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

ISSN 1036–7632

ISBN 0 642 80903 8

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.

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

Telephone: **(02) 6203 7505**
Fax: **(02) 6203 7519**
Email: **webmaster@anao.gov.au**

ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Audit Team

Mark Simpson
Kate Hunt
Paul Nicoll

Contents

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.

---

[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

---

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'.

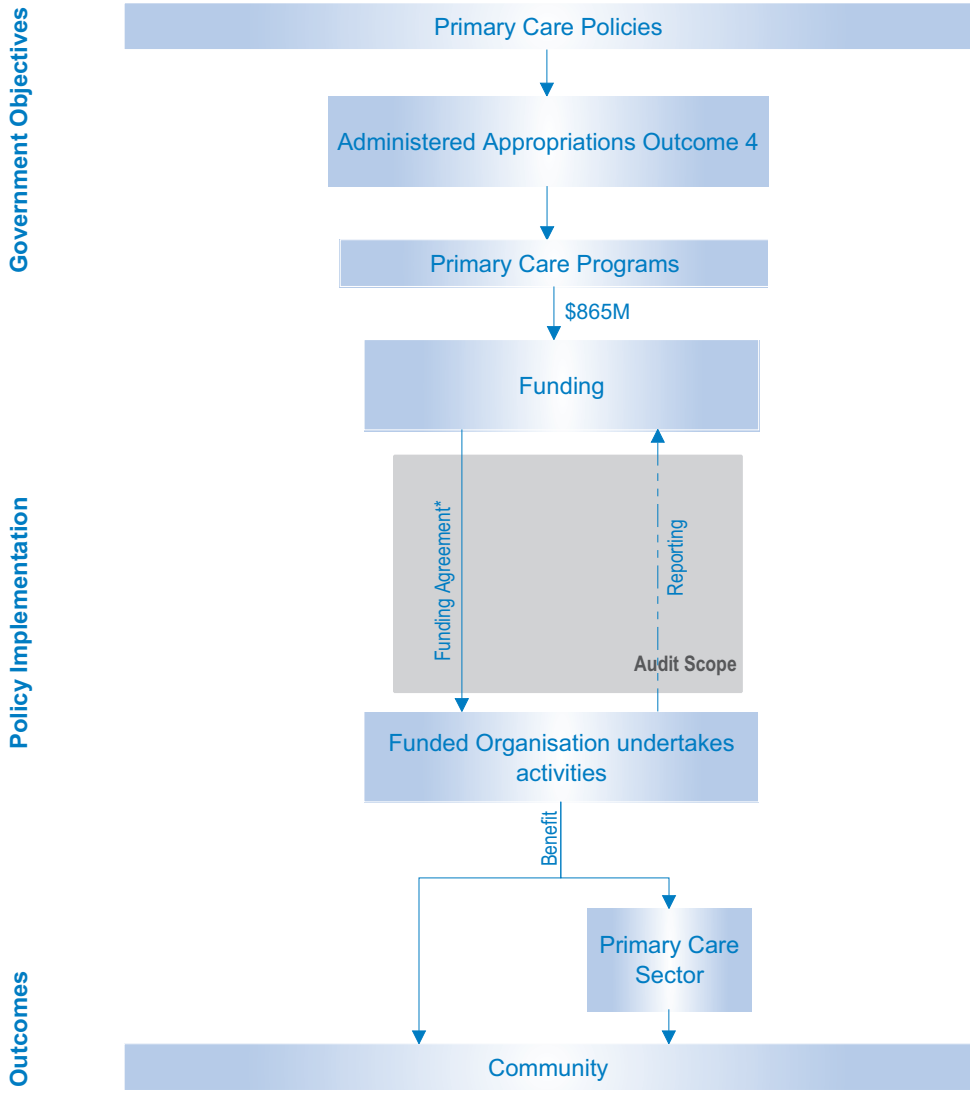
The audit

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);

---

[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.

---

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.

---

[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.

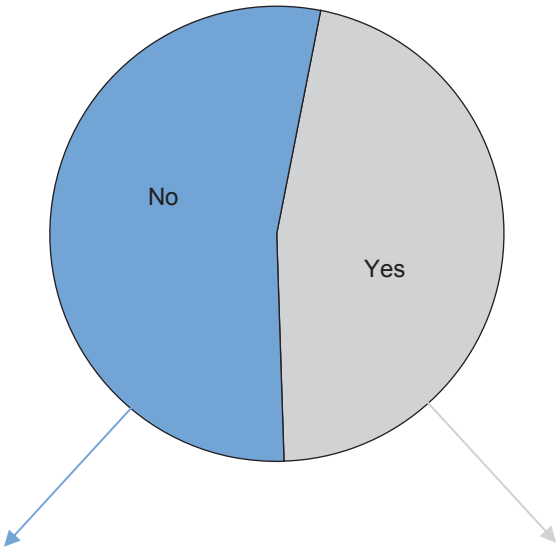
2.15 Departmental and divisional guidance requires programme officers to define clearly all aspects of the activity in an agreement. This ensures that the funded organisation understands Health's expectations, and supports an assessment of whether requirements have been met.

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

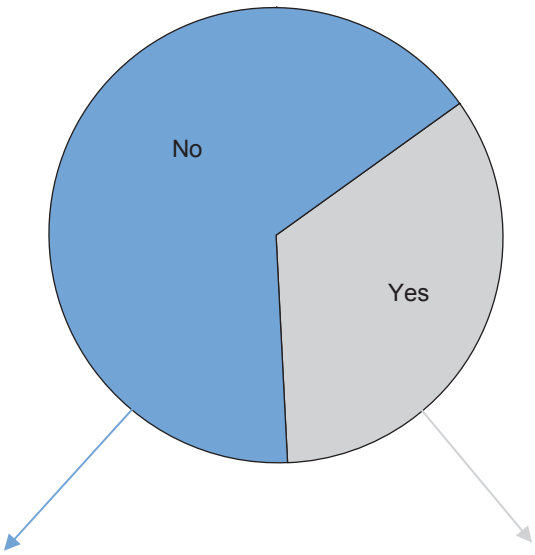
2.21 An important consideration in drafting performance specifications is clearly stating how much funding can be spent, and what it can be spent on. Departmental and divisional guidance advise that budget information specified in an agreement is used to monitor expenditure and the need for progress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

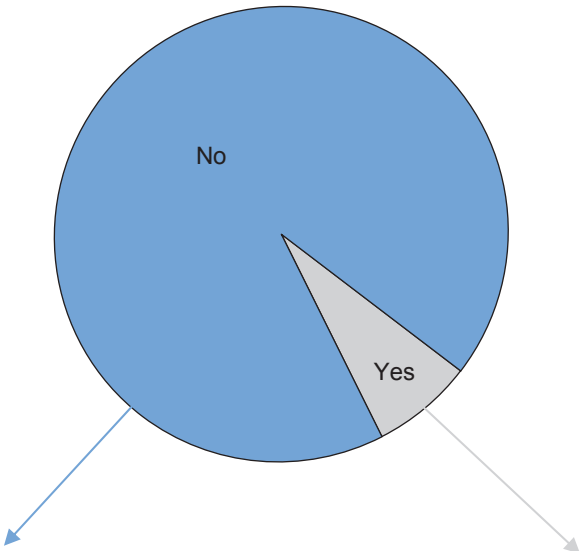
2.25 Programme officers generally considered the budgets in agreements to be clear, although noted in some cases they needed to specify more detail in reporting templates. Some programme officers considered that familiarity with the agreement helped them better understand the budget.

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

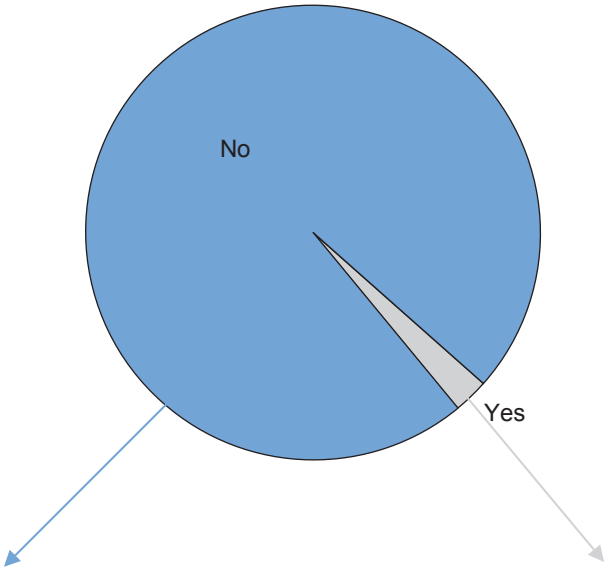
In one agreement with the objective to support GPs working in indigenous health, completion dates were provided for each output. The agreement required quarterly reports that included information on progress against those outputs due in the period covered by the report.

