The Auditor-General
Audit Report No.41 2005–06
Performance Audit

Administration of Primary Care Funding Agreements

Department of Health and Ageing

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
24 May 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Health and Ageing in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Administration of Primary Care Funding Agreements.*

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

Yours sincerely

Steve Chapman
Acting/Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations

ANAO	Australian National Audit Office
CEI	Chief Executive's Instructions
CMAU	Contract Management Advisory Unit
FMIS	Financial Management Information System
Health	Department of Health and Ageing
IDP	Individual Development Plan
JCPAA	Joint Committee of Public Accounts and Audit
N/A	Not Applicable
PCD	Primary Care Division
PDS	Personal Development Scheme
PMM	Program Management Manual
STO	State and Territory Office
Toolkit	Program Manager's Toolkit

Glossary

Activity	Work performed by a funded organisation in the achievement of objectives established under a funding agreement.
General Terms and Conditions	General terms and conditions are those clauses developed by Legal Services Branch that constitute the head of the agreement. These are differentiated from the terms and conditions developed by programme officers in the schedule(s) to the agreement, which are specific to the particular activity and, for the purpose of this report, are referred to as performance specifications.
Head of the Agreement	The section of the agreement that contains the general terms and conditions, otherwise referred to as the 'front end.'
Procurement	Procurement encompasses the whole process of acquiring goods, property or services. It begins when an agency has identified a need and decided on its procurement requirement. Procurement continues through the processes of risk assessment, seeking and evaluating alternative solutions, contract award, delivery of and payment for the property or services and, where relevant, the ongoing management of a contract and consideration of options related to the contract. Procurement also extends to the ultimate disposal of property at the end of its useful life.[1]
Report	Material provided to Health by a funded organisation as evidence of performance under a funding agreement.

[1] Department of Finance and Administration, 2005, *Commonwealth Procurement Guidelines*, Canberra.

Summary and Recommendations

Summary

Background

1. The primary care sector, comprising general practice, nursing, allied health, community health and community pharmacy, is the most commonly accessed part of the health system.

2. Accessing primary care typically encompasses a visit by a person to their general practitioner to seek treatment for illness. However, primary care services are also provided by other medical professionals working outside of general practice, such as immunisations provided within a community health setting.

3. It is through the primary care sector, predominantly general practice, that Australians access a range of diagnostic, pharmaceutical and acute care services. Acute care involves the provision of medical and other services in hospitals as well as specialist services in the community.

4. A strong primary care system is a key to providing quality care in the treatment of illness and in the prevention of health problems through early intervention. Research has shown that:

> …countries with well-developed systems of primary care, such as Australia, achieve better health outcomes at less cost. Conversely, countries with very weak primary care infrastructures have poorer performance in major aspects of health.[2]

5. The nature of primary care has been changing as governments and providers in developed countries respond to demographic and morbidity changes, particularly due to the impact of ageing populations. There has also been a major focus on controlling costs while continuing to meet increasing societal needs and expectations.

6. In February 2006, the Council of Australian Governments announced a $1.1 billion funding package aimed at achieving better health for all Australians, through better health promotion, prevention and early intervention strategies.

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[2] Department of Health and Ageing, 2005, *General Practice in Australia: 2004*, Canberra, p.4, viewed 1 March 2006, <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/pcd-publications-gpinoz2004>.

7. The Department of Health and Ageing (Health) has a central role in supporting changes in primary care in Australia. Health's Portfolio *Outcome 4: Primary Care* works towards strengthening the primary care sector to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. Outcome 4 is managed within the Department by the Primary Care Division (PCD or the Division). In 2005–06, the Australian Government's total administered items[3] appropriation for the primary care outcome is $816.9 million, with $30.4 million appropriated for departmental items.[4]

8. Health does not provide primary care services directly to health consumers, instead it contributes to strengthening of the sector through funding[5] primary care programmes. Health distributes funding via agreements with a range of organisations, such as universities, other education providers, private sector organisations and representative bodies. On 30 June 2005, PCD and Health's State and Territory Offices (STOs) were administering approximately $895 million[6] in primary care funding via 389 funding agreements. These agreements range in size from $1800 to $150 million and in duration from five weeks to around six years.

9. This financing supplements other primary care moneys, such as the $10.6 billion in funding for Medicare services and $6.3 billion in funding for the Pharmaceutical Benefits Scheme.

10. PCD funds a variety of primary care activities under 26 programmes and initiatives (see Figure 1 for a snapshot of two programmes). A large number of these programmes involve developmental work, such as establishing after hours medical services, trialling of new approaches to treat chronic disease through general practice, and building primary care research capacity. These types of activities require agreements with sufficient flexibility

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3 Administered items are those assets, liabilities, revenues and expenses controlled by the Government and managed or overseen by agencies or authorities on behalf of government.

4 Departmental items are those assets, liabilities, revenues and expenses controlled by agencies or authorities and used in producing their outputs.

5 Health has defined funding as '…the process whereby the Department allocates money to support the achievement of health and ageing objectives within the community (i.e. the Department is not the primary beneficiary).' According to the Department, a funding agreement differs from a contract for a service/consultancy as **funding** encompasses the performance of 'specified activities for a set price', whereas a **contract for a service/consultancy** is defined as 'getting the best price for an activity.'

6 The total value of administered agreements ($895 million) is greater than the annual Outcome 4 appropriation ($816.9 million) as many agreements span several years. It should also be noted that the annual appropriation is not used exclusively for funding programmes. A proportion of the appropriation is used for the contracting of goods/services/advice, as well as alternative financing of primary care, such as incentive payments to GPs through Medicare.

while providing adequate levels of control to ensure that the Department 'gets what it pays for'.

Figure 1

Snapshot of primary care programmes

Divisions of General Practice Programme

The Australian Government has committed $302.4 million over four years from 2004–05 to the Divisions of General Practice Network (the Divisions Network). This funding is used to assist general practices to provide services to the community and achieve improved health outcomes. The first divisions were established in 1992. The Divisions Network currently consists of 119 Divisions of General Practice, supported by seven State-Based Organisations (SBOs) at the State/Territory level and the Australian Divisions of General Practice (ADGP) at the national level. About 94 per cent of GPs are members of a Division of General Practice. Divisions vary in their geographic coverage, location, population and numbers of general practices. Divisions perform a range of activities to improve and address access, integration, chronic disease management, workforce issues and consumer needs. Divisions are also funded by the Australian Government for many different programmes, such as allied health services in rural areas, support for GPs, and immunisation.

Australian Primary Care Collaboratives Programme

The Australian Government is providing $17.2 million over four years under a funding agreement with Flinders University to implement an innovative 'collaboration' method to develop new service models for the prevention of chronic disease and illness. The aim of the Australian Primary Care Collaboratives Programme is to enhance and support general practices working collaboratively with other primary care providers—including nursing, pharmacy and allied health workers—to deliver prevention, early intervention and care services. New service models will be developed through a small number of pioneer general practices. These models include improvements to prevention and management practices and associated clinical and business systems relating to treatment of diabetes, cardiovascular disease, and patient waiting times. These practices then share the lessons learnt with other practices. The improvements at a practice level translate to improved clinical outcomes, and to reduced costs in prevention of chronic disease.

Source: Health and the Australian Divisions of General Practice

Audit overview

11. The audit objective was to assess Health's administration of primary care funding, with a focus on the administrative practices of the Primary Care Division and Health's State and Territory Offices. In forming an opinion on the audit objective, the ANAO reviewed 41 agreements, with a combined value of $252 million. The ANAO also reviewed relevant documentation and files, interviewed programme officers and met with a number of stakeholders.

12. The audit comments on a range of issues, including the utility of funding agreements, monitoring, payments, and support for administrators.

Key findings

Funding agreements (Chapter 2)

13. Programme officers use standard funding agreements developed by Health's Legal Services Branch. The standard agreements include appropriate general terms and conditions, such as clauses linking payments to performance. Where programme officers make changes to the general terms and conditions, these are based on legal advice.

