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Performance Audit

Funding for Communities and Community Organisations

Department of Families, Community Services and Indigenous Affairs

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
21 June 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Families, Community Services and Indigenous Affairs 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 *Funding for Communities and Community Organisations.*

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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**

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Audit Team

Peter Griffin
Alex Wilkinson
Sonia Mercier
Andrew Morris
Fran Holbert

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Abbreviations

ANAO	Australian National Audit Office
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FMA Act	*Financial Management and Accountability Act 1997*
FMA Regulation 10	*Financial Management and Accountability Regulations 1997*, Regulation 10
FOFMS	FaCSIA Online Funding Management System
NGO	non-government organisation
PBS	Portfolio Budget Statements
STOs	FaCSIA State and Territory offices

Glossary

Acquittal	A process whereby FaCSIA requires the grant recipient to provide a report that verifies that funding provided under a funding agreement has been expended for the approved purposes of the project, and any other matters required by the department for accountability purposes. The final acquittal report must be independently audited at the funding recipient's expense by an approved auditor.
Audited financial statement	A report relating to the expenditure and acquittal of funding, prepared according to required accounting standards, and independently audited by an approved auditor. Audited financial statements are required by FaCSIA where a long-form funding agreement is utilised.
FOFMS	FaCSIA Online Funding Management System is an information technology system for grants that tracks financial information and links financial information with the terms and conditions of funding agreements.
Funding agreement	A legally enforceable agreement setting out the funding terms and conditions determined by grant-giving organisations. The form of the agreement will depend on the intent of the grant and the degree of control required. The form of enforceable funding agreements includes deeds, contracts and exchange of letters.
Grant	A grant is a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. In a strict legal sense a grant is a 'gift' from the Crown, which may, or may not, be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding agreement where the recipient is selected on merit against a set of criteria. The term grant does not include funding of activities relating primarily to the provision of goods and services directly to a government agency.

IMPACT	A software system used by FaCSIA that supports a range of business functions, including financial management and human resource management.
Out of Scope programme	The term Out of Scope refers to grant funding arrangements with service providers that are not considered by FaCSIA to fall within prevailing corporate Output Groups, but are nonetheless funded through these prevailing corporate Output Groups under FaCSIA's Funding for Communities and Community Organisations strategy.
TARDIS	FaCSIA's grant management information technology system to support disability service grant administration.

Summary and Recommendations

Summary

Background

1. The Department of Families, Community Services and Indigenous Affairs (FaCSIA) provides funding under many programmes to facilitate social outcomes and benefits to the Australian community. These programmes typically fund non-government organisations to deliver services that contribute to such outcomes and benefits. In 2004–05, FaCSIA provided over $1 billion in funding for family and community services, delivered by almost 16 000 service providers.

2. Funding for communities and community organisations is primarily directed towards five groups of programmes, which account for 93 per cent of this expenditure. These groups include:

- **support for people with a disability**—which provides employment assistance and other services;
- **family support**—this includes child abuse prevention, grants to family relationships support organisations, early childhood and family initiatives under the Stronger Families and Communities Strategy, and services for families with children;
- **community support**—this includes emergency relief funding and community initiatives under the Stronger Families and Communities Strategy;
- **child care support**—which mainly comprises direct subsidies to child care providers; and
- **youth and student support**—this includes assistance to young people to overcome barriers to social and economic participation.

3. FaCSIA uses a variety of arrangements to fund providers to deliver family and community services. These arrangements include grants and subsidies, and other related funding arrangements, such as case-based funding and funding according to milestone events. These arrangements place differing obligations on service providers in relation to delivering services for which they have been funded. The arrangements also provide FaCSIA with differing mechanisms and capacities to address poor performance by service providers. For ease of reading, this audit refers to all these types of funding arrangements as grants.

4. Family and community grants fund a diverse range of services, but generally cater for those in the community with greater need for economic, social and physical support. A large number of services are provided in rural and remote areas, including to Indigenous people. In these areas, there are often few organisations capable of providing appropriate community and family services. However, many services are delivered in metropolitan and regional areas where there are numerous providers willing and able to provide services. These social welfare service providers are often very reliant on government funding for their financial viability.

Audit approach

5. The objective of the audit was to assess whether FaCSIA administers grants effectively, according to better practice guidelines, and consistently across geographic areas and the range of programmes included in the scope of the audit.

6. The scope of the audit included grants administered by FaCSIA[1] between 1 July 2002 and 30 June 2005, relating to programmes falling within four of the five groups of programmes providing funding for families and communities namely: Community Support; Family Assistance; Childcare Support; and Youth and Student Support.[2] In total, these groups involved total expenditure of some $533 million in 2004–05.

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1 Until 24 January 2006, this department was known as the Department of Family and Community Services. Following changes announced by the Prime Minister on 24 January 2006, the Office of Indigenous Policy Coordination became part of the new Families, Community Services and Indigenous Affairs portfolio. This report refers to the department by its new name (FaCSIA), except where quoting documents produced by the former Department of Family and Community Services.

2 This audit excludes disability services. ANAO Audit Report No.14 2005–06, *Administration of the Commonwealth State Territory Disability Agreement* examined services relating to the accommodation, care and participation in the community of people with a disability. The Support for People with a Disability group of programmes provides employment assistance and often other services to people with a disability. In 2004–05, this group of programmes accounted for around half of the $1 billion in expenditure on communities and community organisations. Given the magnitude of this programme group, the ANAO concluded that this area of FaCSIA administration would be better addressed in a separate audit of disability employment services. Accordingly, the Support for People with a Disability group of programmes was excluded from the scope of the audit.

7. The audit focussed on:

- whether FaCSIA executed adequate funding agreements for the grants included in the ANAO's sample. It assessed whether FaCSIA used the correct type of funding agreement, with appropriate terms, conditions and deliverables. It also examined risk management practices FaCSIA applies to its funding agreements;
- FaCSIA's financial management of funding agreements, including accuracy of payments made, financial acquittals, adequacy of payment and financial management systems, and compliance with key elements of finance legislation; and
- FaCSIA's monitoring of service provider progress in fulfilling the requirements of funding agreements, and the adequacy of internal and external performance reporting mechanisms for programmes that have substantial funding agreements.

8. The audit did not examine FaCSIA's processes to promote grant programmes, manage applications, and appraise, select and notify recipients of grants. These issues will be addressed in a separate audit the Australian National Audit Office (ANAO) is currently conducting and expects to table in the Spring 2006 Parliamentary Session.

9. Criteria for the audit assessment were drawn from the ANAO 2002 Better Practice Guide, *Administration of Grants*. To collect information against these criteria, the ANAO drew a broadly-based sample[3] of 102 grants from the four groups of FaCSIA programmes included in the scope of the audit. Fieldwork for the audit was primarily undertaken between July 2005 and November 2005, with some follow-up work carried out in March and April 2006. In addition to interviewing relevant officers from FaCSIA's State and Territory and National offices, the ANAO also interviewed personnel from 26 of the 102 service providers in the sample, and a representative of a social welfare peak body.

10. During and subsequent to the ANAO's audit fieldwork, FaCSIA was undertaking a number of initiatives to improve its administration of grant programmes. These initiatives included the implementation of the FaCSIA

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[3] The objective of the sample was to provide an indication of grant management across FaCSIA as a whole. The sample size was not sufficient to assess the overall effectiveness of the management of each of the programmes sampled. Therefore, issues identified in the sample may not reflect on the entire programme.

Online Funding Management System (FOFMS),[4] enhancements to FaCSIA's performance management framework, and improving programme management guidance to FaCSIA staff as part of the new FaCSIA Service Delivery Framework.[5] In addition, FaCSIA commenced a major business process re-engineering project for community based programmes in November 2005 and is now working towards implementing process changes across the department.

11. The ANAO considers that these initiatives have the potential to considerably improve FaCSIA's administration of grant programmes. However, given that many of these initiatives were either commenced or largely implemented after audit fieldwork, the audit could not assess their impact.

Overall audit conclusion

12. FaCSIA administers a large number of relatively small grants to a wide range of service providers. Many of these organisations are in the charitable, broader social welfare or volunteer sectors. To cater for this breadth of service delivery, FaCSIA focuses on using local knowledge garnered through its network of State and Territory offices, and knowledge held by its National office, to manage associated funding agreements. Recognising that the majority of these service providers rely on government funding for financial viability, FaCSIA has placed a strong emphasis on making timely payments.

13. The audit identified considerable scope for FaCSIA to improve grant administration processes and practices. These opportunities primarily relate to enhancing controls over grant payments, better monitoring and reporting the performance of grant providers and programmes, and ensuring that FaCSIA enters into funding agreements that have appropriate terms, conditions and performance requirements.