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

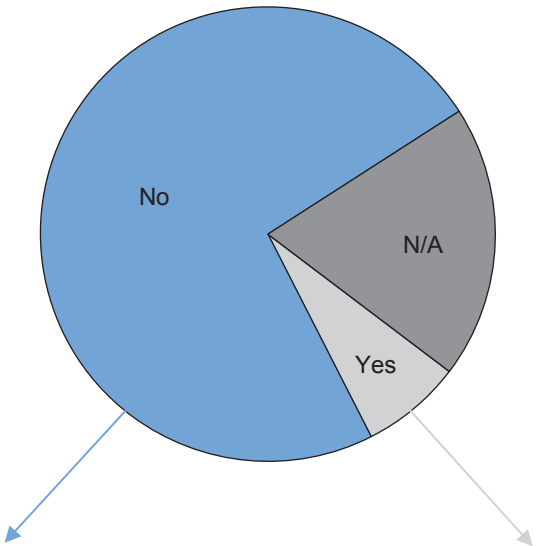
2.29 Information on progress and expenditure is easily captured and traditionally the focus of monitoring arrangements. Recently the use of performance indicators, which complement activity and budget specifications, is becoming more common.

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.

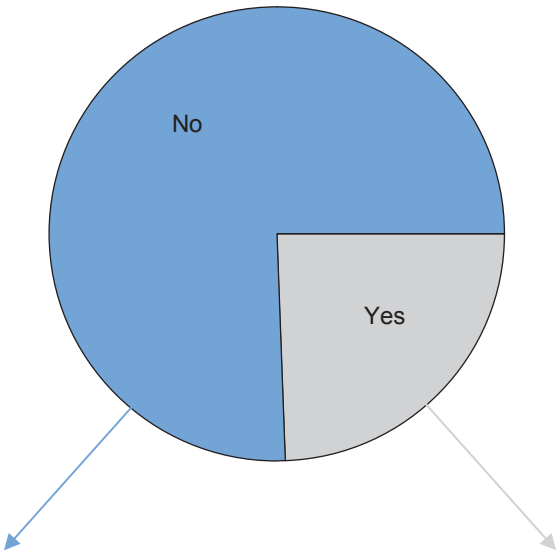
2.39 Before payment to the funded organisation can be approved, programme officers need to be satisfied that the activities have been completed in accordance with the agreement. Reports and other evidence of performance play an important part in providing an assurance to a funding body.

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.

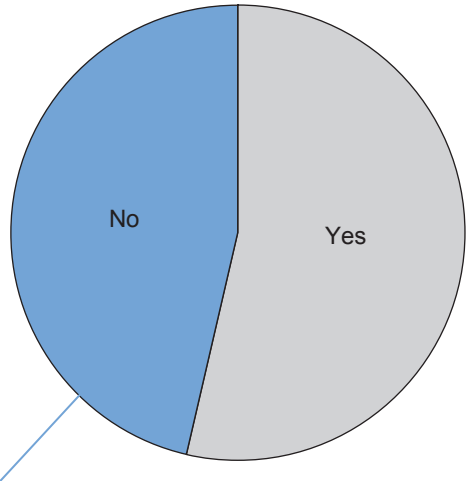
Timeliness of agreement

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.

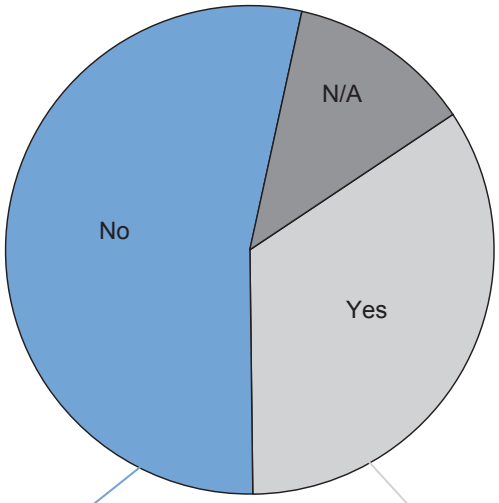
Monitoring expenditure

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

3.10 The ANAO found that, for 54 per cent of agreements reviewed, evidence on agreement files supported an opinion that programme officers had not analysed financial reports. In 12 per cent of agreements, the question was not applicable as the funded organisation was yet to submit a financial statement.

3.11 In the absence of recorded assessments, the ANAO interviewed programme officers to determine the methods used to assess the financial progress of funded organisations. The methods used include:

- comparing the financial report to the funding agreement budget to assess for under or overspends;
- assessing variances between line items and the ineligibility of line items; and
- comparing the financial report to previous periods.

3.12 Programme officers also advised the ANAO that they experienced difficulty in assessing the appropriateness of expenditure where planning and reporting periods were not aligned, such as when comparing a six month financial report to a twelve month budget in the absence of a timeline.

Assessment documentation

3.13 Documenting key decisions is a fundamental principle of public administration as it encourages sound administrative practices and contributes to a culture of transparency, and accountability for decisions.

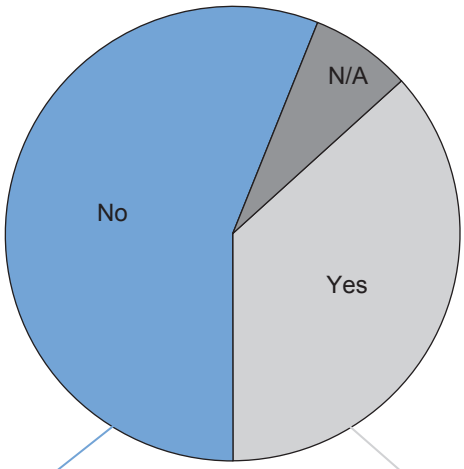
3.14 Health places a strong emphasis in its guidance material on the documentation of the assessment process. These materials also comment on weaknesses in this area, with the PCD Guide stating that:

> One of the issues the Department is most criticised about in external reports is milestone payments being made without formal documented assessments of performance against criteria.

3.15 The ANAO reviewed agreement files to determine whether programme officers documented their assessment of progress reports provided by funded organisations. In determining appropriateness, the ANAO sought documentation that clearly demonstrated an assessment of reported performance against performance expectations established in agreements, with the level of detail commensurate with the activity being assessed (see Figure 3.2).

Figure 3.2

Is the assessment of reports documented?



Examples

In a number of agreements, the only evidence of report assessment comprised pencilled notes on the report. This approach does not generally provide sufficient evidence of a comprehensive assessment. In a number of cases, the ANAO found pencilled queries on reports, with no evidence of follow-up. Payments were subsequently certified.

Where documented assessments were completed, the assessment for a number of agreements was performed on a re-submitted report. There was no evidence of an assessment of the initial report (in some cases a copy of the initial report was not retained on file), and no record of the areas that needed to be addressed, nor was there information recorded as to the time allowed for the revisions.

Example

Health had assessment forms for some programmes that supported a comparison of reported performance with performance expectations established in agreements. The establishment of these forms encouraged programme officers to document their assessments.

Source: ANAO analysis

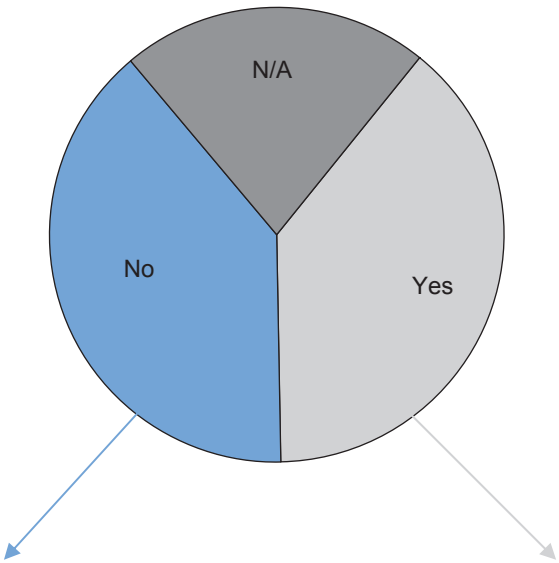
3.16 The ANAO found that, in 56 per cent of agreements reviewed, programme officers had not documented and filed their assessments of reports from funded organisations. In seven per cent of agreements, the question was not applicable as the funded organisation was yet to submit a report.

Follow-up

3.17 The ANAO reviewed files to determine if programme officers followed up concerns with progress and/or performance, and if this was done in a timely manner (see Figure 3.3).

Figure 3.3

Are reports followed up without delay where progress/performance is unsatisfactory?



Examples

In an agreement with an objective to strengthen general practice the funded organisation had not reported against its performance indicators. This was not pursued by PCD, with no evidence on file to suggest that the report was ever provided.

In an agreement with an objective to strengthen general practice, there was a file note about a discussion between a programme officer and the funded organisation outlining weaknesses in a six month report. PCD's acceptance of the report and subsequent payment occurred prior to this discussion.

Example

One STO had developed its own database to assist in the management of one of its larger, more complex programmes. This database included a section that allowed programme officers to enter the date and purpose of important contact with the funded organisation. This practice provides a mechanism to centrally record important contact with the funded organisation. Where a programme officer is absent when an issue arises, the information is available to colleagues and/or managers.