14. While the general terms and conditions in standard funding agreements are appropriate, the performance specifications in schedules developed by programme areas are not always clear. This is partly explained by the difficulty in establishing specifications for developmental work and the need for agreements with sufficient flexibility. Notwithstanding, clear standards/targets provide guidance to programme officers and funded organisations and reduce the risk of disputes.

15. Agreements commonly contain ambiguous activity descriptions, insufficient budget detail, and unclear reporting obligations. Furthermore, timelines for funded primary care activities are not aligned to reporting periods and the use of targets to define performance expectations is limited. These issues lessen the usefulness of funding agreements to programme officers and funded organisations when determining satisfactory performance.

16. Health does not ensure that all primary care funding agreements are signed before the project period and/or the activity has begun. Delays in the signing of agreements increase the risk of disputes as the terms, conditions and performance expectations may not be agreed before work begins.

Monitoring (Chapter 3)

17. The limited use of activity plans and/or standards/targets in funding agreements means that programme officers do not have a 'yardstick' against which an objective assessment of performance can be made. Consequently, programme officers primarily rely on their experience and judgement to determine whether reported performance is satisfactory. This approach poses problems for the consistent implementation of programmes, particularly where there are changes in administrative staff, or where there is variability in the skills and knowledge of programme officers administering national programmes.

18. Health does not, in general, document the assessment of progress reports from organisations funded under primary care agreements, including the analysis of progress and financial data, to record the basis on which it has determined the performance of funded organisations. Limited documentation of decisions affects Health's ability to justify its funding actions and to ensure that it has met agreement obligations. It also makes management more difficult as there is no history of events and key decisions.

19. The system used by Health to monitor primary care funding agreements relies primarily on self-reporting, with limited activity to verify the accuracy or quality of information within reports submitted by funded organisations. Some level of review encourages accuracy in reporting and increases the confidence in the quality of information reported by funded organisations.

20. In general, Health incorporates changes into primary care funding agreements through written variations. However, the timing of variations to extend agreements is problematic, with the parties commonly executing variations after the original agreement has ended. Where work continues 'between' the end of the project period in the original agreement and the commencement of the project period under the variation, there is an increased risk of disputes. That is because of the lack of clear authority to continue work, and increased uncertainty surrounding the terms and conditions that apply to this work.

21. The general terms and conditions in the standard funding agreement, prepared by Health's Legal Services Branch, establish obligations on agreement parties that need to be regularly monitored, for example, maintenance of sufficient insurance coverage. Programme officers are not, however, reviewing these terms and conditions to inform their monitoring practices. As a consequence, programme officers have overlooked some obligations.

22. Health is working to address problems with the sharing of administrative responsibility for funding agreements between its Central Office and STOs. Initiatives stemming from a recent review are aimed at improving the way in which programmes are coordinated and delivered. Notwithstanding, there is currently a lack of clarity surrounding the role of PCD and STOs in the day-to-day administration of agreements. The way in which PCD has allocated administrative responsibility to STOs has resulted in

inadequate sharing of information on jointly administered agreements and, in at least one instance, unclear responsibilities for agreement administration.

Payments (Chapter 4)

23. Health has procedures that cover payments under funding agreements. There is, however, a limited awareness of the procedures among programme officers, with work areas developing their own payment documentation and complementary processes. The development of documentation for standard administrative practices by work areas, such as payment request forms, increases costs and has led to issues of non-compliance with the Chief Executive's Instructions.

24. In spite of weaknesses in assessment practices, programme officers authorised payments that were in accordance with the amounts in funding agreements and, in the majority of cases, within the time allowed.

Support for administrators (Chapter 5)

25. Health has established a set of policies and procedures, both at the departmental and divisional level, to guide funding activities. While this guidance covers all stages of the funding process, there is scope to increase guidance for programme officers in order to address current issues relating to the lack of clarity and comprehensiveness of performance specifications in agreements. Further, the lack of programme-specific guidance for some programmes, to supplement departmental and divisional guidance, has led to inconsistencies in the delivery of national programmes, such as different criteria/methods used to assess reports.

26. Programme officers have ready access to legal and technical specialists, both at the departmental and divisional levels. These specialists provide advice and assistance on matters such as the type of agreement to select, amendments to the standard funding agreement and risk management approaches. Health has also reviewed its approach to the provision of technical advice, and is currently establishing a new model to deliver local level advice to staff across the Department.

27. Health has established a process to identify the development needs of staff. In response to needs identified through this process, the Department has

established a standard suite of training courses designed to equip staff with an understanding of their rights and obligations when dealing with parties to funding agreements. Health also provides tailored training to officers administering funding agreements. Participation in courses by programme officers with responsibility for managing primary care agreements is, however, patchy with a number of officers not having attended training for many years.

28. There are two registers used within the Department to manage primary care agreements. The limited utility of the central contracts register means that a supplementary PCD Register is used to support monitoring and reporting requirements. The use of multiple registers to record PCD agreements is problematic as different areas of the Department use different data to inform agreement monitoring and reporting. This has contributed to the reporting—both internally and externally—of incorrect agreement information. The use of supplementary systems is less efficient, more costly and increases the risk of data integrity issues. Health has advised that it is aware of the issues associated with the reporting of contract information, and is actively addressing these issues through the ongoing improvements to the guidance frameworks and systems.

29. Health is implementing a programme management information system to provide greater assistance to programme officers in the day-to-day administration of funding agreements. Health plans to implement the proposed system by July 2009. In the interim, programme officers continue to use ad hoc, stand-alone approaches, such as spreadsheets and to-do lists. The use of these systems is less efficient and costs more. The risk that a contractual obligation is overlooked, particularly where a programme officer is absent or where there is a new programme officer, is also increased. Health envisages that the proposed system will reduce these risks.

Overall audit opinion

30. The aim of the Government's primary care funding is to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. The manner in which Health administers primary care funding is an important factor in realising this aim.

31. Health is well advanced in establishing guidance and training to equip its officers with the skills and knowledge needed to effectively administer funding agreements. Health is working to strengthen its approaches, with the development of an information system to support day-to-day agreement

administration. This system will complement existing contract registers that Health uses to monitor agreement activity and to inform internal/external reporting. Aspects of Health's day-to-day administration of primary care agreements, such as payments, are also generally consistent with agreement requirements.

32. Notwithstanding, there are aspects of primary care agreement administration that require strengthening in order for Health to demonstrate that it 'gets what it pays for' and to improve the efficiency of administration.

33. At present, the specification of performance expectations in primary care funding agreements is insufficient, with limited use of clearly expressed and appropriate activity plans and/or standards/targets against which performance can be objectively assessed. There are also weaknesses in the documentation of decisions, particularly relating to the assessment of reports, which affect Health's capacity to demonstrate effective performance management.

34. The absence of a programme management information system, problems surrounding the management and use of contract registers, and unclear arrangements for the sharing of agreement administration between PCD and STOs have also led to less efficient administration.

35. The ANAO made three recommendations to improve Health's administration of primary care funding.

Health's response

36. The Department is supportive of the audit and its findings, and agrees with the recommendations, noting that they apply specifically to aspects of the administration of primary care funding, and not to the operations of the Department as a whole. The Department has a number of initiatives in hand to improve the administration of primary care funding agreements in response to the ANAO recommendations.

Recommendations

To improve Health's administration of primary care funding, the ANAO has made three recommendations.

Recommendation No.1

Para. 2.35

The ANAO recommends that, in order to define performance expectations and inform monitoring, Health clarify specifications and use appropriate timelines and targets in its primary care funding agreements.

Health's response: Agreed

Recommendation No.2

Para. 2.43

The ANAO recommends that Health clarify reporting obligations to ensure it receives the necessary information to assess performance and acquit funding under primary care agreements.

Health's response: Agreed

Recommendation No.3

Para. 3.32

The ANAO recommends that, to demonstrate sound decision-making, Health document the key steps in its assessment and acceptance of reports from organisations funded under primary care agreements.

Health's response: Agreed

Audit Findings and Conclusions

1. Introduction

This Chapter provides background information on primary care, details on the level of funding activity within the Department of Health and Ageing's (Health's) Primary Care Division (PCD or the Division) and an overview of the audit.

Background

1.1 The primary care sector, comprising general practice, nursing, allied health, community health and community pharmacy, is the most commonly accessed part of the health system.