14. At the time of audit fieldwork, FaCSIA was unable to compile comprehensive information relating to its grant programmes. This necessarily constrained programme management and the department's ability to compile

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4 FOFMS is a software system for grants that tracks financial information and is also intended to link financial information with the terms and conditions of funding agreements.

5 This framework is intended to provide the basis for FaCSIA to undertake its service delivery activities in a consistent manner. It highlights the need to focus on outcomes, not just inputs and outputs, and encourages transparent practices and supports accountability. The framework consists of high level service delivery principles and programme management standards.

accurate information in a timely manner for its Annual Reports and other accountability documentation.

15. The audit also identified considerable divergence in grant management processes and practices between FaCSIA's National, State and Territory offices and across its various programmes.

16. Improving these major elements of grant management, and the consistency of approaches between FaCSIA's State and Territory offices and across its broad range of programmes, has the potential to enhance the quality and effectiveness of services delivered by providers on behalf of FaCSIA. It is also likely to improve the financial integrity of grant programmes by ensuring services are being provided for agreed purposes and to the required standard.

17. FaCSIA recognised the importance of improving its grant administration and the need to ensure consistent practices for management of the department's arrangements with service providers across all community programmes. The department commenced a major information technology project in February 2004 to design, develop and implement an integrated solution for the department's funding management requirements. The staged release of FOFMS commenced in 2004–05 with two releases involving FaCSIA staff and Disability Employment Assistance Business Service providers. Further releases occurred during 2005–06, to enable all FaCSIA community programmes to progressively move to use the system over this period.[6]

18. The ANAO considers that the full implementation of FOFMS, the new FaCSIA Service Delivery Framework, and the business process re-engineering project currently underway have the potential to support significant improvement in FaCSIA's management of some $1 billion per annum in grants. The ANAO notes that these initiatives represent a significant undertaking, which will require resources and commitment across the department if it is to deliver on improving the management of programmes and address the risks and issues identified in this audit.

19. As FaCSIA administers a large number of relatively small grants, an effective risk management approach is fundamental to facilitating efficient and effective service delivery. FaCSIA could improve its risk management practices when monitoring service provider performance and acquitting payments. While FaCSIA's recent fraud control plans have included strategies to mitigate

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6 Department of Family and Community Services, *Annual Report 2004–05*, pp. 261–262.

fraud associated with its grant programmes, FaCSIA could enhance practices to prevent and identify fraud, including through IT enhancements and in the course of implementing recommendations flowing from the business process re-engineering project.

Key findings

Funding Agreements (Chapter 2)

20. It is important that FaCSIA enters into appropriate funding agreements with service providers funded under grants programmes. If these agreements are not appropriate, for example not being in place at all, using the wrong type of agreement[7] or with insufficient terms, conditions and deliverables, then FaCSIA may face difficulties in ensuring that the required services are provided.

21. The ANAO found that appropriate funding agreements were in place for almost all grants included in the ANAO sample, with only three of the seven Emergency Relief Programme grants deficient. FaCSIA has undertaken action to address this issue with new funding agreements for all Emergency Relief Programme grants put in place from 1 July 2005. In addition, the department advised the ANAO in January 2006 that it is seeking to have appropriate agreements in place for all programmes going forward.

22. For most funding agreements examined by the ANAO, FaCSIA had used the appropriate type of agreement contract form, which included appropriate terms and conditions. However, the audit identified weaknesses in FaCSIA's monitoring of service providers' compliance with requirements included in funding agreements relating to adequate insurance coverage. The ANAO also found that there is scope for FaCSIA to improve schedules to the agreements, particularly to more clearly and fully specify project budgets.

23. FaCSIA has implemented an integrated risk management approach that included grant programme administration. However, there was little evidence on the files for the grants in the ANAO's sample that FaCSIA used a risk approach to the management of individual grants and funding agreements.

7 The type of agreement refers to FaCSIA's three standard form agreements—minimalist, short-form, and long-form.

Financial Management (Chapter 3)

24. Sound grant management requires payments to service providers to accord with the specifications of individual funding agreements, comply with relevant financial legislation, be subject to effective acquittal processes and controls, and be undertaken efficiently.

25. FaCSIA's new FOFMS system had yet to be fully implemented at the time of the ANAO's audit fieldwork, and the ANAO did not find adequate management information systems that readily matched financial information with funding agreement information for internal management purposes. The absence of these systems made it difficult for FaCSIA to provide adequate information relating to grants and funding agreements to external entities, including the ANAO.

26. At the outset of this audit, the ANAO requested FaCSIA to list all funding agreements and grants in recent years, by dollar value, categorised by programme and sub-programme. It took FaCSIA approximately three months to manually extract and collate relevant information, which was eventually provided at a lesser level of detail than originally requested—in that the value of grants were not reported at the sub-programme level.

27. FaCSIA advised that to respond to the ANAO's information request in full would have been too labour intensive and taken too long. Further, FaCSIA was not able to assure the ANAO that the information provided to the ANAO comprised the entire grants population in the scope of the ANAO's audit. Given this, it is not clear to the ANAO how FaCSIA was able to assure the accuracy of information on grants and funding agreements reported by FaCSIA in Annual Reports and other accountability documentation.

28. FaCSIA advised the ANAO in April 2006 that the introduction of FOFMS is expected to provide FaCSIA with a strong capacity to provide accurate aggregated performance information relating to grants and funding agreements.

29. The ANAO undertook an exercise to match actual payments to service providers against the financial specifications of 100 grants in the ANAO's sample.[8] The ANAO confirmed that FaCSIA made correct payments for 81 per cent of the sample of grants. However, 10 per cent of the sampled grants had

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[8] Two of the 102 grants in the ANAO's sample were new, and did not involve payments in the audit period (1 July 2002 to 30 June 2005).

inaccurate payments and the remaining nine per cent comprised payments that could not be readily reconciled with the funding agreements. This finding casts doubt on the overall accuracy of payments for grants and funding agreements, and the adequacy of FaCSIA's acquittal procedures.

30. The ANAO found that FaCSIA often did not apply adequate financial control practices when acquitting payments. In particular, FaCSIA records contained adequate audited financial statements for only nine per cent of the 76 long-form funding agreements[9] in the ANAO's sample. No audited financial statements were received for 36 per cent of sampled funding agreements. Where audited financial statements had been received, 55 per cent did not adequately report funding expenditures, and in some instances did not provide assurance that service providers had met milestone deliverables before FaCSIA made payments.

31. While 94 per cent of the sampled grants and funding agreements had some information on file related to whether the service provider met performance requirements over the sample period[10], there was little evidence that indicated that FaCSIA had used this information as part of the acquittal process.

32. Given the magnitude of the total expenditure on funding for communities and community organisations and the large number of service providers involved, it is important that FaCSIA takes effective measures for the prevention, identification and investigation of fraud associated with these programmes.

33. However, the ANAO found that FaCSIA is not adequately addressing fraud risks related to grants and funding agreements identified in its fraud control plan. The ANAO considers that FaCSIA's implementation of effective fraud control could be improved by ensuring that key fraud control mitigation strategies contained in its current fraud control plan are effectively implemented. These strategies include using effective funding agreements and applying sound financial acquittal practices; providing relevant staff with fraud awareness training; and undertaking appropriate fraud identification initiatives.

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9 FaCSIA requires that grant funding to service providers be subject to funding agreements. In order to place obligations and accountability on service providers appropriate to the risks and administration costs associated with the particular grant, FaCSIA has developed three types of funding agreement templates—a long-form agreement, a short-form agreement and a minimalist agreement.

10 That is, 1 July 2002 to 30 June 2005.

34. For around two-thirds of the ANAO sample of funding agreements, authorisation for the expenditure involved should have been obtained from the Finance Minister, or an appropriate delegate within FaCSIA, in order to satisfy the requirements of Regulation 10 of the *Financial Management and Accountability Regulations 1997* (FMA Regulation 10). However, for only nine agreements, or 12 per cent of sampled agreements to which FMA Regulation 10 applied, was evidence on file that such authorisation had been provided.

Monitoring and Reporting Performance (Chapter 4)

35. Monitoring the performance of service providers is an important component of the administration of funding programmes, as an encouragement to service providers to adhere to agreement requirements and better achieve the objectives of the funding programme.

36. The ANAO found that FaCSIA did not attempt to effectively target the limited resources the department had available for monitoring the performance of providers. Together with a lack of appropriate national guidelines on performance monitoring, this contributed to inconsistent performance monitoring procedures instituted in the various State and Territory Offices.