Source: ANAO analysis

3.18 The ANAO found that, in 39 per cent of agreements reviewed, evidence on agreement files supported an opinion that officers followed up issues with reports—where required—in a timely manner. In 22 per cent of agreements, the question was not applicable as the funded organisation was yet to submit a report, or issues with the report had not arisen and therefore follow-up was not required.

3.19 Programme officers indicated that there was a process for following up unsatisfactory performance. However, processes described varied from simply asking for more information to a more structured approach of seeking more information, withholding payment and escalating where appropriate. The importance of following up unsatisfactory performance without delay was not expressed during interviews.

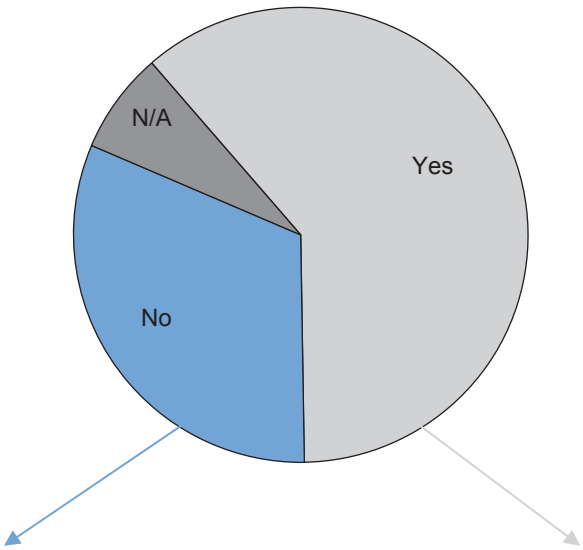
Acceptance

3.20 Acceptance or approval of a report, while linked to the assessment process, is a separate stage of the monitoring process. In order to accept or approve a report, a delegate needs an assurance that the reported progress is in accordance with requirements established under the agreement. A documented assessment provides a record of the information on which the delegate has made a decision.

3.21 Evidence of acceptance demonstrates that reported progress is in accordance with the agreement and is an important element in justifying funding. Recording evidence of acceptance on file ensures that the decision-making trail is retained and officers are accountable for their decisions. The ANAO reviewed agreement files to determine if programme officers document the acceptance of reports (see Figure 3.4).

Figure 3.4

Is acceptance of reports documented?



Examples

In one STO the assessment template (note this template was only used for one programme) included a section for the delegate to approve or reject the report based on the assessment completed by a programme officer. In a number of instances, this section was not completed. The ANAO's financial statement auditors also identified examples where Health officers did not fully complete assessment documentation by certifying approval.

In a number of agreements, letters that provided commentary on the report were sent to funded organisations. However, these letters did not indicate that the report had been accepted or that payment would be released.

Example

The ANAO noted that work areas, including STOs, had developed their own processes to cover the acceptance of reports, such as spreadsheets that required certification from the programme officer and delegate before payment was released.

Source: ANAO analysis

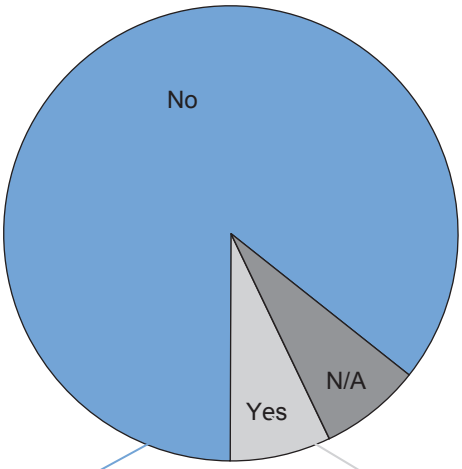
3.22 The ANAO found that, in 61 per cent of agreements reviewed, evidence on agreement files supported an opinion that acceptance of the report was documented and placed on file. In seven per cent of agreements, the question was not applicable as the funded organisation was yet to submit a report.

Verification

3.23 In assessing whether programme officers verified reported information, the ANAO sought evidence of site visits, meetings, representation on committees/forums, and/or departmental audits/reviews (see Figure 3.5).

Figure 3.5

Is the information provided in reports by funded organisations verified?



Examples

There was a lack of evidence on agreement files to indicate that programme officers verified reported information.

In a small number of agreements, programme officers visited funded organisations' premises. However, there was no record on file of the purpose of the visits, the actions completed by officers during the visits, or information collected.

Example

Participation in steering committees and forums provides programme managers/ programme officers with the opportunity to liaise with beneficiaries of services and to monitor achievements under funding agreements.

Source: ANAO analysis

3.24 The ANAO found that, in seven per cent of agreements reviewed, evidence on agreement files supported an opinion that programme officers verified reported information. In seven per cent of agreements, the question was not applicable as the funded organisation was yet to submit a report.

3.25 In respect of financial information, the ANAO noted that Health predominantly relies on audited financial statements/reports prepared by a qualified accountant to gain an assurance that funded organisations have used moneys appropriately.

3.26 There is, however, some variability in the independence of the qualified accountant required under primary care funding agreements. The standard funding agreement provides that the qualified accountant is not to be 'a member, officer or employee of the funded organisation'. This gives an assurance to Health that the auditor is independent of the organisation being audited.

3.27 However, in a number of primary care research agreements, Health reduced the level of independence of the qualified accountant by amending the clause in the standard funding agreement to read '[the qualified accountant] must be a senior financial officer (or internal audit officer) who was not involved in the day-to-day administration of the project.' Health advised the ANAO that the amendment of this clause, in some cases, is appropriate. In such cases, the Department advised that it would base its decision to amend the clause on a risk assessed approach that acknowledged the potential for a lesser level of independence.

3.28 The heavy reliance on reports from funded organisations, including audited statements/reports, in the absence of departmental review poses risks to the successful delivery of programmes. During fieldwork, the ANAO reviewed two instances where PCD encountered significant contractual difficulties with two funded divisions of general practice. These difficulties disrupted the delivery of the divisions of general practice programme.

3.29 The issues that led to the difficulties, while different in each instance, primarily related to the appropriate use of Australian Government funding. While in one instance, STO officers indicated that there was potentially an early indication of problems identified by monitoring practices, the magnitude of problems in each case was not revealed until subsequent departmental audits. Programme managers involved in resolving the difficulties advised the ANAO that these audits discovered significant administrative and accountability issues. The resolution of the difficulties involved considerable

departmental resources and necessitated the engagement of outside expertise, including legal advice. PCD and STO staff were continuing to work on finalising these matters at the time audit fieldwork ended.

3.30 In responding to the agreement difficulties outlined above, PCD introduced a range of measures to strengthen its administration of the divisions of general practice programme. It has restructured agreements to require divisions of general practice to provide copies of their auditors' management letters. These letters provide additional information on financial controls. PCD also advised that it is about to review the last two to three years of financial statements for all divisions of general practice. Based on this review, a selection of ten to twenty organisations will then be scrutinised more closely to ascertain the financial status of each organisation and to form an opinion on financial reporting. This process is expected to culminate in the commencement of a series of rolling audits, with PCD intending to review five divisions of general practice each year.

3.31 The ANAO acknowledges the developments outlined above, and suggests that PCD consider actions to verify the accuracy of reported information across all of its programmes. A sound risk assessment process should underpin these actions.

Recommendation No.3

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:

3.33 As for Recommendation 2, the Department has had guidance supporting this recommendation for several years. The Program Manager's Toolkit and Program Management Manual provide a blue print for the Department's Programme Management and Information System (PMIS), an IT enabled system currently being developed. It will be a common department-wide system for the end-to-end funding process used by all parts of the Department in State and Territory Offices and in Central Office divisions. This will also assist programme officers to appropriately document their assessment of reports and enable these to be readily retrieved and workflowed to delegates if required.

ANAO's comment:

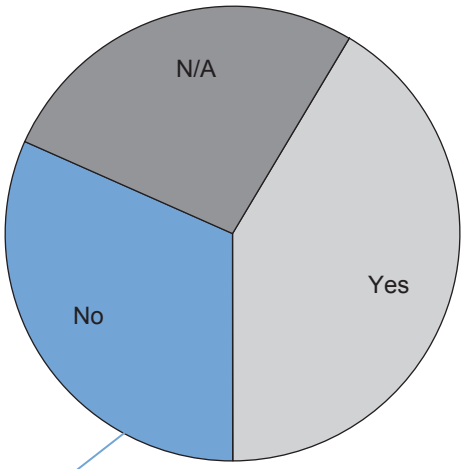
3.34 The ANAO has acknowledged Health's development of a new system, due to be operating by 2009, to further strengthen its administration of funding agreements. Notwithstanding, the ANAO considers that Health's current administrative practices require strengthening to address weaknesses in the documentation of decisions, for instances, weaknesses referred to in Figure 3.5.