1.2 Accessing primary care typically encompasses a visit by a person to their general practitioner to seek treatment for illness. However, primary care services are also provided by other medical professionals working outside of general practice, such as immunisations provided within a community health setting.

1.3 It is through the primary care sector, predominantly general practice, that Australians access a range of diagnostic, pharmaceutical and acute care services. Acute care involves the provision of medical and other services in hospitals as well as specialist services in the community.

1.4 A strong primary care system is a key to providing quality care in the treatment of illness and in the prevention of health problems through early intervention. Research has shown that:

> …countries with well-developed systems of primary care, such as Australia, achieve better health outcomes at less cost. Conversely, countries with very weak primary care infrastructures have poorer performance in major aspects of health.[7]

1.5 The nature of primary care has been changing as governments and providers in developed countries respond to demographic and morbidity changes, particularly due to the impact of ageing populations. There has also been a major focus on controlling costs while continuing to meet increasing societal needs and expectations.

1.6 In February 2006, the Council of Australian Governments commented that 'Good health underpins the wellbeing and quality of life of Australians.

[7] Department of Health and Ageing, 2005, *General Practice in Australia: 2004*, Canberra, p.4, viewed 1 March 2006, <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/pcd-publications-gpinoz2004>.

Preventing ill health and improving physical and mental health helps people to participate in work and makes them more productive when they do so.' The Council agreed that health promotion, prevention and early intervention strategies and investment are required to reduce the incidence of chronic disease, and improve overall health outcomes. The Council subsequently announced a funding package of $1.1 billion aimed at achieving better health for all Australians.

1.7 The Department of Health and Ageing (Health) has a central role in supporting changes in primary care in Australia. Health's Portfolio *Outcome 4: Primary Care* works towards strengthening the primary care sector to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. Outcome 4 is managed within the Department by the Primary Care Division (PCD or the Division). In 2005–06, the Australian Government's total administered items[8] appropriation for Outcome 4 is $816.9 million, with $30.4 million appropriated for departmental items.[9]

1.8 Health allocates the administered items appropriation for Outcome 4 over the following four programme areas:

- Primary Care Education and Training;
- Primary Care Financing, Quality and Access;
- Primary Care Policy, Innovation and Research; and
- Primary Care Practice Incentives.

1.9 The appropriation for Outcome 4 is in addition to the $10.6 billion budgeted for Medicare services in 2005–06. Health's Medical and Pharmaceutical Services Division has responsibility for managing the schedules of medical and pharmaceutical services under *Outcome 2: Medicines and Medical Services.* The majority of Medicare funding is for primary care via payments to general practitioners. In addition, general practitioners have a direct influence on expenditure under the Pharmaceutical Benefits Scheme, which has a budget of $6.3 billion in 2005–06.

1.10 Health does not provide primary care services directly to health consumers, instead it contributes to strengthening of the sector through

[8] Administered items are those assets, liabilities, revenues and expenses controlled by the Government and managed or overseen by agencies or authorities on behalf of government.

[9] Departmental items are those assets, liabilities, revenues and expenses controlled by agencies or authorities and used in producing their outputs.

funding[10] primary care programmes. Health distributes funding via agreements with a range of organisations, such as universities, other education providers, private sector organisations and representative bodies. On 30 June 2005, PCD and Health's State and Territory Offices (STOs) were administering approximately $895 million[11] in primary care funding via 389 funding agreements. These agreements range in size from $1800 to $150 million and in duration from five weeks to around six years.

1.11 PCD funds a variety of primary care activities under 26 programmes and initiatives (see Appendix 1 for a listing of these programmes and initiatives), including:

[10] Health has defined funding as '…the process whereby the department allocates money to support the achievement of health and ageing objectives within the community (i.e. the department is not the primary beneficiary).' According to the Department, a funding agreement differs from a contract for a service/consultancy as **funding** encompasses the performance of 'specified activities for a set price', whereas a **contract for a service/consultancy** is defined as 'getting the best price for an activity.'

[11] The total value of administered agreements ($895 million) is greater than the annual Outcome 4 appropriation ($816.9 million) as many agreements span several years. Further, the annual appropriation is not used exclusively for funding programmes. A proportion of the appropriation is used for the contracting of goods/services/advice, as well as alternative funding of primary care, such as incentive payments to GPs through Medicare.

Divisions of General Practice Programme

The Australian Government has committed $302.4 million over four years from 2004–05 to the Divisions of General Practice Network (the Divisions Network). This funding is used to assist general practices to provide services to the community and achieve improved health outcomes. The first divisions were established in 1992. The Divisions Network currently consists of 119 Divisions of General Practice, supported by seven State-Based Organisations (SBOs) at the State/Territory level and the Australian Divisions of General Practice (ADGP) at the national level. About 94 per cent of GPs are members of a Division of General Practice. Divisions vary in their geographic coverage, location, population and numbers of general practices. Divisions perform a range of activities to improve and address access, integration, chronic disease management, workforce issues and consumer needs. Divisions are also funded by the Australian Government for many different programmes, such as allied health services in rural areas, support for GPs, and immunisation.

Australian Primary Care Collaboratives Programme

The Australian Government is providing $17.2 million over four years under a funding agreement with Flinders University to implement an innovative 'collaboration' method to develop new service models for the prevention of chronic disease and illness. The aim of the Australian Primary Care Collaboratives Programme is to enhance and support general practices working collaboratively with other primary care providers—including nursing, pharmacy and allied health workers—to deliver prevention, early intervention and care services. New service models will be developed through a small number of pioneer general practices. These models include improvements to prevention and management practices and associated clinical and business systems relating to treatment of diabetes, cardiovascular disease, and patient waiting times. These practices then share the lessons learnt with other practices. The improvements at a practice level translate to improved clinical outcomes, and to reduced costs in prevention of chronic disease.

After Hours Primary Medical Care Programme

The After Hours Primary Medical Care Programme aimed to improve access to after hours primary medical care services and to develop and trial new and/or improved services. The Australian Government provided $43.4 million under funding agreements over four years for GP/nurse telephone triage; cooperatives or collaborative GP arrangements including with hospital emergency departments; deputising services; funded transport; payments for GPs and home visits. This initiative aimed to improve the quality of care to the community by reducing the pressures on GPs in rural and outer urban areas and the workforces of hospital emergency departments. It also aimed to improve communication between after hours doctors and a person's usual doctor, allowing better continuity of care.

Source: Health and the Australian Divisions of General Practice

1.12 A large number of these programmes involve developmental work, such as establishing after hours medical services, trialling of new approaches to treat chronic disease through general practice, and building primary care research capacity. These types of activities require agreements with sufficient flexibility while providing adequate levels of control to ensure that the Department 'gets what it pays for'.