37. A high quality performance information framework allows funding programme administrators to gauge the success of their programmes and effectively target the allocation of resources. Such a framework also contributes to public accountability for the public funds involved.

38. The ANAO recognises that FaCSIA's grants and funding programmes contribute to social outcomes that benefit the Australian community. However, the absence of an effective performance information framework restricts FaCSIA's capacity to demonstrate the extent of these contributions, and effectively target the allocation of resources.

39. Subsequent to audit fieldwork, FaCSIA has undertaken a number of reforms aimed at improving its performance management framework. The ANAO considers that these reforms have the potential to deliver useful performance information. However, to have the desired impact, these reforms must be supported, over time, by the inclusion in funding agreements of requirements for better performance information, especially relating to indicators of effectiveness.

Recommendations

40. The ANAO identified further opportunities for improvement in FaCSIA's administration of funding for communities and community organisations and made eight recommendations that address improving:

- the execution of funding agreements;
- funding agreement acquittals and broader financial management; and
- monitoring grant recipients and reporting the performance of grant programmes.

FaCSIA response

41. The Secretary of the Department of Families, Community Services and Indigenous Affairs provided the following summary response to the audit findings.

42. FaCSIA agrees with the ANAO recommendations and was already taking steps to address many of the issues of concern to the ANAO. FaCSIA is currently implementing a new online departmental grants system and is undertaking a major, business process re-engineering project to establish consistent processes for managing funding agreements across programmes and locations. A specific Programme Operations Group has now been established to devise and oversight these changes which will ensure the provision of consistent advice and support to staff and improved processes and practices.

Recommendations

Recommendation No.1

Para. 2.18

The ANAO recommends that FaCSIA ensures that an appropriate funding agreement is in place and current for all grants.

FaCSIA response**:** Agreed.

Recommendation No.2

Para. 2.43

The ANAO recommends that FaCSIA ensures that grant recipients have appropriate types and levels of insurance in place by implementing a risk-based approach to collecting, and placing in its records, evidence that service providers have adequate insurance.

FaCSIA response**:** Agreed.

Recommendation No.3

Para. 3.30

The ANAO recommends that FaCSIA improves its processing of funding agreement acquittals, by:

a) applying a risk management approach to financial acquittals, so that resources and efforts to process funding agreement acquittals are matched to perceived risks;

b) implementing adequate quality control checking and accountability processes to ensure that acquittal processing adheres to the terms of funding agreements; and

c) adequately training staff who process payment acquittals so that they can adequately interpret financial information and/or otherwise have access to technical advice to support them in undertaking this function.

FaCSIA response**:** Agreed.

Recommendation No.4

Para. 3.43

The ANAO recommends that FaCSIA improves the management of grant payments, such that:

a) payments are consistently made according to the terms of funding agreements;

b) management information systems readily match financial information with funding agreement information; and

c) timely and accurate information about grant payments can be extracted across all FaCSIA programmes, including for communities and community organisations' programmes.

FaCSIA response: Agreed.

Recommendation No.5

Para. 3.52

The ANAO recommends that FaCSIA implements improved fraud control practices and procedures across all of its grants programmes and at the individual service provider level, by:

a) ensuring that it effectively implements the key fraud control mitigation strategies contained in its current fraud control plan, such as using effective funding agreements and applying sound financial acquittal practices;

b) providing relevant staff with fraud awareness training; and

c) undertaking risk-based initiatives specifically designed to identify fraud in the agency's grant programmes.

***FaCSIA response*:** Agreed.

Recommendation No.6
Para. 3.61

The ANAO recommends that FaCSIA ensures compliance with departmental practices and procedures relating to its administration of grants that support compliance with Regulation 10 of the *Financial Management and Accountability Regulations 1997*.

***FaCSIA response*:** Agreed.

Recommendation No.7
Para. 4.24

The ANAO recommends that FaCSIA develops uniform guidelines for monitoring the performance of its service providers. These guidelines should include better practices for: assessing risk; determining monitoring approaches given broad risk ratings and monitoring costs; and undertaking the main monitoring practices. These monitoring guidelines should form an integral part of the broader guidance on FaCSIA's administration of grants, and be promulgated to all relevant staff.

***FaCSIA response*:** Agreed.

Recommendation No.8
Para. 4.64

The ANAO recommends that FaCSIA improves its performance measurement framework relating to grants, such that:

a) performance information schedules to funding agreements include measures of effectiveness, quality and quantity;

b) these measures are suitable to be aggregated to the programme level and thereby contribute to the department's performance information framework contained in its Portfolio Budget Statements and Annual Reports; and

c) performance information collection and collation systems are established that facilitate the aggregation of performance information in funding agreements to the programme level.

***FaCSIA response*:** Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides background information about funding for communities and community organisations by the Department of Families, Community Services and Indigenous Affairs, and explains the audit approach.

Background

1.1 The Department of Families, Community Services and Indigenous Affairs (FaCSIA)[11] is responsible for developing and implementing social policy initiatives. While Centrelink, the Child Support Agency and State and Territory governments play key roles in the delivery of particular elements of these initiatives, FaCSIA retains a responsibility for developing and directly implementing a range of social policy programmes across the Australian community.

1.2 In line with the Government's policy to devolve service delivery mechanisms, FaCSIA funds a range of non-government service providers under various programmes to facilitate social outcomes and benefits to the Australian community. Most of FaCSIA's directly administered programmes involve delivery through community organisations, including both for-profit and not-for-profit non-government organisations.

1.3 In 2004–05, FaCSIA funded almost 16 000 providers to deliver services that contributed to all of its Portfolio's outcomes. FaCSIA estimated this funding of communities and community organisations would exceed $1 billion in the same year.[12]

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11 Until 24 January 2006, this department was known as the Department of Family and Community Services. Following changes announced by the Prime Minister on 24 January 2006, the Office of Indigenous Policy Coordination became part of the new Families, Community Services and Indigenous Affairs portfolio. This report refers to the department by its new name (FaCSIA), except where quoting documents produced by the former Department of Family and Community Services.

12 Department of Family and Community Services, *Portfolio Budget Statements 2004–05*, p. 36. A change in the format of the 2005–06 Family and Community Services *Portfolio Budget Statements* didn't allow the ANAO to identify the 2005–06 expenditure.

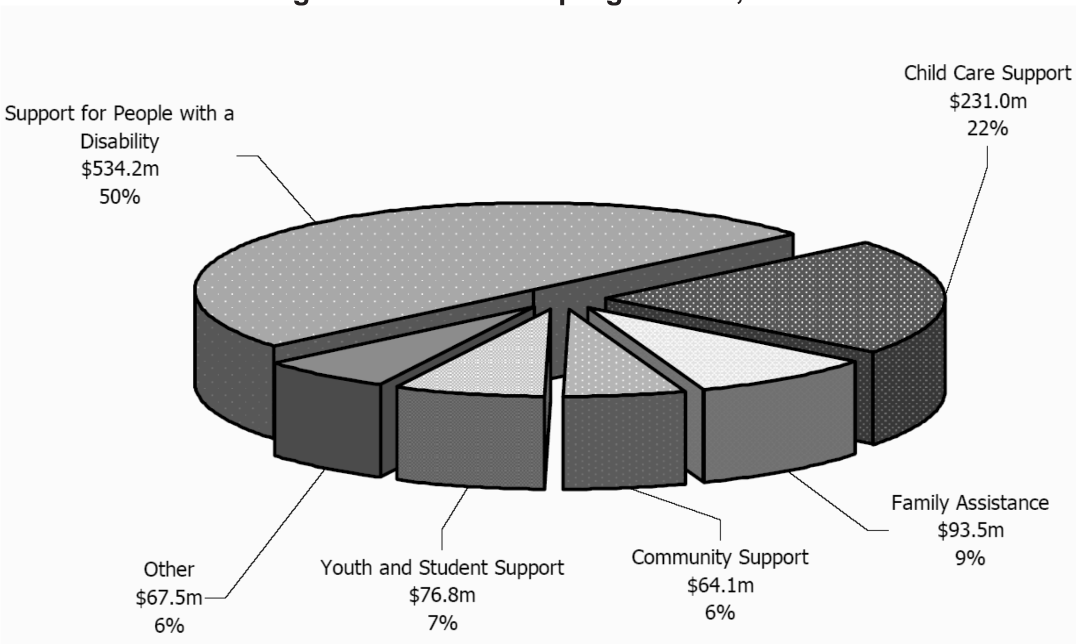
1.4 Funding for communities and community organisations is primarily directed towards five groups of programmes, which account for 93 per cent of this expenditure. These groups include:

- **support for people with a disability**—which provides employment assistance and other services;
- **family support**—this includes child abuse prevention, grants to family relationships support organisations, early childhood and family initiatives under the Stronger Families and Communities Strategy, and services for families with children;
- **community support**—this includes emergency relief funding and community initiatives under the Stronger Families and Communities Strategy;
- **child care support**—which mainly comprises direct subsidies to child care providers; and
- **youth and student support**—this includes assistance to young people to overcome barriers to social and economic participation.