Varying the agreement

3.35 Variations incorporate changes into existing funding agreements. The timely execution of variations ensures the continuity of services, legal protection of the parties to agreements, and clarity of performance expectations. Therefore, it is important to ensure that the need for a variation is identified early and that parties agree on the variation and confirm it in writing while the initial agreement is still in place. The ANAO reviewed a sample of primary care funding agreements to ascertain whether Health and the funded organisation confirmed variations in writing while the main agreement was still in place (see Figure 3.6).

Figure 3.6

Are changes to agreements confirmed in written variations?



Example

In an agreement to develop an up-to-date resource for general practitioners, a funded organisation was required to provide Health with a publication-ready document on 27 May 2005. This due date had already been extended from 28 January 2005 through a variation. This variation was executed on 20 April 2005, almost three months after the original agreement ended. At the conclusion of fieldwork in November 2005, the document had not been accepted by PCD. However, despite the delay, the Division had not sought a second variation to cater for the change to the agreement.

Source: ANAO analysis

3.36 The ANAO found that, in 41 per cent of agreements reviewed, evidence on agreement files supported an opinion that appropriately authorised agreement variations were issued where changes were made to the agreement. In 29 per cent of agreements, the question was not applicable as changes had not occurred that would have necessitated an agreement variation.

Compliance monitoring

3.37 The earlier section on performance and expenditure monitoring examined PCD's practices to assess the progress of organisations in the achievement of agreement objectives. Performance specifications are generally included in schedules to the funding agreement. This section examines PCD's practices to identify and enforce obligations arising from the general terms and conditions of the funding agreement, or the head of the agreement. Some of these obligations require ongoing monitoring, such as a requirement for the annual provision of certificates of currency for insurances, provision of certain types of audit reports, and the information to be included in progress reports. These obligations, the evidence required to determine compliance, and the timing of enforcement activity should be documented on file and/or entered onto a programme management information system to support effective monitoring.

3.38 The ANAO found, in all agreements selected for review, a lack of evidence on agreement files to indicate that programme officers had reviewed the general terms and conditions of the standard funding agreement to identify monitoring obligations.

3.39 The ANAO did, however, note that, in approximately 30 per cent of primary care funding agreements reviewed, Health enforced some obligations. These terms and conditions generally related to the provision of certificates of currency for insurances. However, it was not clear why some terms and conditions were enforced while others were not. Nor why some obligations were selected for enforcement, why these same obligations were not enforced for other programmes or how these obligations were identified.

3.40 The ANAO's findings from its review of agreement files was supported by evidence collected from programme officer interviews. Programme officers advised the ANAO that they did not comprehensively identify and document obligations arising from the general terms and conditions or determine the evidence that would be required to monitor funded organisations' compliance

with them. In general, programme officers only referred to the head of the agreement when issues arose.

3.41 The ANAO considers that programme officers' limited appreciation of the content of the general terms and conditions has contributed to inconsistencies between the head of the agreement and the schedules, as discussed in Chapter 2.

3.42 The ANAO suggests that, in order to ensure compliance with the general terms and conditions of funding agreements, programme officers document their assessment of obligations arising from the general terms and conditions and enforce obligations where they arise. The assessment of obligations should occur during the development of the funding agreement to inform the drafting of schedules that are consistent with the head of the agreement.

3.43 In February 2006, Health advised the ANAO that it had disseminated to departmental officers insurance guidelines for funding agreements. Health developed these guidelines to standardise the level of insurances required to be held by funded organisations and to guide the increase or decrease of insurance levels, where appropriate. They also encourage programme officers to seek certificates of currency and/or insurance policy schedules at the commencement of the funding agreement.

Responsibility for monitoring

3.44 Health has split its day-to-day administration of primary care funding agreements between PCD and STOs. The ANAO noted that, at the time of fieldwork, the extent of STO involvement in day-to-day administration varied across programmes, and within programmes over time. It was not uncommon for responsibility for day-to-day administration to move between PCD and STOs several times over the life of an agreement, particularly those longer term agreements that encounter implementation difficulties.

3.45 However, the ANAO found a lack of clarity within PCD and STOs over responsibility for administrative tasks. Some agreements had elements administered by STOs and others by PCD, for example, the first payment may be made centrally with remaining payments from STOs, or both STOs and PCD completed assessments of reports. In addition, there was a lack of information on file to explain administrative arrangements, for example, information for some payments was not recorded on STO files for those agreements administered by STOs. This lack of clarity has contributed to errors

in contract registers and internal and external reports (this issue is discussed in further detail in Chapter 5).

3.46 Unclear roles and responsibilities also hindered the conduct of the audit, with Health unable to provide sufficient information to allow an assessment of a recently established agreement. PCD programme managers advised the ANAO that an STO managed an agreement. When visited, the STO indicated that PCD was responsible for administration. The only information retained by the STO was a copy of the agreement that the programme officer had thought was provided 'for information.' Because of the lack of clarity of administrative arrangements, the ANAO was unable to access sufficient filed information for assessment.

3.47 A common issue raised by stakeholders was the lack of communication between PCD and its STOs. In particular, it was felt that STO officers had limited knowledge of PCD administered programmes, and consequently, stakeholders were often required to brief STO staff on developments in programmes administered centrally.

3.48 In an effort to improve role clarity between Central Office and STOs, PCD has developed responsibility statements for some programmes. The ANAO was provided with a copy of a State/Territory and Central Office responsibility statement that was developed for an after hours programme. The statement included a broad overview of responsibilities and programme-specific requirements, coupled with a detailed table allocating responsibilities between PCD and STOs by task. As the statement was only recently developed, it was too early to form an opinion on the effectiveness of this approach.

3.49 In 2004, Health's Secretary established an Improved Programme Management Alignment Reference Group to consider the roles of Central Office Divisions and STOs in the day-to-day administration of funding agreements. The Secretary asked this Group to address inconsistencies within Central Office in sharing programme management arrangements with STOs. The strategy developed by the Group included a statement of roles and responsibilities for STOs. Health's Business Management Committee endorsed these roles and responsibilities. The Group recommended:

- Central Office keep STOs informed of developments relevant to their State/Territory where programme administration was the responsibility of Central Office;

- departmental divisions review existing programme management arrangements against the roles defined in the strategy. The reviews should involve consultations with STOs; and
- improved business planning for 2005–06, with consideration of direct negotiations between Central Office and STOs regarding priorities and resource requirements.

3.50 The ANAO noted that, stemming from the above recommendations, Health has implemented revised planning structures to better align Central Office priorities with STO resource allocations. Over time, this should contribute to better coordination of the delivery of PCD agreements where administration is shared with STOs.

Conclusion

3.51 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.

3.52 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.

3.53 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.

3.54 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.

3.55 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.

3.56 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.

4. Payments

This Chapter examines payments under primary care funding agreements.

4.1 In assessing Health's payment processes, the ANAO sought to determine whether payments were:

- in accordance with payment procedures (see Figure 4.1);
- based on performance (see Figure 4.2);
- timely (see Figure 4.3);
- in accordance with the amounts allowed under the funding agreement; and
- documented and recorded (see Figure 4.4).

Compliance with payment procedures

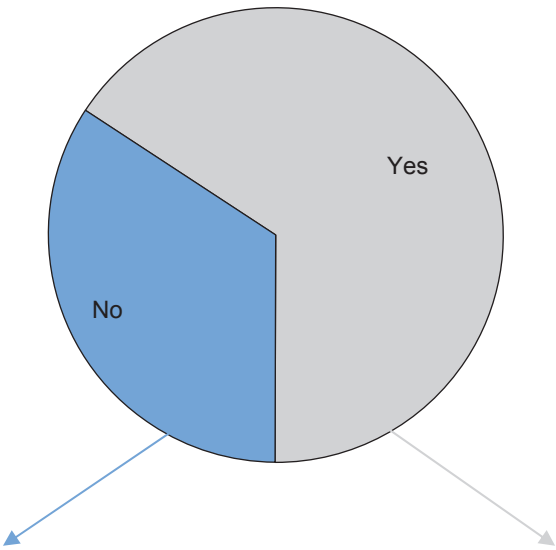
4.2 The ANAO found that guidance on payments is available to programme officers from a variety of sources. The Chief Executive's Instructions provide broad information on claims for payment processing, with departmental and divisional guidance providing information that is more specific. The ANAO also found that some State and Territory Offices (STOs) had their own procedures manuals that included information on payments.

4.3 The ANAO noted that departmental guidelines provided three options for certifying a payment—either through certifying the invoice itself, lodging a payment request form or creating a minute to the delegate to accept progress reports and approve progress payments. Consequently, programme officers have discretion as to which option they use and the amount of information they record. Health also advised the ANAO that there are several types of payment request forms available from its intranet.

4.4 The ANAO subsequently assessed compliance with guidelines and procedures by reviewing agreement files (see Figure 4.1) and interviewing programme officers.

Figure 4.1

Do programme officers follow payment procedures?



Examples

An STO had developed a payment authorisation form that did not require the programme officer's signature to certify payment. This form was changed during the ANAO's visit to include a requirement for the programme officer to sign the authorisation.