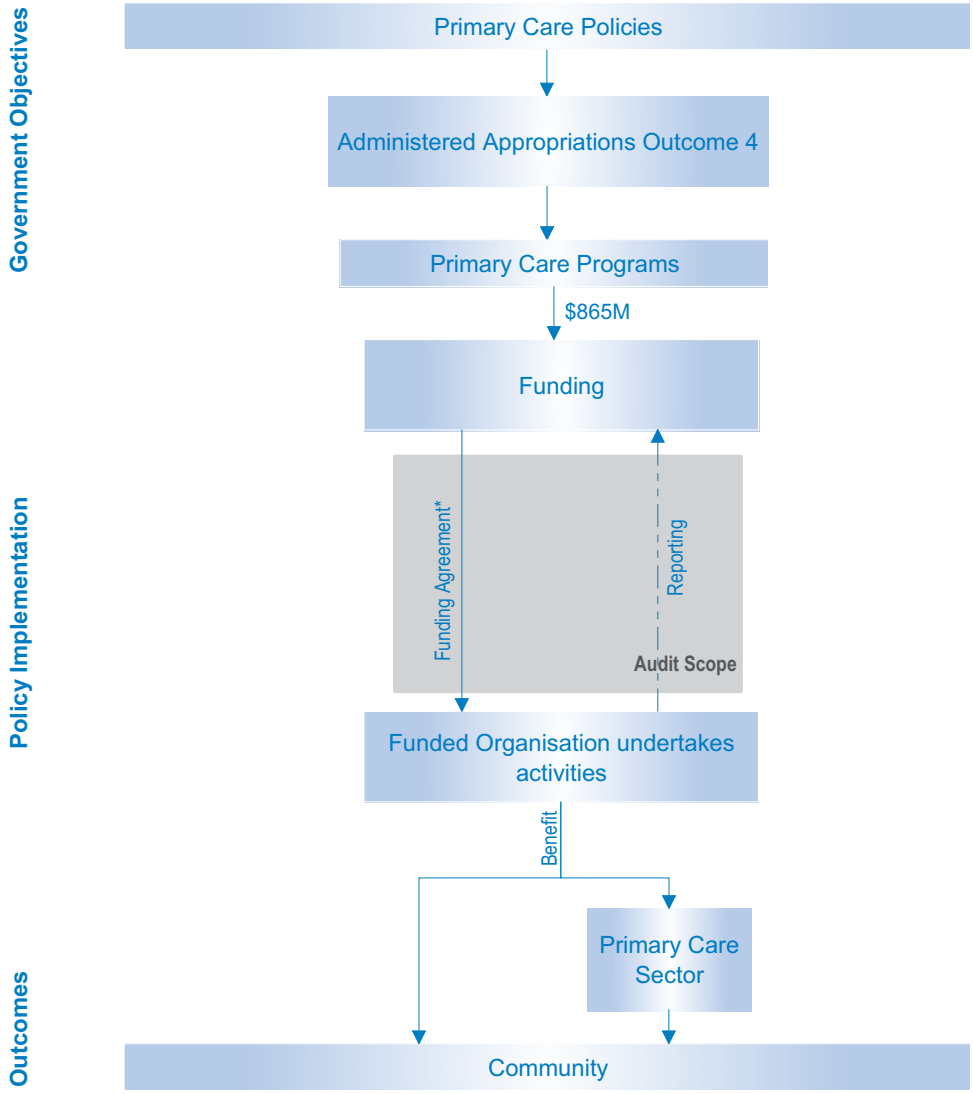
The audit

Audit scope

1.13 The focus of the audit was on administration of primary care funding agreements by the Primary Care Division and Health's State and Territory Offices. Sound administration of funding agreements is essential for achievement of the Government's primary care policy objectives (see Figure 1.1).

Figure 1.1

Audit Scope



* Health defines a 'funding agreement' as a legally enforceable agreement setting out the terms and conditions governing funding between the giving and receiving organisation. As the Department uses 'funding agreement' and 'contract' interchangeably, references to Health's materials in this report may include the terms 'funding agreement' or 'contract'. It should be noted that a funding agreement may not constitute a contract under law where one of the essential elements of a contract is not present.

Source: ANAO

1.14 The audit did not review expenditure relating to the procurement of goods, services and/or advice directly for the benefit of the Department.[12] Guidance on these arrangements is provided by the Commonwealth Procurement Guidelines. A number of the ANAO's previous performance audits[13] and other contract management reviews and guidance[14] concentrate on procurement.

1.15 Much of this previous work on contract management also focuses on the period and/or processes before the development of the agreement. This audit focused on the period after the selection of the organisation, which includes establishment of the funding agreement and ongoing management. These phases are critical for the agency to achieve policy objectives.

1.16 While programmes across a number of Health's divisions support primary care-related activities, primary care programmes are mostly delivered through one departmental division, PCD. This audit focused on funding agreements managed in this Division, including those PCD agreements administered by Health's STOs. This focus allowed an assessment of funding agreements managed in an area with relatively consistent business practices and policies. Where Health's corporate functions, for example, legal services, influenced agreement management practices, relevant aspects of these functions were reviewed.

Audit objective and criteria

1.17 The objective of the audit was to assess Health's administration of primary care funding. The ANAO's assessment was based on the following criteria:

> **1.** Are funding agreements sound? (containing appropriate terms and conditions and clear performance expectations);

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[12] Procurement encompasses the whole process of acquiring goods, property or services from identifying the agencies' needs, acquiring and ongoing management to contract end and, if required, disposal of assets.

[13] For example, Report No.1 2005–06 *Management of Detention Centre Contracts—Part B*; Report No.57 2004–05 *Purchasing Procedures and Practices,* Report No.59 2001–02 *AusAID Contract Management*, Report No.40 2000–01 *Management of the Adult Migrant English Programme Contracts*.

[14] For example, the Joint Committee of Public Accounts and Audit, *Report 379 Contract Management in the Australian Public Service;* Department of Finance and Administration, *Competitive Tendering and Contracting, Guidance for Managers;* MAB/MIAC, *Before You Sign On The Dotted Line: Ensuring Contracts Can Be Managed*.

2. Are administration processes sound? (including assessing compliance and monitoring the performance of funded organisations); and

3. Are programme officers adequately supported? (including guidance, training and access to expertise).

1.18 These criteria were supported by 15 sub-criteria.

Audit methodology

1.19 The ANAO tested a selection of primary care funding agreements in order to form an opinion on the audit criteria. The selection included agreements from PCD programmes with significant funding activity, with a number of agreements selected for review in some areas. In addition, selection criteria targeted those agreements that were:

- material in value;
- managed in Central Office and STOs; and
- varied in size and complexity.

1.20 Under criterion 1, the ANAO tested selected agreements to determine whether they were well constructed, clear and included appropriate terms and conditions.

1.21 Under criterion 2, the ANAO studied files to identify monitoring practices and to determine compliance with established procedures, including seeking evidence of payments being made in accordance with the funding agreement and reports being assessed and accepted. The ANAO placed strong reliance on sound documentation of decision-making. Where Health had retained insufficient information on agreement files, it was not possible for the ANAO to gain a positive assurance on administrative practices.

1.22 The ANAO reviewed files and information sources such as the Department's intranet and interviewed programme officers to establish if there was a comprehensive set of procedures and guidance. Health's business support systems were also reviewed to establish if there was a system to track and manage agreement administration.

1.23 The ANAO interviewed staff and reviewed documentation, including training materials, to establish if programme officers were adequately supported as established under criterion 3.

1.24 The audit team also reviewed other sources of information, including internal audit reports, ANAO financial statement audit work, and interviews with funded organisations and other key stakeholders.

Agreement selection

1.25 The ANAO tested 41 agreements for assessment. Of these:

- 23 were Central Office administered agreements with a value of around $197 million; and
- 18 were STO administered agreements with a value of around $55 million.

1.26 Each agreement was tested with the resulting data analysed to identify trends and themes. The ANAO developed tests using the ANAO's better practice guides and applicable Australian standards. The ANAO also made extensive use of Health's policies, procedures and guidance material to supplement the standards against which administrative practices were assessed.

1.27 The audit was conducted in accordance with ANAO Auditing Standards at a cost of $375 000.

Report structure

1.28 The report is organised into the following five chapters:

- Chapter 1: Introduction;
- Chapter 2: Funding Agreements;
- Chapter 3: Monitoring;
- Chapter 4: Payments; and
- Chapter 5: Support for Administrators.

1.29 The ANAO has displayed the findings of its assessment of selected agreements and related files in a series of graphs throughout Chapters 2, 3 and 4. Subsequent explanatory information is also provided, such as when a particular test was not applicable (N/A).

1.30 Examples have been included throughout Chapters 2, 3 and 4 to support audit findings. These are shown in boxes immediately following relevant graphs.

2. Funding Agreements

This Chapter examines the suitability, clarity and timeliness of Health's funding agreement document to determine its usefulness as a tool for managing primary care activities and achieving objectives.

2.1 The ANAO's *Administration of Grants Better Practice Guide*[15] notes that agreements should protect the Commonwealth's interest in ensuring that public money is used for the intended purpose, define project activities, schedule payments according to progress, and specify progress reporting requirements and acquittal procedures. A well drafted funding agreement is one that provides for:

- agreed terms and conditions of the funding assistance, including performance information [specifications], access requirements and clearly defined roles and responsibilities of all parties;
- a clear understanding between the parties on required outcomes prior to commencement of funding;
- accountability for, and protection of, Commonwealth funds; and
- legal protection of the recipient and the grant-giving organisation.[16]

Suitability of funding agreements

2.2 In determining the suitability of funding agreements, the ANAO considered whether Health has standard funding agreements that contain appropriate terms and conditions, which were based on legal advice.