1.5 Figure 1.1 illustrates the breakdown of this funding across the five programme groups. It shows that the majority of funding was distributed through the Support for People with a Disability group of programmes.

Figure 1.1

Breakdown of funding across FaCSIA's programmes, 2004–05



Source: Department of Family and Community Services, *Portfolio Budget Statements 2004–05*, p. 37.

1.6 FaCSIA's programmes fund a diverse range of services, but usually cater for those in the community with greater need for economic, social and physical support. A large number of services are provided in rural and remote areas, including to Indigenous people. In these areas, there are often few organisations capable of providing appropriate community and family services. However, many services are delivered in metropolitan and regional areas where there are numerous providers willing and able to provide services. These social welfare service providers are often very reliant on government funding for their financial viability.

Types of funding provided by FaCSIA

1.7 FaCSIA funds service providers to deliver services for family and community support programmes through grants, subsidies and various related funding arrangements.[13] These arrangements place differing obligations on service providers in relation to delivering services they have been funded to deliver. The arrangements also provide FaCSIA with differing

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[13] Related funding arrangements include case-based funding and funding according to milestone events.

mechanisms and capacities to address poor performance by service providers. For ease of reading, this audit report refers to all these types of funding arrangements as grants.

1.8 In May 2002, the Australian National Audit Office (ANAO) released the *Administration of Grants Better Practice Guide.* The ANAO guide defines grants as:

> a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. In a strict legal sense, a grant is a 'gift' from the Crown, which may, or may not, be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding arrangement where the recipient is selected on merit against a set of criteria. The term 'grant' does not include funding of activities relating primarily to the provision of goods and services directly to a government agency.[14]

1.9 Grants provided under FaCSIA programmes can range from being provided to the service provider subject to minimal conditions, to funding being provided only if the service provider satisfies stringent performance and other requirements.

1.10 FaCSIA provides guidance to its staff on the planning and administration of grants and associated payments through a number of avenues, but particularly the *Practical Guide to Programme Administration Chapter Six—Funding Agreements* (the Practical Guide). This guide was made available to all staff in January 2005, for mandatory use. Prior to this date, FaCSIA did not have central guidance on the administration of funding agreements. However, there was a range of guidance material developed and disseminated for use in administering individual funding programmes.

1.11 The Practical Guide states that funding agreements should be used to fund organisations to deliver services on the department's behalf to the community. It defines funding agreements as:

> performance based, legally enforceable agreements between the Australian Government and funding recipients that set out the terms and conditions governing the funding provided.

1.12 The Practical Guide states that grants and associated funding of community organisations should be subject to formal funding agreements. This is consistent with the ANAO *Administration of Grants Better Practice Guide*,

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14 ANAO (2002), *Administration of Grants Better Practice Guide*, p. VIII.

which states that 'an enforceable agreement should be established, wherever possible'.[15] Funding agreements generally provide public money from administered appropriations.[16]

Audit approach

1.13 The scope of the audit included grants administered between 1 July 2002 and 30 June 2005, relating to programmes falling within four of the five FaCSIA funding groups of programmes providing funding for communities and community organisations: Youth and Student Support; Community Support; Family Assistance; and Childcare Support.[17] In total, these groups involved expenditure of some $533 million in 2004–05.[18]

1.14 The objective of the audit was to assess whether FaCSIA administers grants effectively, according to better practice guidelines, and consistently across geographic areas and the range of programmes included in the scope of the audit.

1.15 The components of administration examined included:

- the execution of grants by FaCSIA, including whether it had in place funding agreements where required, and these agreements contained appropriate terms and conditions;
- the risk management procedures in place to ensure the integrity of FaCSIA funding programmes;
- the financial framework and systems in place to ensure the accuracy of payments, the accountability of service providers being funded, and compliance with relevant legislation;

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15 ibid., p. 50.

16 FaCSIA uses a commercial contract rather than a funding agreement when purchasing goods or services for the department's own purposes, for example cleaning office accommodation or using a consultant to undertake an evaluation.

17 This audit excludes disability services. ANAO Audit Report No.14 2005–06, *Administration of the Commonwealth State Territory Disability Agreement* examined services relating to the accommodation, care and participation in the community of people with a disability. The Support for People with a Disability group of programmes provides employment assistance and often other services to people with a disability. In 2004–05, this group of programmes accounted for around half of the $1 billion in expenditure on communities and community organisations. Given the magnitude of this programme group, the ANAO concluded that this area of FaCSIA administration would be better addressed in a separate audit of disability employment services. Accordingly, the Support for People with a Disability group of programmes was excluded from the scope of the audit.

18 The audit did not examine grants administered by FaCSIA but provided to community groups as a result of government commitments in the 2004 Federal Election because these grants were not included in the FaCSIA programmes examined in the audit.

- the adequacy of FaCSIA's arrangements to monitor whether service providers are complying with the terms, conditions and expected performance of funding agreements; and
- the adequacy of performance information reporting requirements contained in FaCSIA's funding agreements with service providers, and the overall adequacy of performance information at the programme level.

1.16 The audit did not examine FaCSIA's processes and practices to promote grant programmes, manage applications, and appraise, select and notify recipients of grants. These issues will be addressed in a separate audit the ANAO is currently conducting and expects to table in the Spring 2006 Parliamentary Session.[19]

1.17 The audit methodology included:

- conducting fieldwork in FaCSIA's central office and in its State and Territory offices, including interviews with key personnel and examination of documents, databases, and files concerning the policies and practices related to administering the main elements of grants;
- reviewing administrative systems underpinning reporting, and financial acquittal of grants;
- drawing a broadly-based sample of 102 grants across the major FaCSIA programmes in the four programme groups included in the scope of this audit, and comparing FaCSIA's administration of these against better practice standards outlined in the ANAO Better Practice Guide *Administration of Grants;* and
- consulting a range of organisations that are delivering services through grant funding.[20]

1.18 The methodology and criteria for the audit were developed using the ANAO Better Practice Guide. To undertake the audit, the ANAO compared the actual processes FaCSIA has in place to administer funding programmes, and those recommended by the ANAO in the better practice guide.

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[19] The forthcoming audit will also examine FaCSIA's administration of eight grants provided to community groups as a result of government commitments in the 2004 Federal Election.

[20] The ANAO spoke with key personnel from 26 of the 102 service providers in the sample. The ANAO also spoke to a representative of a social welfare peak body.

1.19 For the audit, the ANAO developed a sample of grants for each programme and for each State and Territory, and combined these samples to form the final sample of 102 grants. The sample included a wide coverage of programmes across the States and Territories, focussing on those programmes the ANAO regarded as being higher risk to the Commonwealth (such as programmes distributing higher levels of funding).

1.20 The purpose of the audit was to broadly examine FaCSIA's administration of grants, across the four programme groups included in the audit scope. It did not seek to assess the management of each of the programmes sampled. Accordingly, the size of the sample extracted for each programme is relatively small, as its objective was to provide an indication of grant management across FaCSIA as a whole. The sample size was not sufficient to assess the overall effectiveness of the management of each of the programmes sampled. Therefore, problems identified in the sample may not reflect on the entire programme.

1.21 The sample was based on grants in place between 1 July 2002 and 30 June 2005, but focussed on financial information for 2003–04. This represented the most recent financial year for which data were available at the time of the audit regarding services provided and payments made under grants. Appendix 1 provides a detailed listing of each grant in the sample.

1.22 Fieldwork for the audit was primarily undertaken between July 2005 and November 2005, with some follow-up work carried out in March and April 2006. During and subsequent to the ANAO's audit fieldwork, FaCSIA was undertaking a number of initiatives to improve the administration of grant programmes. These initiatives included:

- the implementation of the FaCSIA Online Funding Management System (FOFMS);[21]
- performance management enhancements for individual programmes, (for example, Youth programmes), and the agency-wide dissemination of guidelines for performance management;
- revising funding agreements and related guidance; and
- implementing a Service Delivery Helpdesk[22] and enhancing programme management guidance.

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21 FOFMS is a software system for grants that tracks financial information and is also intended to link financial information with the terms and conditions of funding agreements.

