (sub-criteria) should be addressed; and
- adequately documenting decisions and recommendations of selection advisory panels (including budget reductions) on workbook pages to fully reflect all actions and decisions made by panel members.

**ARC response:** Agreed.

- The ARC acknowledges that its Funding Rules may not have been clear regarding responsibility for assessing eligibility. The ARC and its College of Experts form views regarding eligibility which are provided to the Minister, who makes the final funding decision. The ARC will seek to clarify the responsibilities in future Funding Rules.
- As part of its ongoing review of scheme documentation, the ARC will review its instructions to applicants and assessors to ensure that the intent of the sub-points listed under the selection criteria is clear.
- As part of its regular review of processes (carried out after each selection round), the ARC will consider possible changes to the way its selection advisory panels



document decisions. The systems redevelopment project currently being undertaken by the ARC is expected to enable improvements to the documentation of assessment and other processes.

### **Recommendation No.6**

In light of the large proportion of partially funded grants ARC awards each year, ANAO recommends that ARC:

- develop strategies to improve information to grant recipients who have been partially funded, to assist them in determining the best use of grant funds consistent with their project objectives;
- define its requirements for submitting and processing revised research plans, to ensure that grants are spent as intended;
- clarify the obligations and responsibilities of ARC, universities and researchers where ARC awards partial funding, to enable more effective post-award grants management; and
- examine the consequences and impacts of partially funding grants on the success of projects, and the quality of research outcomes.

**ARC response:** Agreed.

### **Recommendation No.7**

ANAO recommends that ARC strengthen management of its Funding Agreements by:

- implementing procedures and systems to enable more rigorous monitoring and follow-up of overdue progress and final reports; and
- developing clear policies to manage individual researcher's non-compliance with final reporting requirements and their eligibility for further ARC grants.

**ARC response:** Agreed.

### **Recommendation No.8**

ANAO recommends that ARC improve internal management and external reporting by:

- ensuring that ARC's output and outcome are supported by appropriate performance indicators;
- specifying appropriate targets and a balanced set of quality and quantity measures against ARC's Key Performance Indicators for administered and departmental items;
- enhancing ARC's data collection systems to allow more effective analysis of final report project outcomes; and
- establishing a more planned approach to determining long-term outcomes including through regular commissioning of studies and reviews.

**ARC response:** Agreed.

The ARC has publicly stated its desire to increase its focus on the evaluation of the Government's investment in research that is being made through the ARC's funding schemes. To increase its capacity in this area, the ARC has established a Research Evaluation Section which will among other things review the ARC's current performance measurement framework (including the capacity of its data collection systems to support outcome reporting).

#### **Recommendation No.9**

ANAO recommends that ARC clarify to stakeholders the role of the national research priorities in ARC's selection of grants, and improve the measurement and reporting of its performance in implementing the national research priorities by:

- amending funding rules and guidelines to grant applicants, to clearly define the role of national research priorities in the grant application and selection process;
- revising application forms to enable ARC to capture more complete data on national research priorities for the purpose of monitoring progress, reporting and evaluation; and
- implementing procedures to monitor the completeness and consistency of information on grant applications.

**ARC response:** Agreed.

The ARC will continue to review its funding rules, instructions to applicants and application forms to improve their clarity with regard to NRPs and also to enhance the effectiveness of data collection activities.

The ARC is required to report each year to the National Research Priorities Standing Committee on its implementation of priorities. In February 2006, the Standing Committee commended the ARC on its excellent (2005) report which provided 'a clear indication of investments in NRP areas and non NRP areas'.

## Appendix 6: DEST's full response to the audit

DEST agrees with recommendation 1 and notes the importance of requiring a Memorandum of Understanding between DEST and the ARC.

This is consistent with the Government's expectation following the *Review of the Corporate Governance of Statutory Authorities and Office Holders* and will ensure regular and ongoing information exchange and reporting between the two agencies.

DEST enjoys a good working relationship with the ARC and will work with the ARC to ensure that the Memorandum of Understanding formalises consultative and reporting activities on national research policy matters.

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