Standard funding agreements

2.3 The Joint Committee of Public Accounts and Audit's (JCPAA's) *Report 379 Contract Management in the Australian Public Service*[17] (Report 379) supports the use of standard clauses in contracts. The JCPAA emphasised how standard clauses can assist managers to achieve consistency and predictability in terms and conditions as well as efficiency in contract administration.

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15 ANAO Better Practice Guide *Administration of Grants,* May 2002.

16 ibid, p. 51.

17 Joint Committee of Public Accounts and Audit, *Report 379 Contract Management in the Australian Public Service*, Parliament of Australia, Canberra, 2000, viewed 9 June 2005, <http://www.aph.gov.au>.

2.4 The general terms and conditions for primary care funding agreements are established in standard templates.[18] The ANAO found that Health's Legal Services Branch provides standard funding agreements, with instructions for their use, on the intranet. Health's instructions to officers require use of standard agreements stating:

> Officials responsible for establishing and/or administering a funding agreement should ensure the terms and conditions of the standard funding agreements are used and the use of alternative terms and conditions are cleared through the Legal Services Branch.

2.5 Health provides advice to programme officers on the selection and use of an appropriate agreement template through a variety of sources. These include guidance manuals (both paper documents and via the intranet), training courses and direct advice from the Health's Legal Services Branch and its Primary Care Division's (PCD) Contract Management Advisory Unit (CMAU).[19]

2.6 The ANAO found that, in over 70 per cent of agreements assessed, programme officers used a standard funding agreement. In the remaining agreements, the template was varied under guidance provided by the Legal Services Branch.

Appropriate terms and conditions

2.7 The ANAO compared the general terms and conditions in the standard funding agreement with those recommended in the ANAO's *Administration of Grants Better Practice Guide* and JCPAA Report 379. The standard agreement contains most of the recommended terms and conditions, including provisions for reporting, payments on performance, financial acquittal, indemnity and insurance, confidentiality, access to premises, and ownership of intellectual property.

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[18] The general terms and conditions are those clauses developed by Health's Legal Services Branch that constitute the head of the agreement. These are different from the terms and conditions developed by the programme officers in the schedule(s) to the agreement. The terms and conditions of the schedules describe provisions that are specific to the performance of a particular activity and, for the purposes of this report, are referred to as performance specifications.

[19] See Chapter 5 for more information on CMAU.

2.8 Notwithstanding, there is an issue with the linkage of payments to performance. The general terms and conditions contain the following clause:

> Without limiting its rights, the department may at its discretion defer, reduce or not make a payment of Funds until the Participant has performed all of its obligations that are required to be performed up to the date of that payment under this Agreement.

2.9 In the schedule to the agreement, however, standard wording is not used to link payments to reports or to other evidence of performance. The wording in the schedule developed by programme officers varied between agreements. In a number of the agreements, the wording was unclear and in some cases appeared to contradict the intent to link payments to an assessment of performance. For example, the payment item of the schedule stated that 'Payments will be made within seven business days subject to receipt of deliverables and a properly rendered invoice'. This does not require an assessment or acceptance of progress for the payment to be made.

2.10 The ANAO acknowledges that the head of the agreement prevails over the schedule, however, such inconsistencies have the potential to create misunderstandings.

2.11 The ANAO suggests that Health consider providing standard wording for the agreement schedules, where appropriate, for example, wording that links payments to assessment and acceptance of reports.

Performance specifications

2.12 To make payments based on performance, both programme officers and funded organisations must be able to determine what constitutes satisfactory performance.

2.13 Determining satisfactory performance depends on clear and comprehensive performance specifications. A programme officer assessing a report, and a funded organisation undertaking the activity, must be able to identify the agreed activities, budget, timelines and performance targets. That is, they must be able to determine the extent to which the activities should be undertaken and/or targets for performance indicators, as well as what level of expenditure is expected, for a particular period.

2.14 According to JCPAA Report 379, drafting appropriate and effective contract specifications is the key element to which all other contracting responsibilities are tied. The JCPAA reported that the adequacy of specifications governs the success or otherwise of the contract's objectives.

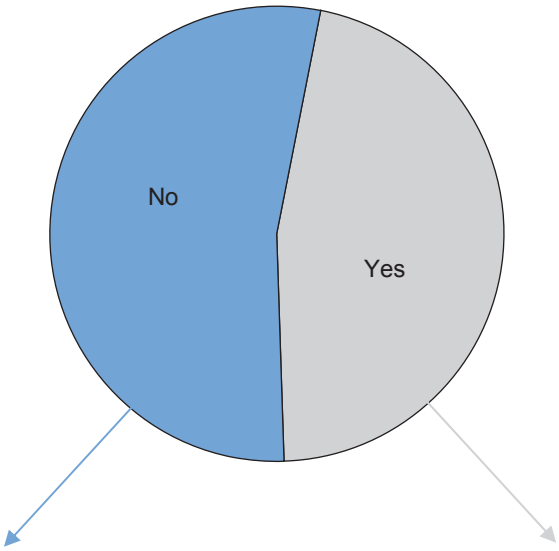
2.15 Departmental and divisional guidance requires programme officers to define clearly all aspects of the activity in an agreement. This ensures that the funded organisation understands Health's expectations, and supports an assessment of whether requirements have been met.

Specification of activities

2.16 The ANAO reviewed the description of the activities in the funding agreements (see Figure 2.1).

Figure 2.1

Are the activities clearly stated in the agreement?



Examples

The general terms and conditions in the head of the agreement refer to outcomes and objectives of the project. However, many agreement schedules developed by programme officers did not specify the activities using these terms. This made it unclear how the general terms and conditions applied to the performance specifications.

In several agreements, the terms Program Strategies and Key Activities were used. However, the terms were defined in the agreement as Strategies and Program Activities.

Example

A number of agreements to improve access of rural and remote communities to primary care services set out higher-level outcomes and objectives, and required the organisation to determine the activities necessary to achieve these. The agreement also set out guiding principles for the development of the activities. The organisation described the activities in a plan, which formed part of the agreement once approved.

Source: ANAO analysis

2.17 The ANAO considered that, in 54 per cent of agreements reviewed, the description of the activities was not clearly stated. A number of clauses in the head of the agreement, items in the schedule, and attachments influence the specification of what the funded organisation must do. The separation of important information across different areas in agreements, and circular references between these areas, often make it difficult to gain a coherent picture of what the funded organisation must do.

2.18 Repeating requirements unnecessarily through the agreement also creates a lack of clarity where the same requirement, in various places throughout the agreement, is worded slightly differently or is contradictory. Inconsistent wording was common and detracted from the clarity of specifications, as did inconsistent use of terms defined in the agreement.

2.19 Programme officers and funded organisations generally considered that the agreements were clear, but said there was room for improvement, and areas that could be clarified.

2.20 Programme officers also mentioned that they used guidelines and reporting templates to improve clarity and provide more detail. As one officer stated, 'Understanding has evolved over time. We got better at articulating it and they got better at understanding what we mean when we say certain things.'

Specification of budget

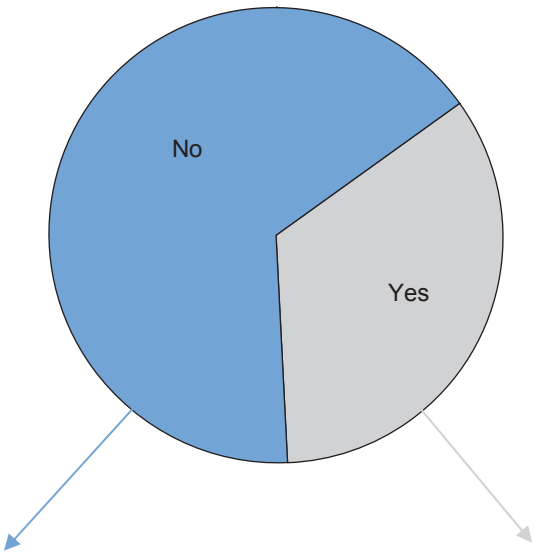
2.21 An important consideration in drafting performance specifications is clearly stating how much funding can be spent, and what it can be spent on. Departmental and divisional guidance advise that budget information specified in an agreement is used to monitor expenditure and the need for progress payments. Therefore, programme officers need to specify the appropriate level of detail.