1.23 The FOFMS initiative is the result of FaCSIA's recognition of the importance of improving grant administration and the need to ensure consistent practices for management of the department's arrangements with service providers across all community programmes. Accordingly, the department commenced this major information technology project in February 2004 to design, develop and implement an integrated solution for the department's funding management requirements.

1.24 The staged release of FOFMS commenced in 2004–05 with two releases involving FaCSIA staff and Disability Employment Assistance Business Service providers. Further releases occurred during 2005–06, to enable all FaCSIA community programmes to progressively move to use the system over this period.

1.25 At the time of audit fieldwork, FaCSIA was also implementing its Service Delivery Framework. This framework is intended to provide the basis for FaCSIA to undertake service delivery activities in a consistent manner. It highlights the need to focus on outcomes, not just inputs and outputs, and encourages transparent practices and supports accountability. The framework consists of high level service delivery principles and programme management standards.

1.26 The ANAO considers that these initiatives have the potential to considerably improve FaCSIA's administration of grant programmes. This report notes these recent initiatives where relevant. However, given that many of these initiatives were either commenced or largely implemented after audit fieldwork, the audit could not assess their impact.

1.27 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of $698 000.

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[22] The Service Delivery Helpdesk provides a single gateway for advice on all issues related to managing community programs within FaCSIA.

Report structure

1.28 Figure 1.2 outlines the structure of each of the chapters in the report.

Figure 1.2

Outline of the report

Chapter 1 Introduction	Chapter 2 Funding Agreements
• Background information on FaCSI'a funding to communities and community organisations • Audit approach	• Adequacy of FaCSIA's administrative processes for executing funding agreements for non-government organisations • Risk management practices FaCSIA undertakes for its funding agreements
Chapter 3 Financial Management	**Chapter 4 Monitoring and Reporting Performance**
• Financial management of funding agreements, including payment accuracy, acquittals and the adequacy of financial management systems • Compliance with Regulation 10 of the *Financial Management and Accountability Regulations 1997*	• FaCSIA's monitoring of service provider progress to fulfill the requirements of funding agreements • Adequacy of internal and external performance reporting mechanisms

2. Funding Agreements

This chapter examines whether FaCSIA adequately executed funding agreements for the grants included in the ANAO's sample. It assesses whether FaCSIA used the appropriate type of funding agreement, with appropriate terms, conditions and deliverables. It also examines risk management practices FaCSIA applies to funding agreements.

Introduction

2.1 The importance of well-drafted funding agreements for the effective management of grants is outlined in the ANAO Better Practice Guide[23] which states that:

> Well-drafted funding agreements are an essential but not sufficient requirement for the effective management of grant programmes. The effective management of a funding agreement is dependent on the appropriate terms and conditions, derived from an analysis of the program and project specific risks, and supported by an efficient and effective monitoring regime.
>
> The goal should be to balance the requirements of accountability, the protection of the Commonwealth's interests and the achievement of value for money for public funds expended against facilitating the achievement of the outcomes of the grant program.

2.2 Funding agreements are legally binding agreements between the Commonwealth and another party. They are a mechanism for providing a clear understanding between Australian Government agencies and the service provider of quality requirements, outcomes, timing, and payment arrangements. Funding agreements require recipients to meet various good governance standards, including those relating to financial management and viability. They usually also provide for detailed reporting to the Commonwealth.

2.3 Current FaCSIA guidelines require funding agreements be put in place whenever the department funds an organisation to deliver services to the community. However, prior to January 2005, there were no FaCSIA-wide guidelines provided to staff administering grant programmes. Accordingly, there were no department-wide requirements for appropriate funding

[23] ANAO 2002, op. cit., p. 49.

agreements to be put in place. Rather, any guidelines on whether or not to use a funding agreement were issued on a programme by programme basis.

2.4 The level of detail, obligation and accountability requirements included in funding agreements should be commensurate with the value of funding being provided. FaCSIA has three standard types of funding agreements, which vary in this regard, according to the total financial value of the agreement. These agreements are the:

- **Standard Long-Form Funding Agreement**—this is the more common agreement containing comprehensive terms and conditions, including sanctions for non-performing service providers. FaCSIA guidelines recommend this agreement be used for arrangements in excess of $40 000 as this agreement provides maximum legal protection for the Commonwealth;
- **Standard Short-Form Funding Agreement**—FaCSIA guidelines recommend this agreement be used for funding projects between the values of $5 000 and $40 000. It does not have the comprehensive terms and conditions of the long-form agreement; and
- **Minimalist Funding Agreement**—FaCSIA guidelines recommend this agreement be used for funding projects up to a value of $5 000. It provides basic legal protection and accountability.[24]

2.5 The standard long-form agreement provides the Commonwealth with high-level legal protection commensurate with higher levels of financial risk. The short-form and minimalist agreements are in the form of a letter and acceptance of offer, and are commensurate with lesser perceived risk from an individual contract or service provider perspective.[25]

2.6 The use of these templates has been formally endorsed by the FaCSIA Executive Board, and now must be used by FaCSIA staff when providing funding to organisations delivering community service programmes.[26]

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24 Chapter Six—Funding Agreements, Department of Family and Community Services (FaCS), *Practical Guide to Programme Administration*, p. 12. FaCSIA revised the Long–Form Funding Agreement in January 2006 to make it more user-friendly for FaCSIA staff.

25 FaCSIA's policy guidelines permit exceeding the dollar thresholds outlined in paragraph 2.4 if a risk assessment is undertaken and the relevant delegate approves use of the alternative agreement type. FaCSIA advised the ANAO in April 2006 that it has recently revised the threshold levels to align them with levels commonly used in the broader procurement context. Under a new policy expected to be issued to FaCSIA staff in June 2006, the thresholds may be exceeded by a maximum of 10 per cent.

26 FaCS, *Practical Guide to Programme Administration*, op. cit., p. 8.

2.7 To assess whether FaCSIA uses suitable funding agreements, that are adequately specified, the ANAO considered whether:

- FaCSIA had funding agreements in place where they were required;
- FaCSIA used the appropriate type of funding agreement;
- the terms and conditions of the funding agreements, including those agreements which had been varied, were appropriate to the services provided;
- legal implications arise from non-compliance with the terms and conditions, including inadequate insurance coverage; and
- FaCSIA applied adequate risk management to funding agreements, prior to their execution.

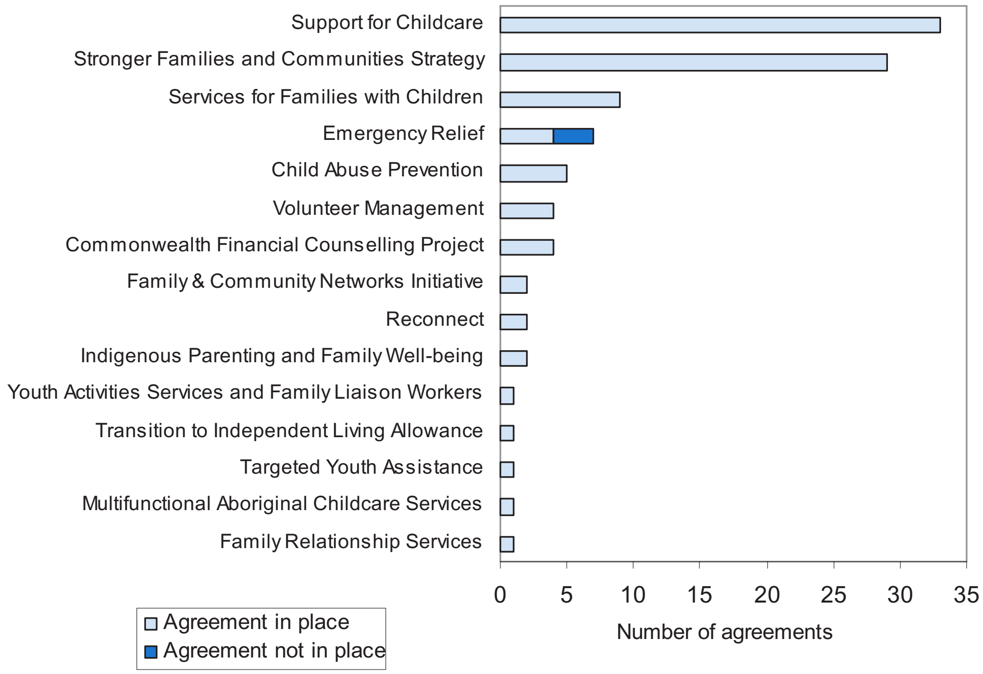
Existence of funding agreements

2.8 The ANAO examined whether FaCSIA had funding agreements in place across the population of grants in the ANAO's sample. Figure 2.1 presents the findings from this analysis. It illustrates that 99 of 102 funding agreements, or 97 per cent of the sample, had funding agreements in place. All three of the grants which did not have funding agreements in place belonged to the same sub-programme under the Emergency Relief Programme. FaCSIA provided funding in excess of $300 000 in total to the recipients of these three grants over the audited period.[27]

[27] That is, 1 July 2002 to 30 June 2005.