In a large and complex agreement, the programme officer incorrectly used the expenditure approval stamp instead of the certification stamp. The officer did not have delegation to approve expenditure.

Example

In a number of agreements, programme officers in Central Office prepared minutes for the delegate's approval where payments varied from the agreement, such as a reduced payment due to underspending by the funded organisation. This practice provided a clear and documented history of decision-making processes underpinning payments.

Source: ANAO analysis

4.5 The ANAO found that, in 66 per cent of agreements reviewed, evidence on agreement files supported an opinion that programme officers had complied with payment processes.

4.6 Programme officers were generally unaware of a documented payment procedure or a guideline that governed the payment process. The payment practices adopted by programme officers varied significantly. Programme officers generally described a process that involved the receipt, clearance and provision of the invoice to the finance liaison officer for processing and payment. The programme officer or the delegate provided certification through a stamp, a request for payment form or a minute.

4.7 In general, Primary Care Division (PCD) staff use a certification stamp and minutes to the delegate more extensively, whereas STOs use their own payment request forms, with very little use of minutes to the delegate. However, practices did vary extensively within offices and within work areas.

4.8 In all STOs visited, the certification section of the payment request forms was not consistent with the requirements established in the Chief Executive's Instructions, which requires confirmation of the receipt that goods/services had been satisfactorily rendered. Further, the development of documentation for standard administrative practices by work areas, such as payment request forms, increases costs.

4.9 The ANAO considers that there are potential efficiency savings and accountability enhancements if Health were to:

- improve awareness of payment procedures within the Department;
- adopt a consistent process for certifying payments, including a requirement to use standard documentation; and
- require programme officers to advise the delegate in writing in all cases where a reduced or partial payment is to be made.

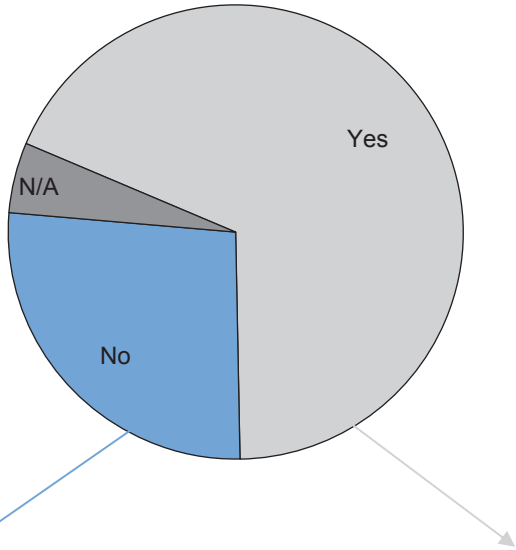
Payments on performance

4.10 As noted in Chapter 2, the standard funding agreement links payments to performance by requiring a funded organisation to have performed all its obligations prior to payment. The ANAO reviewed agreement files to determine whether payments were based on acceptance of satisfactory performance (see Figure 4.2).

4.11 As discussed earlier, there are weaknesses in Health's documentation of its assessment and/or acceptance practices for primary care funding agreements. In order to determine whether payments were based on performance, the ANAO used a combination of assessment and acceptance documentation, where present, to inform this finding.

Figure 4.2

Are payments made on acceptance of satisfactory performance?



Examples

In an agreement with an objective of increasing the number of general practitioners in rural and remote locations, the programme officer had certified payment upon receipt of the report, despite the agreement requiring payment to be made on acceptance of the report.

In an agreement with an objective to strengthen general practice, a programme officer certified that the goods/services had been received. This occurred prior to the funded organisation submitting the relevant progress report.

Examples

The completion of assessment templates, including a section to indicate acceptance, clearly demonstrated that a report had been assessed, provided a basis for contact with the funded organisation, and provided a documented basis for payment or withholding of payment.

In some agreements, the programme officer clearly stated why, in the minute to the delegate to authorise payment, the progress report should be accepted as evidence of satisfactory performance.

Source: ANAO analysis

4.12 The ANAO found that, in 68 per cent of agreements reviewed, evidence on agreement files supported an opinion that payments were made on satisfactory performance. In five per cent of payments, the question was not applicable as the only payments made were due on execution and did not require an assessment of performance.

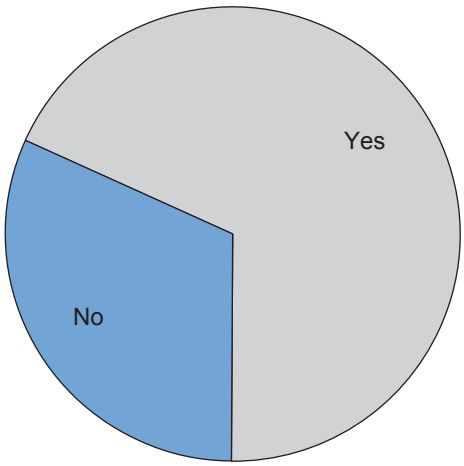
4.13 Where the ANAO found that payments had been made in the absence of satisfactory performance, programme officers had generally not sufficiently documented assessment and acceptance of a report.

Payment timeliness

4.14 The ANAO reviewed agreement files to determine if programme officers certified payments within a reasonable time after submission of the relevant progress report, taking into account any follow up required (see Figure 4.3).

Figure 4.3

Is certification of payments timely?



Source: ANAO analysis

4.15 The ANAO found that, in 68 per cent of agreements reviewed, evidence on agreement files supported an opinion that the certification of payments by programme officers was timely. In a number of agreements, programme officers had not sufficiently documented assessment and acceptance of a report to enable the ANAO to gain an assurance that the certification of the payment was timely. Further difficulties were encountered in assessing timeliness where, in a number of agreements, the receipt of reports was not dated.

4.16 The ANAO found that, in a number of agreements, programme officers delayed payments while awaiting a correctly rendered invoice from the funded organisation. The ANAO's assessment of timeliness was based on the time taken following the submission of a satisfactory invoice, consequently, delays in the provision of invoices did not influence the ANAO's findings.

4.17 The ANAO noted that the definition of a correctly rendered invoice differed across primary care funding agreements. The ANAO considers that this inconsistency unnecessarily increases risk of funded organisations providing non-compliant invoices leading to delays in payment. Payment delays are particularly problematic where funded organisations retain low capital reserves, as is the case with a number of funded organisations.

Accuracy of payments

4.18 The scope of the audit did not include an assessment of Health's accounts payable function. Rather, the focus of fieldwork was on the actions of programme officers in certifying invoiced amounts for payment that were in accordance with funding agreements.

4.19 The ANAO found that in all agreements reviewed, evidence on agreement files supported an opinion that invoiced amounts certified for payment by programme officers were in accordance with amounts allowed in funding agreements. The ANAO's testing as part of its financial statement audit work also supported this finding.

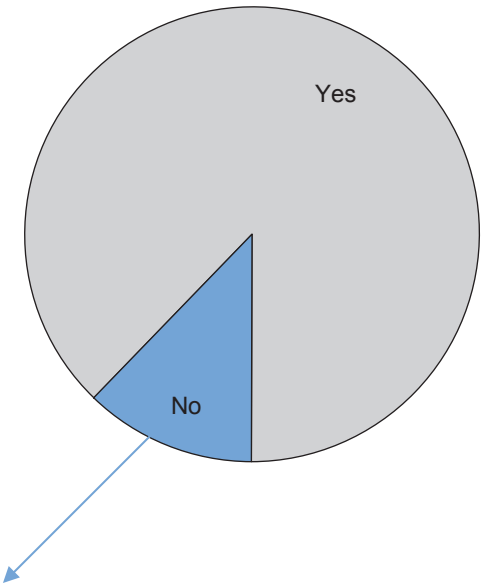
4.20 This finding, however, only covers the amounts authorised for payment and does not take into account the rigour of assessment practices, which, as discussed earlier, need further strengthening. While the amounts authorised for payment may be in accordance with the funding agreement, the assessment practices leading up to authorisation may not provide sufficient information to ensure the payment is based on satisfactory performance.

Recording payment information

4.21 The ANAO reviewed agreement files to determine if programme officers recorded payment information (see Figure 4.4).

Figure 4.4

Do programme officers record payment information?



Example

In several agreements, full payment information was not retained on the agreement files. This issue generally related to the certified invoice being held by the finance area rather than by the programme area. Where agreement information is filed separately, there is a risk that key decisions, such as payment authorisations, will become separated from other agreement information.

Source: ANAO analysis

4.22 The ANAO found that, in 88 per cent of agreements reviewed, programme officers recorded payment information on agreement files.

Conclusion

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.

4.24 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.

5. Support for Administrators

This Chapter examines the support provided by Health to officers engaged in the administration of funding agreements, including the provision of guidance, training, advice and systems.

Guidance and advice

5.1 Clear, consistent and well documented programme guidelines are an important component of an effective programme administration system. A single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms helps to ensure consistent and efficient administration.