2.22 The requirement that there be enough detail and clarity in the budget to manage the agreement is reinforced in the instructions provided by the Legal Services Branch, which state that the budget is about how the funds are to be used throughout the project. It suggests avoiding generic descriptions such as 'expenses', 'administrative costs' and 'salaries.'

2.23 The ANAO reviewed the budget information in the funding agreements to determine whether it was sufficiently detailed (see Figure 2.2).

Figure 2.2

Is the agreement budget clear and easily understood?



Example

In an agreement to develop an online course for health professionals to improve management of chronic disease, the budget specified a total amount for the two-year life of the project, but did not itemise the funding. It was, therefore, unclear what the funds were allowed to be spent on.

In a number of agreements, the budget consisted of expenditure items such as 'management/admin',' training and development' or 'salaries' without any further detail to define the item.

Example

In an agreement to trial an after hours clinic, the budget was separated into expenditure items with descriptions providing further detail on each item.

For example, the item 'Pharmacy' was described as 'annual costs for pharmaceuticals for patients' and the item 'Funded Transport' was described as 'Cost of taxis for patients attending clinics'. Expenditure items were also categorised into Start Up Costs, Operating Costs and Infrastructure Costs, so the item 'Medical Equipment' under Start Up Costs was for costs of the clinic's initial furnishings. Whereas the same item under Operating Costs was for 'Additional purchases, repair and replacement of existing equipment.'

Source: ANAO analysis

2.24 The ANAO considered that, in 66 per cent of agreements reviewed, the budget did not provide the detail necessary to effectively monitor expenditure. Agreements that contained insufficient detail on how funding was to be spent often contained a total budget amount without identifying expenditure items. When budgets were itemised, programme officers generally used generic terms to describe expenditure items.

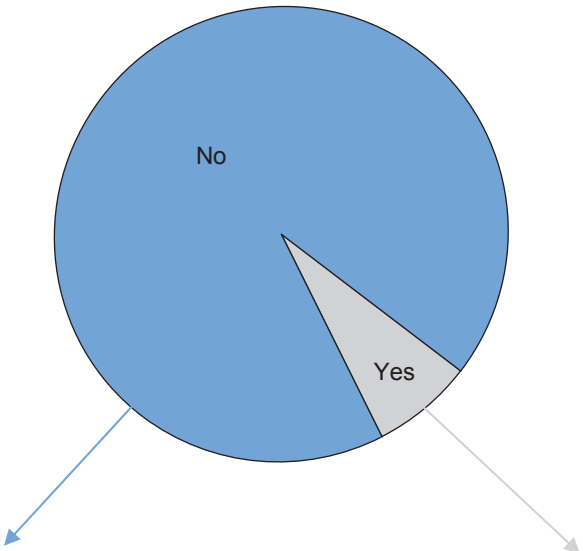
2.25 Programme officers generally considered the budgets in agreements to be clear, although noted in some cases they needed to specify more detail in reporting templates. Some programme officers considered that familiarity with the agreement helped them better understand the budget.

Specification of timelines

2.26 Programme officers drafting agreements should establish appropriate timelines for the activity and budget specifications to enable monitoring of progress and expenditure over time. The ANAO reviewed the specifications of activities and budgets in agreements to determine if they aligned timelines to reporting periods. The ANAO also considered detailed activity plans and budgets that, once approved, formed part of the funding agreements (see Figure 2.3 and Figure 2.4).

Figure 2.3

Are appropriate timelines set for the activities?



Examples

In several agreements with the objective of increasing the number of general practitioners in rural and remote locations, the third quarterly payment was due upon acceptance of all deliverables in that quarter. The annual plan did not have a timeline, thus did not show what activities were due in the third quarter. Furthermore, according to the agreement, there were no reports due in the third quarter. Therefore, it was unclear what the organisation had to do to get this payment and what level of performance Health would consider satisfactory.

In many agreements, activity plans were only given annual timelines, yet progress reporting was required quarterly or six monthly.

Example

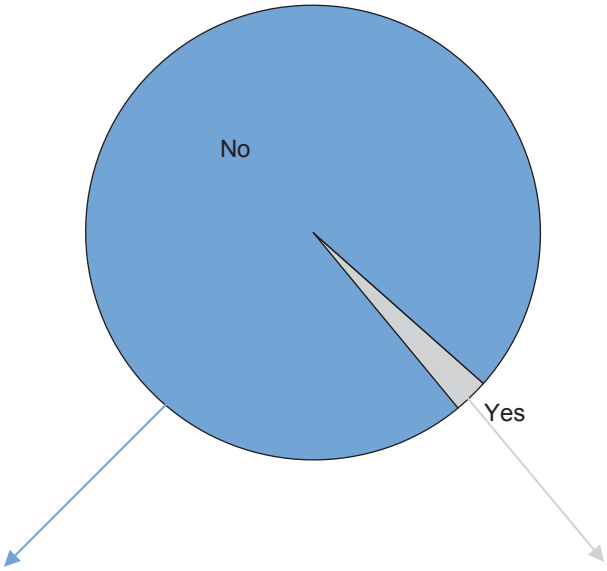
In one agreement with the objective to support GPs working in indigenous health, completion dates were provided for each output. The agreement required quarterly reports that included information on progress against those outputs due in the period covered by the report.

For example, the project description required a workshop by 1 October 2004; a list of invitees and a budget for the workshop on 31 May 2004; and a report on the workshop on 3 January 2005. The programme officer could assess the quarterly reports due 31 July 2004, 31 October 2004 and 31 January 2005 and determine whether progress was satisfactory by ascertaining if these outputs were provided in the reporting period.

Source: ANAO analysis

Figure 2.4

Are agreement budget specifications set against an appropriate timeline?



Examples

In a number of agreements to establish after hours clinics, the first item in the budget was: 'Performance of the Project as described in Item A for the period from 15 May 2005 to 30 June 2005'. However, no timeline was given for the activities in Item A, so a programme officer could not readily determine from the agreement what items the organisation should have spent funds on in this six-week period.

In a number of agreements to strengthen general practice, budgets were totals for the life of the project or by financial year, but financial reporting was required quarterly or six monthly.

Example

One agreement funded an administrative officer to provide secretariat support to a committee, which was developing a network of female rural GPs. The budget consisted of items such as interview panel costs and recruitment costs. Funding for each of these was shown by month.

For example, recruitment costs were allocated $5000 in December 2003 and interview panel costs were allocated $5000 in January 2004. The programme officer could assess the progress report due 31 March 2004 and determine whether expenditure was satisfactory by ascertaining if these funds were spent as agreed.

Source: ANAO analysis

2.27 The ANAO found that, in 93 per cent of agreements reviewed, activities were not presented against an appropriate timeline that assisted programme officers to determine satisfactory progress. Further, the ANAO found that, in 98 per cent of agreements reviewed, the budget was not presented against an appropriate timeline that assisted programme officers to determine satisfactory expenditure against scheduled performance.

2.28 This was supported by programme officers, who noted that activity specifications and budgets were generally not against a timeline, or the timeline did not match the reporting periods. For example, some agreements specified progress expected for a twelve month period, whereas progress reporting was six monthly. Therefore when assessing these reports, it was unclear to programme officers what progress was expected in each six month period.