Figure 2.1

Existence of funding agreements in audit sample,[A] by programme[B]



Note: (A) The audit examined funding agreements administered between 1 July 2002 and 30 June 2005. FaCSIA introduced funding agreements for the Emergency Relief Programme from 1 July 2005 and has advised that funding agreements are now in place with all organisations receiving funding under the programme.

(B) Appendix 1 lists funding agreements in the sample by programme.

Source: ANAO analysis of the sample of grants and funding agreements.

Instances where FaCSIA did not enter into funding agreements

2.9 Not having funding agreements in place, where they are required, means that recipients of public money may not be legally bound to deliver the services FaCSIA expects them to deliver. This increases the risk that the services will not be delivered appropriately, with the Commonwealth likely to have little means of recovering associated losses.

2.10 As noted in paragraph 2.8 and Figure 2.1, the three grants for which funding agreements should have been in place, but were not, came from the Emergency Relief Programme.

2.11 FaCSIA advised the ANAO that these grants were to long-standing service providers whom FaCSIA considers have delivered past services as required. FaCSIA noted that these providers sometimes operated under funding conditions that were the same as when the service provider was first funded, which in some cases went back as far as the early 1980s. Such providers were sometimes funded on a recurring basis[28], and without a funding agreement.

2.12 However, FaCSIA advised the ANAO that it has given a high priority to reviewing practices in the Emergency Relief Programme and that funding agreements are in place for all service providers for the 2005–06 financial year.

Use of appropriate types of funding agreement

2.13 As paragraph 2.4 outlines, FaCSIA has three standard types of funding agreement, with the amount of detail, accountability and obligation on the service provider increasing according to threshold values of agreements.

2.14 If the correct type of agreement is used, with appropriate terms and conditions, it better balances the protection of the Commonwealth's interests, and the achievement of value for money for public funds expended, with the costs to service providers of complying with agreement requirements and of FaCSIA in administering grants.

2.15 The ANAO sought to verify whether FaCSIA used the appropriate type of agreement in the sample of funding agreements examined in the audit. Figure 2.2[29] indicates that all but six of the sample population (or 94 per cent) of funding agreements used the appropriate type of agreement. The six non-compliant agreements used a short-form or minimalist agreement where FaCSIA's current guidelines recommend that a long-form agreement should be used.

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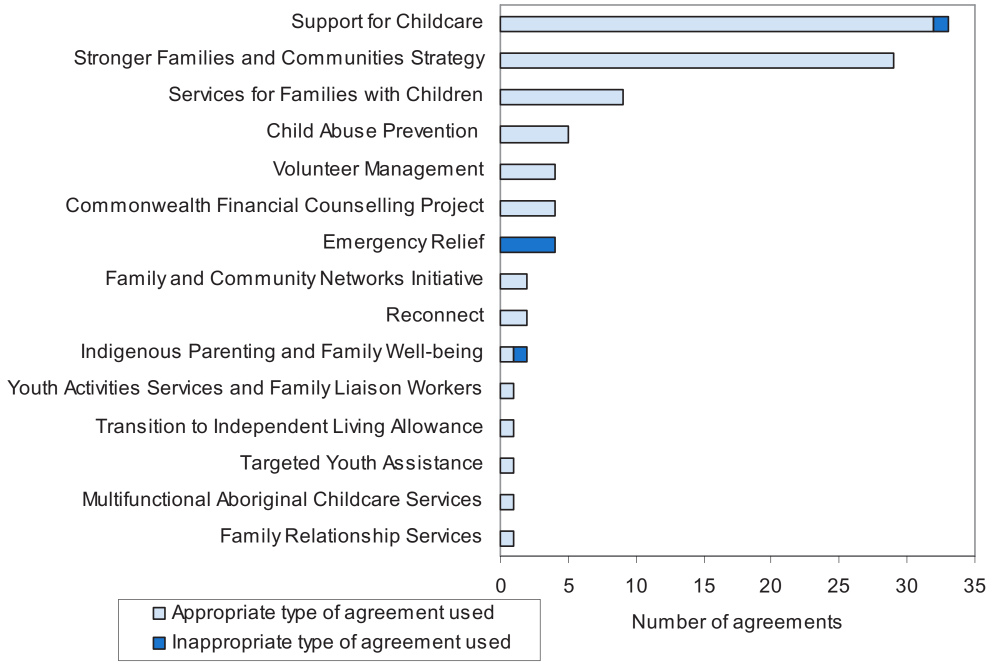
28 A recurrent grant generally involves an entitlement to annual funding over a number of years. In FaCSIA, these recurring grants are generally supported by an initial funding agreement, although the terms and conditions are not necessarily updated to be current over the ensuing years.

29 The sample of 102 funding agreements, as described in Chapter 1, was employed for this analysis. Figure 2.2 however excludes the three Emergency Relief programme grants for which there were no funding agreements.

Figure 2.2

Use of appropriate type of funding agreement in sample, by programme[A]



Note: (A) The sample excludes the three Emergency Relief programme grants that did not have funding agreements.

Source: FaCS Annual Report 2004–05 and ANAO analysis of the sample of grants and funding agreements.

2.16 The grants the ANAO identified as not having the appropriate form of funding agreement in place included some large grants. For example, one grant involved a service provider receiving up to $2 million per annum over the audited period[30] (over $3 million in total), for state-wide emergency relief arrangements. This amount of funding would normally require a long-form funding agreement. Such an agreement contains considerable conditions and stipulations that the recipient should comply with in order to receive funding, so as to provide the necessary safeguards in respect of the significant sums of public money involved.

2.17 While the ANAO sample indicates that FaCSIA generally does use the appropriate type of funding agreement where one is in place, it also identified that nine per cent of grants examined either did not have a funding agreement,

30 That is, 1 July 2002 to 30 June 2005.

or used one with terms and conditions that required insufficient accountability by the service provider for the public funds involved.

Recommendation No.1

2.18 The ANAO recommends that FaCSIA ensures that an appropriate funding agreement is in place and current for all grants.

2.19 FaCSIA response: **Agreed**.

Terms, conditions, and variations to funding agreements

2.20 Funding agreements with clearly stated terms and conditions provide controls that assist FaCSIA to achieve programme outcomes. This is largely because clear terms and conditions assist recipients to understand their obligations.

2.21 Variations to funding agreements often entail changes to these and/or other terms and conditions. Therefore, it is important that variations are documented and that funded service providers comply with them.

2.22 Current FaCSIA guidelines require that all funding agreements contain the endorsed terms and conditions upon which FaCSIA provides funding to organisations.[31] These guidelines underline the importance of staff not changing funding agreements by removing or amending any of the clauses, as such actions may weaken FaCSIA's controls over service provider performance.

2.23 The ANAO assessed the manner in which FaCSIA treated the terms, conditions and any variations to funding agreements across its National, State and Territory offices, to see if they were either consistent with the FaCSIA standard form funding agreements or whether any variations had been approved by FaCSIA Legal Services Branch or endorsed by an external legal source.

2.24 The ANAO found overall that funding agreements, where in place, were in the standard form prescribed by FaCSIA and contained the standard clauses. Typically, the standard terms and conditions had not been deleted or amended, and extra terms and conditions had not been added.

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[31] FaCS, *Practical Guide to Programme Administration*, op. cit., p. 24.

Adequacy of funding agreements to detail budgets, work plans and key deliverables

2.25 Schedules underpin the clauses to the funding agreements and contain information relating to the timing of payments, budgets, deliverables, milestones, and reporting.