5.2 The ANAO spoke with advisory areas within Health, interviewed programme officers, and reviewed files and other information sources, such as the intranet, to establish if there was a comprehensive set of procedures and guidance to assist in the administration of primary care funding agreements.

Guidelines

5.3 The ANAO found that Health has produced a variety of materials to guide and support programme officers in the administration of funding agreements. These materials ranged from the overarching directions provided by the CEIs and Procedural Rules through to programme level guidelines.

5.4 Health has produced Department-wide guidance to programme officers in the form of a Program Manager's Toolkit (the Toolkit), which includes the *Program Management Manual: A Guide to Grants Funding Processes* (PMM). The PMM is designed to be the starting point for officers seeking guidance, with programme guidelines providing more specific information. Health's Procedural Rules require Health officers to comply with this manual.

5.5 To supplement direct advice (discussed later in this Chapter), the Legal Services Branch has developed a checklist to inform requests for advice, and a commentary to inform programme officers' drafting of funding agreements. The checklist provides information on the contents of funding agreements. It also provides guidance on accessing advice from the Legal Services Branch. The commentary provides information on elements of the standard funding agreement and examples of completed information. Both the checklist and commentary are available from the Legal Services Branch's intranet site.

5.6 In addition to the departmental Toolkit and the Legal Service Branch's checklist and commentary, there is available to staff in Central Office a Primary Care Division (PCD) *Guide to Tendering, Funding and Contract Management* (PCD Guide). It is not generally made available to State and Territory Offices (STOs), as CMAU has no direct role in advising or supporting STO programme administrators. However, support is provided indirectly through Central Office programme areas. The PCD guide provides systematic instructions on procurement and funding from the initial identification of relevant policy and legislation through to the evaluation of projects once completed.

5.7 At the programme level, PCD has developed guidelines for some primary care programmes. These guidelines generally provide information to both programme officers and stakeholders and include information on the programme, roles and responsibilities, planning and reporting requirements, monitoring and performance information, and complaints mechanisms.

5.8 The ANAO found that there are multiple sources of information available to inform programme officers' administration of funding agreements. Furthermore, the information is generally consistent. The ANAO's interviews with programme officers supported this opinion, with officers indicating that guidance is consistent in most instances.

5.9 The ANAO also noted that, in an effort to better manage its suite of funding guidance, Health has produced a Programme Guideline Inventory that is intended to list all funding guidance across the Department.

Appropriateness of guidelines

5.10 The PMM and the PCD Guide both include references to sound practice, including relevant references to the ANAO's better practice guide on contract management. Both documents also refer readers to sources of information within the Department, for example, the Legal Services Branch intranet site, and outside the Department, for example, the Department of Finance and Administration's website.

5.11 The ANAO's review of Health's guidance to programme officers found that the information covered all stages of the funding process. However, the ANAO considered that the information provided on the processes covering the award of funding was more detailed than the information provided on the development of sound agreements and their subsequent management. In particular, the ANAO noted limited information in guidance material on performance management, particularly the development of appropriate performance measures, activity plans, budgets and targets/standards. The

ANAO considers that the limited coverage of performance management in guidance material has contributed to problems with performance information in funding agreements, such as the lack of clarity. Health advised the ANAO that, while guidance documents may not include a detailed discussion of performance related matters, these issues are generally discussed during the development of agreements. As Health does not commonly record these discussions on agreement files, this assertion was unable to be tested.

5.12 The Improved Programme Management Alignment Reference Group (referred to in Chapter 3) considered the issue of programme-specific guidelines. This Group recommended that Central Office programme managers ensure that programme-specific material be available for each programme managed through STOs, including guidelines on specific responsibilities, performance standards and reporting requirements. Further, the guidance material was to build on and not duplicate the PMM. While the Group communicated endorsed recommendations to senior managers within the Department in November 2004, the ANAO found that, for a number of programmes, there were no programme-specific materials.

5.13 The absence of guidelines was particularly problematic for those programmes that had recently undergone significant changes, including restructured agreements, reporting requirements and governance arrangements. Programme managers and officers, particularly in STOs, considered that the absence of programme guidelines for some programmes hindered implementation as the authority for decision-making was unclear. It was also felt that programme-specific guidelines supported consistent implementation of national programmes across STOs and led to greater certainty in decision-making.

5.14 In order to provide programme officers with sufficient guidance and to support consistent implementation of national primary care programmes, the ANAO suggests that Health disseminate programme-specific guidelines prior to the commencement of programmes.

Access to guidelines

5.15 The ANAO found that the level of access that programme officers had to guidance materials was dependent on whether they were located in Central Office or in an STO. While all programme officers had access to the Toolkit and the PMM via the intranet, PCD staff also received a copy of the PCD Guide and had direct access to advice from CMAU.

Compliance with guidelines

5.16 The ANAO acknowledges that the tailoring of programme delivery approaches to local environments, which results in different approaches across States and Territories, is an important element of successful policy implementation. However, the ANAO considers that, to ensure equitable treatment, the administrative practices that underpin programme delivery should be consistent and standardised. This reduces the risk of non-compliance with key operating instructions, such as CEIs, and increases the efficiency of administration. It also provides a common face to stakeholders, for example, where Health is funding a national network of providers.

5.17 As described in Chapter 3, the administrative practices adopted by programme officers were not consistent. Variability was evident between PCD and STOs, across work areas within PCD and STOs, and across programme areas (even where the same officer managed two programmes). Variances related to a range of practices, such as authorising payments and assessing reports.

5.18 In light of the level of variability in administrative practices, the ANAO reviewed Health's approach to monitoring compliance with guidance material and to assessing risk when determining appropriate levels of administrative controls.

5.19 Health advised the ANAO that it monitors compliance with departmental level guidance indirectly through the Control Self-Assessment process.[21] The ANAO reviewed Health's Control Self Assessment documentation and found that, while the Toolkit/PMM is not referred to directly, key elements of sound agreement administration outlined in the PMM are addressed in the assessment document.

5.20 The monitoring of divisional level guidance was variable, with some aspects of the PCD Guide monitored and enforced by CMAU, such as the requirements for a brief to the delegate for approval of a funding agreement, whereas other aspects were not monitored, such as documented assessment of reports. While CMAU is responsible for developing procedures, the Unit advised the ANAO that its role was advisory in nature, and that it did not

[21] Health established the Control Self Assessment programme during 2003–04. The programme comprises a series of checklists that test compliance with instructions and controls such as finance regulations and CEIs. The checklists are completed quarterly by state office, division, branch and section managers. The checklists were developed within internal audit through a combination of review of legislation and workshops. The Control Self Assessment programme requires the managers completing it to explain the action proposed for each instance of non-compliance.

have a management or compliance role in the ongoing contract management process. It does, however, assist officers when problems with agreement management are encountered and thus gains an insight into areas where additional guidance may be required.

5.21 Sound risk management practices help inform the type of administrative controls required. For example, where funding for an activity is minimal and the activity is assessed as low risk, less stringent controls may be adopted. The ANAO did not, however, find evidence of programme officers using risk management techniques to underpin their decisions to adopt differing administrative controls.

5.22 In order to standardise administrative practices and improve efficiency, the ANAO suggests that Health:

- expand its guidance materials to include more information on effective performance management practices; and
- regularly monitor compliance with policies and procedures to ensure that programme officers work in accordance with guidelines.

Legal and technical advice

Legal advice

5.23 The Legal Services Branch is responsible for the provision of legal advice to the Department. The ANAO found, based on interviews with programme officers and the review of agreement files, that PCD and STO officers have ready access, via CMAU, to advice from the Legal Services Branch. All contract advice is accessed through CMAU, with the Unit determining issues that it can resolve and those issues requiring referral to the Legal Services Branch. The ANAO was advised by CMAU that all matters of a legal nature are referred to the Legal Services Branch, with procurement or funding matters dealt with by the Unit.

Technical advice

5.24 Health has established central areas, such as the Strategic Management Branch and the Procurement Policy and Reporting Centre, to provide Department-wide advice.

5.25 The role of the Strategic Management Branch is to work with Health's divisions and STOs to develop a departmental approach to programme management by introducing common procedures, such as the PMM, systems, tools and training to support programme managers and their teams. This

Branch also provides programme management guidance and training. Health established the Procurement Policy and Reporting Centre to provide general policy advice on procurement issues. This unit focuses primarily on contracting for goods, services and advice. As a result, its activities were not within the scope of this audit.

5.26 PCD established CMAU approximately five years ago to provide local level tailored advice to complement the work of the central areas of the Department involved in tendering/funding and contract management. The Unit is staffed by experienced programme administrators trained in procurement. CMAU has responsibility for quality assurance and sign-off for all procurement and funding approval documentation. CMAU also advises when it is appropriate to contact central areas for further advice or guidance, and it also arranges training tailored to the needs of PCD staff—ranging from basic procurement training to more advanced instruction on contract related issues.