Targets for performance indicators

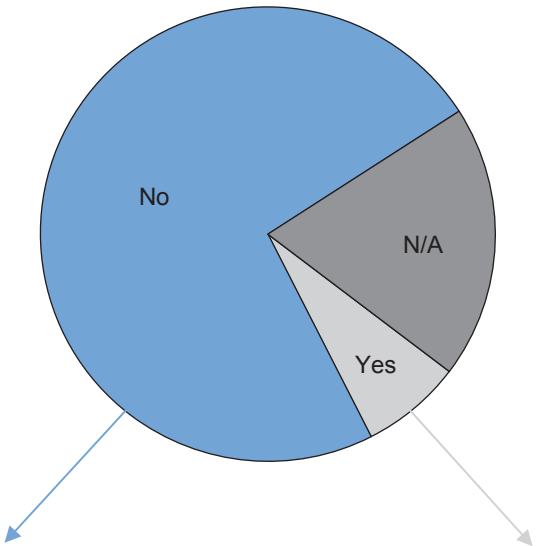
2.29 Information on progress and expenditure is easily captured and traditionally the focus of monitoring arrangements. Recently the use of performance indicators, which complement activity and budget specifications, is becoming more common.

2.30 When an indicator is used in an agreement to monitor performance, a target or standard for that measure is required to specify what level of achievement is required. Without a target, the performance expectations are undefined, making it difficult for the agreement parties to determine a satisfactory level of performance.

2.31 In reviewing performance indicators in agreements, the ANAO considered if targets or standards were specified for the funded organisation to achieve (see Figure 2.5).

Figure 2.5

Are targets and/or standards provided for performance indicators?



Example

The majority of agreements that contained performance indicators did not specify targets or standards.

Example

One agreement to provide an after hours clinic, specified the number of staff and opening hours. This provided a target for service delivery. Another agreement specified that a website was to be compliant with specified design standards.

Source: ANAO analysis

2.32 The ANAO found that 73 per cent of the assessed agreements that contained performance measures did not specify targets and/or standards. In 20 per cent of agreements, the question was not applicable as those agreements did not contain performance measures. Where targets were used, some were ambiguous such as, 'a positive trend in each of the measures.'

2.33 The ANAO acknowledges that targets and standards may be difficult to determine for developmental work or projects trialling new methods and techniques. In these cases, the funding body and organisation would not have previous experience or precedents to guide their performance expectations and determine what would be reasonable. A large number of PCD activities are

developmental, such as trialling methods for providing after hours care, which range from telephone triage services to clinics providing services near emergency departments in hospitals.

2.34 While more difficult in this environment, setting targets provides guidance to funded organisations on the appropriate level of performance, and avoids disputes between the parties over what constitutes satisfactory performance. This can be achieved by using the initial period of data collection and analysis to guide expectations and set evidence-based targets. For example, a number of agreements with the objective of strengthening general practice, contained indicators that were part of a reporting and performance framework. Targets for these indicators were not set at the time of review, as it was PCD's intention, after collecting data in the first year, to develop evidence-based targets and apply these in future years of funding.

Recommendation No.1

2.35 The ANAO recommends that, in order to define performance expectations and inform monitoring, Health clarify specifications and use appropriate timelines and targets in its primary care funding agreements.

Health's response:

2.36 The Department has guidance supporting this recommendation, including the Legal Services Branch Commentary on Standard Funding Agreements, and the Program Manager's Toolkit and Program Management Manual. This guidance is in the form of standard documents, templates, checklists and guidelines. It covers defining performance expectations, budgets, payment schedules, milestones, reports and timeframes. These issues are to be considered during various stages of the funding process, including in the development of selection criteria, assessment of applications, preparation of schedules to funding agreements, and monitoring of agreements.

ANAO's comment :

2.37 The ANAO has concluded that Health is well advanced in establishing guidance and training to equip its officers with the skills and knowledge needed to effectively administer funding agreements. The existence of materials, such as the Legal Services Branch Commentary and Program Management Manual, informed this conclusion. Notwithstanding, the ANAO considers that Health's administrative practices would be strengthened by the establishment of clear performance expectations in primary care funding

agreements, including the adoption of appropriate timelines and targets. This is warranted since, as reported above, the majority of agreements that contained performance indicators did not specify targets or standards.

Reporting obligations

2.38 Setting out reporting requirements in agreements ensures the funding body can assess performance of funded organisations periodically against the purposes for which the funding is given.

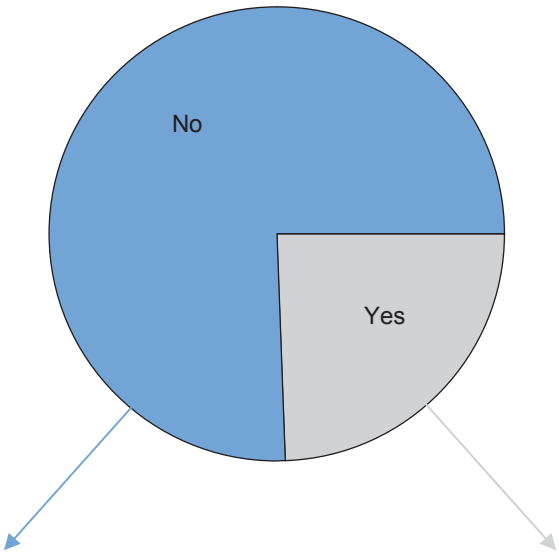
2.39 Before payment to the funded organisation can be approved, programme officers need to be satisfied that the activities have been completed in accordance with the agreement. Reports and other evidence of performance play an important part in providing an assurance to a funding body.

2.40 Health's guidance to programme officers states they must clearly specify the frequency, timing and content of the reports. It also states that programme officers should clearly define the type and level of financial information required from funded organisations to account for expenditure.

2.41 The ANAO reviewed the frequency, timing and description of the reports required under the funding agreements (see Figure 2.6).

Figure 2.6

Is the information required in reports clearly described in the agreement?



Examples

An agreement to increase the number of GPs in rural and remote locations requested a detailed budget that, once accepted, would form part of the agreement. Health left this requirement out of the reporting item of the agreement. Consequently, the budget was neither sought by, nor provided to, Health.

The reporting guidelines attached to several agreements were inconsistent with the head of the agreement and used different terminology. Subsequently, Health had to clarify the requirements through letters to funded organisations.

Example

For some agreements, Health prepared reporting templates that provided guidance and formats to the funded organisation.

Source: ANAO analysis

2.42 The ANAO considered that reporting requirements were unclear in 76 per cent of agreements assessed. There are a number of factors that contributed to a lack of clarity, including:

- separation of reporting requirements across a number of areas. This resulted in omissions and contradictions;
- repetition of due dates in the reporting and payment item of a schedule, which increased the risk of errors in the frequency or timing of reports; and
- inconsistent wording of the same requirement or inconsistent use of terms defined in the agreement.

Recommendation No.2

2.43 The ANAO recommends that Health clarify reporting obligations to ensure it receives the necessary information to assess performance and acquit funding under primary care agreements.

Health's response:

2.44 The Department has had guidance supporting this recommendation for several years, including in the now superseded Grant Administration Guidelines, and in the current Legal Services Branch Commentary on Standard Funding Agreements, and the Program Manager's Toolkit and Program Management Manual. This guidance covers preparing funding agreements, signing funding agreements, recording funding agreements, assessing progress and financial reports, making payments, managing underperformance, managing variations, and acquittance.

ANAO's comment:

2.45 The ANAO has acknowledged that Health is establishing guidance and training to equip its officers with the skills and knowledge needed to effectively administer funding agreements. Notwithstanding, the ANAO considers that improving the clarity of reporting obligations in primary care funding agreements, to address the problems described in paragraph 2.42, will assist the Department to better assess performance and more accurately monitor the use of funds.

Tailoring requirements for risk

2.46 The extent and timing of monitoring can be a challenge, particularly for programmes with limited resources. Effective risk analysis can help to define the extent, timing and frequency of monitoring in these circumstances. By considering these matters, programme officers can reduce both the Department's and the funded organisations' administrative costs.

2.47 Departmental guidance states that the frequency of reporting depends upon the complexity of the project and the level of risk involved. Under divisional guidance, it is mandatory for programme officers to complete a risk management plan when seeking approval for a funding proposal. This plan must be reviewed when preparing a funding agreement, and it forms part of the minute to the delegate to approve the agreement. The requirement for programme officers to consider risk when developing agreements represents sound administrative practice.

2.48 The ANAO reviewed the records and funding agreement approval minutes to determine whether risk assessments informed the timing, frequency or content of reports. The ANAO found that, with the exception of one agreement there was no evidence to suggest that reporting requirements were tailored to the level of risk.