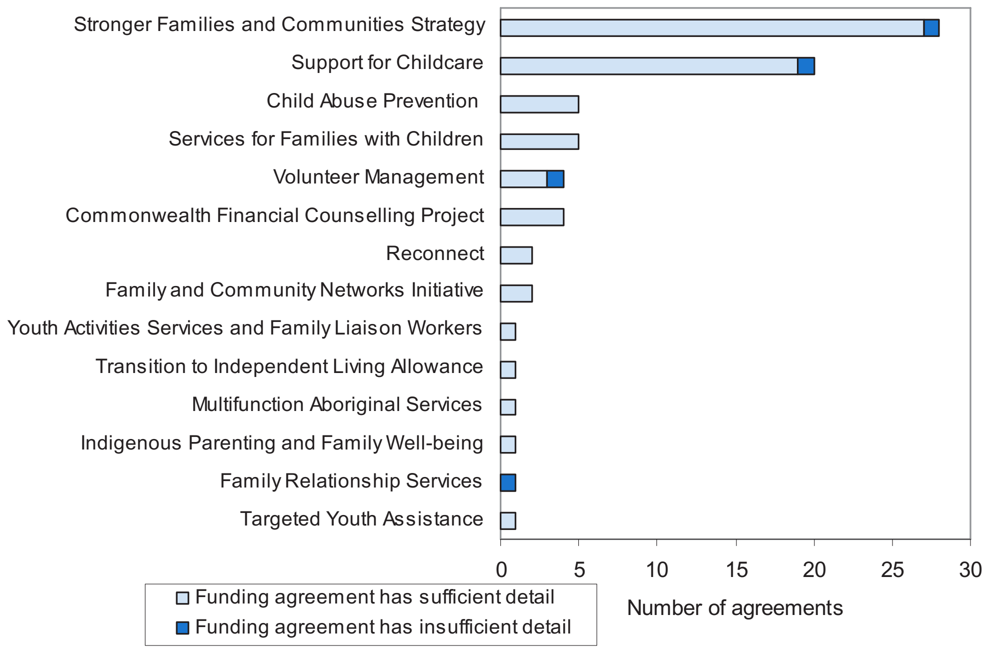
2.26 Schedules requiring this information are normally attached to the long-form funding agreements but not to the short-form and minimalist agreements. The ANAO examined all long-form funding agreements in the audit sample population (76 funding agreements) to determine if the schedules contained sufficient details about budgets, work plans and deliverables.

Adequacy of budgets in funding agreements

2.27 The ANAO identified some inconsistencies in the budgets set out in the schedules to the relevant sampled funding agreements. Figure 2.3 indicates that most of these long-form funding agreements clearly outlined how the service provider should spend funding dollars. Project budgets give the service provider guidance on the types of expenses and dollar limits allowable under a funding agreement. However, the schedules to four of the long-form funding agreements examined by the ANAO, representing five per cent of the relevant sample population, lacked an itemised expenditure budget or required the grant recipient to provide one. These schedules set out only the total amount of funding provided under the relevant funding agreement.

Figure 2.3

Clarity of details in sample of long-form funding agreements



Source: ANAO analysis of sample of grants and funding agreements.

2.28 It is important that schedules to funding agreements clearly define the budget, either providing clear guidance as to how money is to be spent or providing a budget expenditure range that builds in a degree of flexibility to allow the service provider to meet programme deliverables. Without clear guidance on budget issues, there is a risk that service providers will spend the funding on items that FaCSIA would not knowingly allow, or overstate expenditures on allowable items. Further, it can impede the delivery of services, make programme auditing difficult, and possibly limit FaCSIA's ability to recover funds not expended in accordance with the purpose for which funding was provided.

2.29 An example of the benefit of clearly itemising a project's budget is that FaCSIA was able to institute recovery action against a service provider whose funding agreement was in the ANAO sample, because they had expended incorrectly against the clearly stated budget in their funding agreement.

2.30 The ANAO suggests that FaCSIA ensure that all long-form funding agreements with providers clearly specify budget expenditure, including allowable expenditure items and limits for these items.

Adequacy of work plans and deliverables in funding agreements

2.31 The ANAO found that it was FaCSIA's practice on some occasions to roll over funding agreements on completion of the agreement cycle, without necessarily updating the schedules to the funding agreement to reflect any new objectives, goals, strategies or policy changes. In such cases, the work plans and project deliverables either did not exist or were not up to date and accurate during the later periods of funding.

2.32 Figure 2.4 outlines a case where rolling over funding agreements without updating work plans and project deliverables contributed to significant problems with the administration of grants to a particular service provider.

Figure 2.4

Example of FaSIA not ensuring appropriate funding agreements are in place and the service provider's performance is effectively monitored

Between 1995 and early 2004, FaCSIA funded an organisation to provide an emergency and vacation child care service through the Out of Scope programme, at a cost of around $140 000 annually. FaCSIA also provided the same organisation with around $30 000 in funding annually for the provision of After School Care through Childcare Broadband Block Funding.

In August 2003, the department identified two major problems with this service provider. First, the service provider had received funding for emergency care services it was not providing, as it had not delivered emergency care services for some ten years to that date. Secondly, the service provider had used some of the funding provided for emergency and vacation care for the provider's after school care service. Accordingly, FaCSIA was funding this provider twice for the same service (after school care).

In rolling over the funding agreement for the Out of Scope programme grant to this provider over the years, FaCSIA had failed to identify until August 2003 that it was funding the provider for a service that it did not offer. When FaCSIA investigated the matter in late 2003 and early 2004, it identified that the provider was using the funding provided through the Out of Scope grant, to the extent it was not needed for funding the vacation care service, to provide a range of child care-related services. However, the funding of these services through the Out of Scope programme grant had not been agreed with FaCSIA, as the department was unaware that the funding was not being used to provide emergency child care services.

The approximate $30 000 per annum in Childcare Broadband Block Funding to the organisation had been in place since before 1995 and was provided as an old style recurrent grant. The ANAO notes that FaCSIA was unable to find the relevant agreement when it identified the problems with this provider in 2003.

In early 2004, FaCSIA negotiated and signed a new Out of Scope programme funding agreement with the provider that more accurately reflected the nature of the actual services provided. The Out of Scope funding of some $140 000 per annum was now being provided for the operation of a vacation care service, an after school care service and a bus drop off service. FaCSIA advised the ANAO that the new long-form funding agreement was felt by all parties to better reflect FaCSIA priorities and the service provider's ability to deliver specific services/programmes. FaCSIA advised that performance indicators are now clear and the contract is being actively monitored.

Taking into account the need to allow the small community service provider time to adjust its operations, FaCSIA notified the provider in March 2004 of its decision to cease the Childcare Broadband Block Funding with effect from 30 June 2004.

FaCSIA did not consider it appropriate to take any action to recover any of the funding provided over some nine years for emergency child care services which were not actually offered or provided by the service provider. The rationale was that no documentation existed on file which clearly identified the proportion of the organisation's funding that was agreed to be dedicated to emergency care. In the absence of this documentation, the department was not in a strong legal position to initiate recovery action. The file does not record the deliberations that led to this decision. FaCSIA advised the ANAO in April 2006 that it has now instigated action to resolve the matter in line with requirements of the *Financial Management and Accountability Act 1997*.

Source: ANAO analysis and FaCSIA advice in April 2006.

2.33 This example underlines the importance for FaCSIA of entering into appropriate funding agreements and effectively monitoring delivery of the services covered by such funding agreements. Particular lessons for FaCSIA included:

- ensuring it does not fund organisations more than once for the same service. Remedies include better communication between programme areas providing grants within FaCSIA, and requiring as part of the terms of funding agreements that organisations inform FaCSIA when they realise that they may be receiving such duplicate payments;
- improving task specifications and work plans in funding agreements, especially where they are being rolled over, to clearly specify that organisations are providing the services FaCSIA expects them to deliver;
- improving monitoring arrangements for funding agreements, so that there can not be extensive periods of payments for services not actually provided, and linking findings from monitoring activities to the negotiation of new funding agreements;
- ensuring that all old style recurrent grants cease to exist and are replaced by current and up-to-date funding agreements; and
- improving the storage and retrieval of funding agreements, as these are important legally binding documents whose purpose is to safeguard public monies and facilitate the achievement of the public policy objective for which funding is being provided.

Insurance coverage in funding agreements

2.34 The requirement for grant recipients to have in place appropriate insurance coverage is an integral component of funding agreements, as appropriate coverage may protect FaCSIA, the service provider and third parties to the agreement against possible breach, loss or damage arising during the course of the grant. The types of insurance required by FaCSIA in any particular case are set out in the schedules to individual funding agreements.

2.35 The FaCSIA standard short-form and long-form funding agreements require funded organisations to maintain certain insurances—typically paid-up and up-to-date professional indemnity, public liability, workers' compensation and motor vehicle insurances. The minimalist agreement includes no insurance requirements.

2.36 Table 2.1 outlines some possible risks to FaCSIA, and other Australian Government agencies, of service providers having insufficient or non-existent insurance coverage. It shows that risks to agencies of service providers having inadequate insurance can be managed effectively through the implementation and compliance with the standard funding agreements. However, agencies are exposed to these risks if the agency does not have funding agreements in place, if existing funding agreements do not contain the effective standard insurance clauses, or if agencies do not effectively monitor provider compliance with the relevant requirements of their funding agreements.