5.27 At the time of fieldwork, and following its own review, the Department was establishing a new model to provide technical advice to programme officers. Its review recommended a devolved model of support, with an advisory role at the divisional level, similar to the model adopted by PCD. However, Health advised that it was unlikely that it would establish separate units within each division, with the advisory functions provided through existing business units. The ANAO was advised that the implementation of the new model was ongoing, with divisions at different stages.

Training

Identifying training needs

5.28 Health has a Personal Development Scheme (PDS), which includes Individual Development Plans (IDPs) to ensure that programme officers possess appropriate skills and knowledge.

5.29 The IDP results from a discussion between the staff member and supervisor about the capability of the officer. Capabilities identified as requiring development for the officer's current role are to be classified as immediate and critical and are required to be given a high priority by supervisors. These include those skills and knowledge required to administer agreements.

Training courses

5.30 There are several areas across Health that deliver training to programme officers on aspects of agreement/contract management. These include central areas, such as the Legal Services Branch and the Strategic Management Branch, with responsibility for department-wide training and divisional units, such as CMAU, with responsibility for tailoring training to local needs.

5.31 The Legal Services Branch delivers two standard courses entitled *Good Decision Making-an introduction to administrative law* and *Introduction to Contracts for Services/Consultancies (Standard Form Contracts).* These courses are intended to provide relevant information to programme officers administering agreements. In addition to these courses, the Legal Services Branch advised the ANAO that, in 2004, it provided funding, privacy, freedom of information and good decision-making courses in all STOs.

5.32 In 2005, the Strategic Management Branch developed programme management courses aimed at providing officers with the knowledge and skills to perform activities involved in the standard funding processes. CMAU has also provided a series of tailored courses designed to strengthen PCD's procurement and funding practices.

5.33 The ANAO was advised that the delivery of courses was demand-driven, with the requirement to attend training agreed between an officer and his/her supervisor as part of the IDP process. In general, Central Office staff had attended legal awareness training, but many indicated that this was a long time ago. Officers had also attended other courses relating to agreement and programme management.

5.34 In general, STO programme officers indicated that training was more difficult to obtain due to small numbers of programme officers in each State and Territory. In particular, limited financial management training was identified as a particular problem. In attempting to resolve this problem, STOs had sought additional training from Central Office and had also engaged local providers to deliver training.

5.35 The ANAO has previously recommended that agencies involved in contracting adopt a structured training and skills acquisition programme for those officers managing agreements. This ensures that: the skills of these officers keep pace with the changing contract environment; programme officers are aware of their legal obligations; and funding agreements are administered in a consistent manner.

5.36 The ANAO suggests that Health make sure that all staff managing primary care funding agreements are appropriately skilled and obtain necessary training, including refresher training. In addition, STO staff managing national primary care programmes should receive consistent training commensurate with their agreement administration role.

Systems

5.37 The ANAO's assessment of systems focused on those used to manage and report on agreement activity, such as contract registers, and those used by programme officers to manage day-to-day administration, such as management information systems/databases.

Contract registers

5.38 The Parliament, through the JCPAA, has shown a strong interest in the systems utilised by agencies to manage contracts and has endorsed the use of contract registers. Contract registers allow agencies to monitor and report on funding activity, and respond in a timely manner to external reviews, audits and Parliamentary questions.

5.39 Health currently uses the following contract registers to monitor and report on primary care funding agreements:

- the Financial Management Information System contract register (FMIS Register); and
- the PCD contract register (PCD Register).

FMIS Register

5.40 The Financial Management Information System Register is the principal way in which the Department records contract details, with Health's CEIs requiring all contracts to be listed in this register. The ANAO was advised that the FMIS Register must be completed before a purchase order can be created and a subsequent payment made. Health advised the ANAO that this Register:

> …provides core financial and reporting information about each contract/agreement. It does not provide all project/contract management information and reporting requirements for all programme-specific needs. As a result, some areas need to maintain complementary systems for managing their agreements and information.

5.41 The ANAO found that the utility of the data held in the FMIS Register was affected by its limited reporting capacity. For example, Health officers

were unable to provide a report from the FMIS Register of all agreements executed for a specified period. Subsequently, Health advised the ANAO that 'While the Department acknowledges that…[the FMIS] may be difficult 'to run and read',…[it] is nonetheless, able to produce a variety of reports on contract records.'

5.42 During the audit, PCD and STO officers advised the ANAO that a particular problem with the FMIS that affects reporting is the recording of agreement data by purchase order number. Where an agreement comprises multiple purchase orders, for example, when funding is increased or when multi-year agreements have annual purchase orders created, the ANAO was advised that the system does not calculate the total contract value. Where the FMIS is used for reporting purposes, as is the case in some STOs, programme officers are required to manually collate purchase orders for each agreement.

5.43 Following completion of fieldwork and in response to preliminary discussions of audit findings, Health advised the ANAO that:

> …the current configuration for…[the FMIS] records a unique agreement number against each agreement, and then records supplementary information on purchase orders linked to this agreement number. The system can then report the values of all purchase orders under the agreement. The…manual collection of purchase orders would only happen if the purchase orders were not linked correctly to the…[FMIS] contracts register record. Any such instances would most likely result from a data input error rather than a…[FMIS] system failure.

5.44 Health has advised the ANAO that 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.' The ANAO suggests that as part of this work, Health ensure that those officers required to use the FMIS Register receive additional training on data entry and report preparation.

PCD Register

5.45 PCD has developed a contract register (PCD Register) to supplement the FMIS Register. This Register contains much more information than is retained on the FMIS Register and is used to manage reporting, procurement and funding profiles for management, respond to Parliamentary requests, and to report externally. However, as the PCD Register does not include STO administered funding agreements the derived report does not show a full picture of PCD funding activity. While STOs have adopted numerous methods

to manage/monitor and report information on PCD agreements, including the use of local contract registers and the FMIS, this information is not centrally available in a consolidated form within PCD. Consequently, PCD officers must manually collate data to obtain a full picture of primary care funding activity.

5.46 The ANAO sought to test the accuracy of the PCD Register by comparing it with the FMIS Register. Due to FMIS Register reporting difficulties, discussed earlier, this test was unable to be performed. Notwithstanding, the ANAO identified some errors in the PCD Register mostly related to the incorrect inclusion of STO administered agreements. Other errors included completed agreements labelled as active, incorrect start and/or end dates, incorrect amounts, duplication of agreements, a contract for services that was incorrectly classified as a funding agreement and an agreement classified as active with a post project evaluation completed.

5.47 The use of multiple systems and manual interventions has contributed to reporting errors. The ANAO found a number of errors in Health's external reporting under the Senate Order for Departmental and Agency Contracts[22], including:

- PCD duplicated five agreements, resulting in an overstatement of the Division's agreement activity by around $170 million;
- PCD and an STO both reported agreements for one programme, resulting in duplication of four agreements in the report; and
- an STO did not report two funding agreements, resulting in an understatement of agreement activity of around $11 million.

5.48 The ANAO suggests that, to effectively and efficiently manage primary care agreement/contract data and report on agreement activity, Health improve the functionality of its FMIS Register. In the interim, the ANAO suggests that, in order to provide a complete picture of PCD agreement/contracting activity, improve the efficiency of monitoring, and the accuracy of reporting, the Division place all of its agreements, including those administered in STOs, on the PCD Register. This would allow centralised administration of agreement data and better coordinated external reporting.

---

[22] Health's principal external reporting obligation for funding agreements is the Senate Order on Departmental and Agency Contracts (the Senate Order). The consolidated report for 2004–05 is available from Health's website at the following address: <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/health-contracts-index.htm/$FILE/contracts.pdf>. Last viewed: 25 January 2006.

Management information system

5.49 In JCPAA Report 379, the Committee referred to the role of management systems/databases in retaining an organisation's knowledge when it stated that:

> Corporate memory is a vital part of effective contract management. The preservation of corporate memory is influenced by the experience and knowledge retained by staff, well recorded and documented information and decisions, internal communication strategies, effective contract management databases, and relevant training. All these factors are essential and CEOs should be striving for best practice.[23]

5.50 The ANAO considers that for an agency to be sure it gets what it pays for, the performance of funded organisations should be adequately monitored over the duration of contracts. In particular, the ANAO has previously reported its concerns at the inadequacy of agencies' management information systems which do not record contract milestones nor due dates, with some organisations not maintaining overall contract commitment details.

5.51 Health does not have a management information system to support the day-to-day administration of programmes, including those delivered via primary care funding agreements. The ANAO found that programme officers relied on a combination of paper lists or spreadsheets of essential information, the funding agreement, to-do lists, section/team planning tools (such as a calendar format of all reports and payments for a certain period), databases, and their memory to track when reports and payments were due. Many indicated that the small number of agreements or the regular reporting dates enabled them to commit the information to memory. In some instances, programme officers used spreadsheets to track processes, such as the receipt and assessment of reports and follow up of information.

5.52 The use of ad hoc, officer-specific monitoring techniques not only reduces the efficiency of administration and increases costs, it also increases the risk that contractual obligations are overlooked, particularly during absences of the responsible programme officer or changes in administrative staff.