2.49 In interviews, most programme officers indicated that they determined reporting frequency and timing according to significant stages in activities and the workload created for the funded organisation. Only a few officers said they considered the capacity of the organisation or the complexity of the activity.

2.50 The ANAO suggests that, as part of the risk assessment that accompanies the funding agreement approval minute, programme officers consider the risks to successful completion of the activity and implications for reporting arrangements.

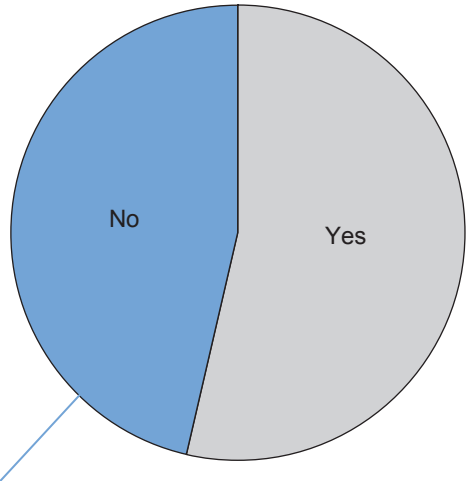
Timeliness of agreement

2.51 In order to provide legal protection for both parties, a funding agreement must be signed prior to the commencement of activities to be covered by the agreement. Divisional guidance states that programme officers should not agree to work commencing until the funding agreement has been signed.

2.52 The ANAO reviewed agreements to determine whether they were executed before the funded organisation was required to commence the activities, and/or before the start of the project period as defined in the agreement (see Figure 2.7).

Figure 2.7

Was the agreement signed before the actual or proposed commencement of funded activities?



Example

One programme to build primary care research capacity requested funded organisations to recruit researchers prior to execution of funding agreements. Health advised that this approach was taken to avoid the need to vary the agreement should the recruitment differ from what was originally planned. However, evidence on file shows that one agreement was entered into before all research placements were filled and there were variations to include later recruits. It was, therefore, unclear why Health required another organisation to undertake recruitment without the legal protection of an agreement for 13 months.

Source: ANAO analysis

2.53 The ANAO found that 46 per cent of agreements reviewed were not executed before the start of the project period and/or before the organisation was required to commence work.

2.54 Where an organisation begins work before execution, due to a PCD or Health's State and Territory Office (STO) request, or to avoid reducing the time available to complete activities, neither party has the financial and legal protection of an executed agreement. There is also a risk that the initial work would not conform to the specifications in the executed agreement.

2.55 Where the organisation does not begin work at the start of the project period due to a delay in the execution of the agreement, the time available to complete the activities is reduced. This increases the risk of activities extending beyond the project period and/or a reduction in the quality of the activities. The issue of timeliness of agreement execution also applies to the execution of variations to existing agreements. This is discussed further in Chapter 3.

2.56 The ANAO strongly suggests that PCD improve agreement/variation development and approval practices to ensure that all primary care agreements/variations executed before commencement of the period in which the funded activities are to be completed.

Conclusion

2.57 Programme officers use standard funding agreements developed by Health's Legal Services Branch. The standard agreements include appropriate general terms and conditions, such as clauses linking payments to performance. Where programme officers make changes to the general terms and conditions, these are based on legal advice.

2.58 While the general terms and conditions in standard funding agreements are appropriate, the performance specifications in schedules developed by programme areas are not always clear. This is partly explained by the difficulty in establishing specifications for developmental work and the need for agreements with sufficient flexibility. Notwithstanding, clear standards/targets provide guidance to programme officers and funded organisations and reduce the risk of disputes.

2.59 Agreements commonly contain ambiguous activity descriptions, insufficient budget detail, and unclear reporting obligations. Furthermore, timelines for funded primary care activities are not aligned to reporting periods and the use of targets to define performance expectations is limited.

These issues lessen the usefulness of funding agreements to programme officers and funded organisations when determining satisfactory performance.

2.60 Health does not ensure that all primary care funding agreements are signed before the project period and/or the activity has begun. Delays in the signing of agreements increase the risk of disputes as the terms, conditions and performance expectations may not be agreed before work begins.

3. Monitoring

This Chapter examines monitoring arrangements for funding agreements, including performance, financial and compliance monitoring.

3.1 To ensure that a programme meets its objectives, funding agreements need to be supported by sound monitoring informed by an analysis of the risks to completion of the activities. Performance, financial and compliance monitoring determine whether funded organisations achieve results, while applying resources consistently with the terms and conditions of funding agreements.

3.2 Guidance material highlights the importance of monitoring once an agreement has been executed, with the Primary Care Division's (PCD) *Guide to Tendering, Funding and Contract Management* (PCD Guide)[20] stating that:

> The effective management of the contract/funding agreement post execution—through to completion and evaluation—is key to the successful implementation of the policy initiative under which the contract or agreement is funded.

3.3 The ANAO reviewed PCD's approaches to monitoring the performance of funded organisations, including financial and compliance monitoring. PCD's devolution of responsibility for monitoring for some programmes to State and Territory Offices (STOs) was also examined.

Monitoring progress

3.4 In assessing the progress of funded organisations, the actual completion of activities can be measured against:

- timelines established in activity plans; and/or
- data collected on the organisation's achievements against agreed performance standards and targets.

3.5 The ANAO reviewed the extent to which programme officers utilised activity plans and/or standards/targets, where included in funding agreements, to assess the performance of funded organisations.

[20] Further information on the PCD Guide is included in Chapter 5.

Assessing progress

3.6 As noted in Chapter 2, very few agreements contained activity plans and/or standards/targets. Of the agreements that did, the ANAO found little documentation on agreement files to indicate that programme officers used these tools to assess the performance of funded organisations.

3.7 While acknowledging the absence of appropriate plans, standards and targets, programme officers advised the ANAO that they used a variety of methods to assess the progress/performance of funded organisations. These methods included:

- comparing performance data across participants or to previous periods;
- comparing reports to the funding agreement or to previous reports;
- workshops to review the reported information;
- assessing the reported information against expectations based on the experience of the programme officer or making 'a judgement call'; and
- attending meetings and/or project events or participating in forums or committees.

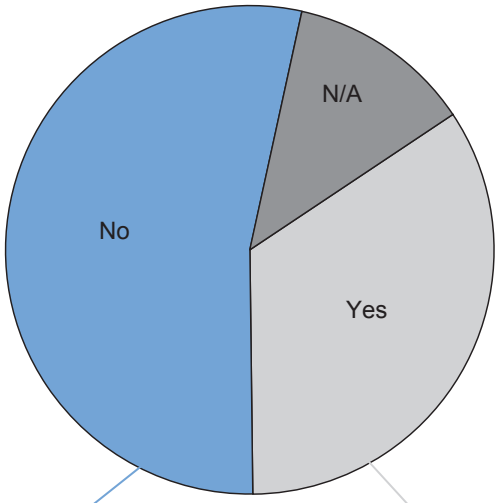
Monitoring expenditure

3.8 Regular monitoring of budget targets ensures that management is alerted to potential problems with projects (including issues of ongoing viability). The Department supports this view, with guidance materials stating that 'Examination of periodic financial statements and/or budget reports helps the Department assess whether money is being spent in accordance with the objectives.' Further, these materials also state that 'File records should include evidence that financial statements and other reports have been reviewed.'

3.9 The ANAO reviewed agreement files to determine whether programme officers documented their assessment of financial statements and recorded the results of their examination (see Figure 3.1).

Figure 3.1

Do programme officers record their assessment of financial statements/reports?



Examples

In an agreement with an objective to strengthen general practice, two budget items were significantly underspent. Only one item was followed-up by the programme officer. There was no evidence on file to explain why the programme officer sought further information on only one of the items.

In an agreement with an objective to trial after hours primary care, the programme officer indicated that a detailed assessment of financial statements was completed using a spreadsheet to aid comparison of expenditure against budget. However, there was no evidence on file to support this assertion.

Example

One STO established a Business Management Unit with financial expertise. This unit analysed all financial reports and statements and provided a written report to programme officers, which included those items that required further clarification.

Source: ANAO analysis