5.53 Health is, however, working to implement a Project Management Information System. In October 2005, Health's Business Investment

---

[23] Joint Committee of Public Accounts and Audit, *Report 379 Contract Management in the Australian Public Service*, Parliament of Australia, Canberra, 2000, p.96, viewed 9 June 2005, <http://www.aph.gov.au>.

Committee[24] approved a business case to develop such a system. This project aims to develop a single system to support the key transactions in all stages of the standard funding process.

5.54 Once operational, Health envisages that the new system will remove the need for, and associated risks of, ad hoc and stand-alone systems that are expensive to develop and maintain. Health expects the system to support the standard funding process by capturing and re-using data in a consistent way and providing a consolidated database for programme management reporting. Health advised the ANAO that 'the initial system capability is expected to be completed by July 2007', with implementation across the Department by July 2009.

5.55 In the absence of a departmental management information system, the ANAO looked for supplementary systems/tools to assist programme officers manage the day-to-day administration of funding agreements. The ANAO noted that the PCD Guide contained a funding agreement tracking form to assist in the monitoring of critical elements of the funding agreement. The ANAO reviewed the template and considered that it provided a useful summary of the key elements of a funding agreement, as well as important progress information. Without a management information system, the ANAO considers that the use of the form and its inclusion in the agreement file would assist in day-to-day administration. The ANAO noted that programme officers had not used the form in any of the agreements assessed.

Conclusion

5.56 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.

5.57 Programme officers have ready access to legal and technical specialists, both at the departmental and divisional levels. These specialists provide advice

[24] This Committee was established in 2005–06 to approve project funding within Health's Business Group and projects that were financed from the Department's capital expenditure budget.

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.

5.58 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.

5.59 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.

5.60 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.

Steve Chapman
Acting/Auditor-General

Canberra ACT
24 May 2006

Appendix

Appendix 1: Primary Care Division Programmes[25]

- After Hours Primary Medical Care (AHPMC)
- Aged Care GP Panels Initiative
- Australian Primary Care Collaboratives Programme (APCCP)
- Divisions of General Practice
- Enhanced Primary Care (EPC)
- Evaluation of Regionalisation of GP Vocational Training
- General Practice Statistics
- GP—Hospital Integration
- Health Call Centres (HCC)
- Higher Education Contribution Scheme (HECS) Reimbursement Scheme
- Indigenous Health Projects
- Medication Management Reviews
- More Allied Health Services (MAHS)
- Nursing in General Practice
- Practice Incentive Payments (PIP) and Enhanced Primary Care (EPC) Review
- Primary Care Research Evaluation and Development (PHC RED) Strategy
- Reducing Red Tape in General Practice
- Registrars Rural Incentives Payments Scheme
- Round the Clock Medicare: Investing in After Hours GP Services (IAHGPS) Programme
- Rural and Remote General Practice Programme
- Rural Retention Programme

[25] Additional information on these programmes is available from Health's website: <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/health-pcd-programmes-index.htm> Last viewed: 17 January 2006.

- Rural Woman's GP Service
- Sharing Health Care Initiative
- Strengthening Medicare
- Training for Rural and Remote Procedural General Practitioners Programme
- Workforce Support for Rural General Practitioners (WSRGP) Programme

Index

Series Titles

Audit Report No.40 Performance Audit
Procurement of Explosive Ordnance for the Australian Defence Force (Army)
Department of Defence
Defence Materiel Organisation

Audit Report No.39 Performance Audit
Artbank, Department of Communications, Information Technology and the Arts

Audit Report No.38 Performance Audit
The Australian Research Council's Management of Research Grants

Audit Report No.37 Performance Audit
The Management of Infrastructure, Plant and Equipment

Audit Report No.36 Performance Audit
Management of the Tiger Armed Reconnaissance Helicopter Project–Air 87
Department of Defence
Defence Materiel Organisation

Audit Report No.35 Performance Audit
The Australian Taxation Office's Administration of Activity Statement High Risk Refunds
Australian Taxation Office

Audit Report No.34 Performance Audit
Advance Passenger Processing
Department of Immigration and Multicultural Affairs

Audit Report No.33 Performance Audit
Administration of Petroleum and Tobacco Excise Collections: Follow-up Audit
Australian Taxation Office

Audit Report No.32 Performance Audit
Management of the Tender Process for the Detention Services Contract
Department of Immigration and Multicultural Affairs

Audit Report No.31 Performance Audit
Roads to Recovery
Department of Transport and Regional Services

Audit Report No.30 Performance Audit
The ATO's Strategies to Address the Cash Economy
Australian Taxation Office

Audit Report No.29 Performance Audit
Integrity of Electronic Customer Records
Centrelink

Audit Report No.28 Performance Audit
Management of Net Appropriations

Audit Report No.27 Performance Audit
Reporting of Expenditure on Consultants

Audit Report No.26 Performance Audit
Forms for Individual Service Delivery
Australian Bureau of Statistics
Centrelink
Child Support Agency
Medicare Australia

Audit Report No.25 Performance Audit
ASIC's Implementation of Financial Services Licences

Audit Report No.24 Performance Audit
Acceptance, Maintenance and Support Management of the JORN System
Department of Defence
Defence Materiel Organisation

Audit Report No.23 Protective Security Audit
IT Security Management

Audit Report No.22 Performance Audit
Cross Portfolio Audit of Green Office Procurement

Audit Report No.21 Financial Statement Audit
Audit of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005

Audit Report No.20 Performance Audit
Regulation of Private Health Insurance by the Private Health Insurance Administration Council
Private Health Insurance Administration Council

Audit Report No.19 Performance Audit
Managing for Quarantine Effectiveness–Follow-up
Department of Agriculture, Fisheries and Forestry
Biosecurity Australia

Audit Report No.18 Performance Audit
Customs Compliance Assurance Strategy for International Cargo
Australian Customs Service

Audit Report No.17 Performance Audit
Administration of the Superannuation Lost Members Register
Australian Taxation Office

Audit Report No.16 Performance Audit
The Management and Processing of Leave

Audit Report No.15 Performance Audit
Administration of the R&D Start Program
Department of Industry, Tourism and Resources
Industry Research and Development Board

Audit Report No.14 Performance Audit
Administration of the Commonwealth State Territory Disability Agreement
Department of Family and Community Services

Audit Report No.13 Performance Audit
Administration of Goods and Services Tax Compliance in the Large Business Market Segment
Australian Taxation Office

Audit Report No.12 Performance Audit
Review of the Evaluation Methods and Continuous Improvement Processes for Australia's National Counter-Terrorism Coordination Arrangements
Attorney-General's Department
The Department of the Prime Minister and Cabinet

Audit Report No.11 Business Support Process Audit
The Senate Order for Departmental and Agency Contracts (Calendar Year 2004 Compliance)

Audit Report No.10 Performance Audit
Upgrade of the Orion Maritime Patrol Aircraft Fleet
Department of Defence
Defence Materiel Organisation

Audit Report No.9 Performance Audit
Provision of Export Assistance to Rural and Regional Australia through the TradeStart Program
Australian Trade Commission (Austrade)

Audit Report No.8 Performance Audit
Management of the Personnel Management Key Solution (PMKeyS) Implementation Project
Department of Defence

Audit Report No.7 Performance Audit
Regulation by the Office of the Gene Technology Regulator
Office of the Gene Technology Regulator
Department of Health and Ageing

Audit Report No.6 Performance Audit
Implementation of Job Network Employment Services Contract 3
Department of Employment and Workplace Relations

Audit Report No.5 Performance Audit
A Financial Management Framework to support Managers in the Department of Health and Ageing

Audit Report No.4 Performance Audit
Post Sale Management of Privatised Rail Business Contractual Rights and Obligations

Audit Report No.3 Performance Audit
Management of the M113 Armoured Personnel Carrier Upgrade Project
Department of Defence

Audit Report No.2 Performance Audit
Bank Prudential Supervision Follow-up Audit
Australian Prudential Regulation Authority

Audit Report No.1 Performance Audit
Management of Detention Centre Contracts—Part B
Department of Immigration and Multicultural and Indigenous Affairs

Better Practice Guides

Preparation of Financial Statements by Public Sector Entities	Apr 2006
Administration of Fringe Benefits Tax	Feb 2006
User–Friendly Forms Key Principles and Practices to Effectively Design and Communicate Australian Government Forms	Jan 2006
Public Sector Audit Committees	Feb 2005
Fraud Control in Australian Government Agencies	Aug 2004
Security and Control Update for SAP R/3	June 2004
AMODEL Illustrative Financial Statements 2004	May 2004
Better Practice in Annual Performance Reporting	Apr 2004
Management of Scientific Research and Development Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	July 2003
Goods and Services Tax (GST) Administration	May 2003
Managing Parliamentary Workflow	Apr 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	June 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999

Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	June 1999
Commonwealth Agency Energy Management	June 1999
Cash Management	Mar 1999
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	July 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	July 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management Handbook	June 1996