Table 2.1

Key risks associated with insurance coverage of service providers delivering services under grant arrangements

Scenario	Major risks for agencies and the Commonwealth
No funding agreement in place between the agency and the service provider:	• The agency has little ability to enforce the service provider to have insurance cover. • The agency may lose the right to indemnity from the service provider. Although not common, in some grant programmes an agency would require the service provider to indemnify the agency from liability to third parties, even where the service provider is not at fault. This might be the case in respect of a particularly high risk service provider or programme. • Workers' compensation insurance requires special consideration. If a service provider has workers for the purposes of the relevant State or Territory's workers' compensation legislation, it is required by law to hold workers' compensation insurance.
Funding agreement in place between the agency and the service provider:	• Insurance risks can generally be managed effectively through proper treatment in funding agreements and monitoring of service providers' compliance with the funding agreement's terms and conditions. • If the service provider causes loss to the agency but the agency is a party to the service provider's insurance policy, then the agency should be able to claim directly on that insurance policy. • Workers' compensation insurance risk can be managed to some extent through a funding agreement requiring the service provider to indemnify the agency against any liability incurred as a result of a failure to maintain workers' compensation insurance. Of course, if the service provider does not have sufficient funds to meet this liability, then the clause will not protect the agency.

Source: ANAO analysis and legal advice obtained by the ANAO.

2.37 The ANAO examined files for the funding agreements in the sample to assess the extent to which existing funding agreements contained the standard insurance clauses, and whether FaCSIA collected evidence from the service providers that showed they had current, paid-up insurances.

2.38 The ANAO found that the entire sample of funding agreements included adequate insurance clauses. While there was some variation in approach and precise wording, funding agreements typically required the funding recipients to have public liability, workers' compensation, and professional indemnity insurance. They also usually required compulsory third party and comprehensive insurance for all motor vehicles acquired with the grant funding.

2.39 FaCSIA's current guidelines state that evidence may be collected that service providers have adequate insurance,[32] especially through insurance certificates.

2.40 However, the ANAO found that for only around 27 per cent of the sample was there evidence of current, paid-up and compliant insurance on FaCSIA's files (see Figure 2.5). This occurred partly because staff administering some FaCSIA programmes do not request any evidence of insurance details, while staff administering other programmes may request evidence but not adequately follow-up unfulfilled requests.[33]

2.41 The ANAO also found that where insurance documentation was held on FaCSIA files it did contain the appropriate terms and conditions. FaCSIA advised the ANAO that in respect of a grant where no funding agreement was in place, the department was not aware if those service providers had insurance cover.[34]

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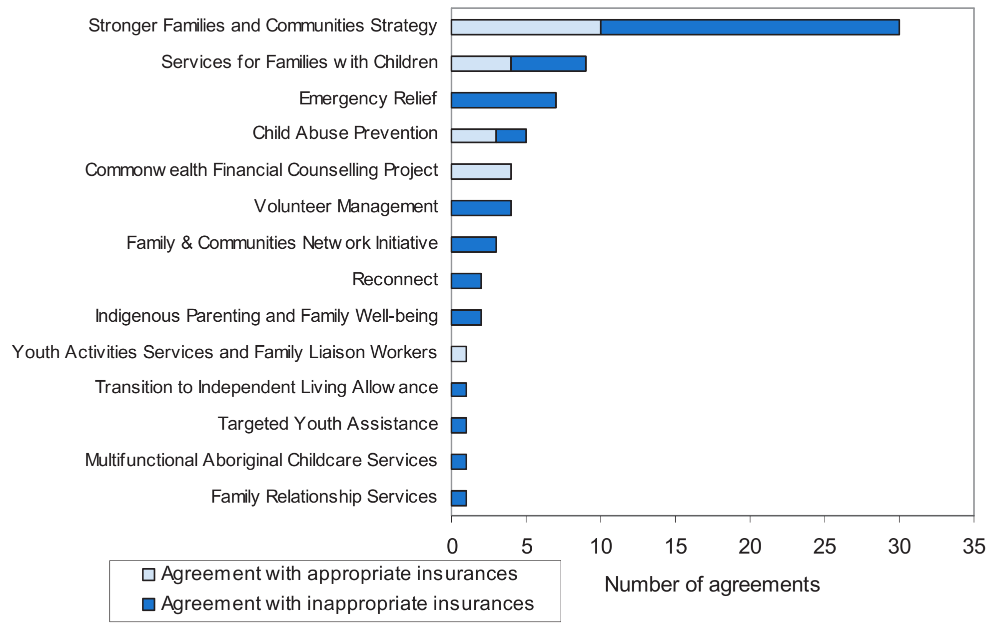
[32] ibid.

[33] The standard funding agreements provide that FaCSIA can delay payments until service providers verify their insurance cover.

[34] Those grants without funding agreements in place during the period covered by the audit were the three Emergency Relief Programme grants.

Figure 2.5

Existence of insurances on file, paid up and current



Source: ANAO sample of funding agreements.

2.42 Based on the sample, the ANAO considers that FaCSIA has not sufficiently ensured that service providers receiving grants have adequate, paid-up and current insurance coverage. This is not consistent with FaCSIA's current guidelines, and increases the consequences of risks that should have been mitigated via insurance coverage.

Recommendation No.2

2.43 The ANAO recommends that FaCSIA ensures that grant recipients have appropriate types and levels of insurance in place by implementing a risk-based approach to collecting, and placing in its records, evidence that service providers have adequate insurance.

2.44 FaCSIA response: **Agreed**.

Risk assessment of funding agreements

2.45 The ANAO's Better Practice Guide describes the advantages of a documented risk management process for grants administration as follows:

> Risk management focuses on maximising the value for money of grant expenditure through minimising adverse impacts by identifying and treating potential risks. In the absence of formal risk assessments, which link top organisational business plans, strategies, performance information and related review processes, it is difficult for grant administrators to assure the Chief Executive Officer that resources are deployed in an efficient, effective and ethical manner.[35]

2.46 Effective risk management of grants requires that risks associated with service provision are assessed prior to the funding agreement being finalised. FaCSIA's current programme guidelines[36] provide assistance and direction for staff to assess risks associated with service providers. These guidelines state that periodic risk assessment reviews are to be performed where any agreement extends beyond one year.

Risk assessment and funding agreements

2.47 The ANAO examined FaCSIA's approach to risk management of grants administration across the programmes included in the audit sample. It assessed whether:

- risk management processes for grant administration were integrated with higher-level risk processes, as discussed in the paragraph above; and
- risk approaches were adequate at the individual funding agreement level.

2.48 The ANAO found that FaCSIA has an agency-wide risk management framework that seeks to integrate grant administration risks within an approach that considers top organisational business plans, strategies, and broad review processes. FaCS Annual Report 2004–05 states that:

> Substantial progress also was made on building risk management processes into the new governance structure established following the Administrative Arrangements Order changes. Under the new arrangements, strategic (departmental) risks are identified, prioritised for treatment, and reviewed by

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[35] ANAO, op. cit., p. 11.

[36] FaCS, *Practical Guide to Programme Administration*, op. cit., p. 16.

the Executive Management Group. Operational risks are identified in business and project plans. Integration of the two levels of risk management occurs through the business planning process and by group managers reporting to the Executive Management Group.[37]

2.49 The ANAO's examination of the sample of grants indicated that this approach was generally being implemented by FaCSIA National Office, and for most programmes administered in its State or Territory offices.

2.50 FaCSIA requires a standard risk management approach to grants and funding agreements, based on AS/NZS 4360.[38] Some of FaCSIA's State and Territory offices have developed risk management tools for grants and funding agreements based on this underlying approach.

2.51 Further, a sound risk management strategy has been developed for the Stronger Families and Communities Strategy that assesses risk at two separate points:

- in developing programmes, programme risk assessment is based on proposed funding models, programme delivery strategies and target service providers. This is taken into account when creating programme guidelines and standard reporting requirements; and
- during the tender assessment, process risk associated with service providers is assessed and this is then taken into account when developing internal monitoring plans.

2.52 However, there was little evidence on the files of grants included in the ANAO's sample that FaCSIA used a risk approach to manage individual grants and funding agreements. Interviews with FaCSIA staff during the audit indicated that monitoring of service provider performance under funding agreements was not undertaken on a risk basis (see paragraph 4.20).

2.53 The ANAO considers that it is important that FaCSIA reviews its risk management practices and procedures for grants and funding agreements, to ensure they are applied appropriately across its entire suite of grant programmes. FaCSIA advised the ANAO in April 2006 that the business process re-engineering project the agency currently has underway will address the need for it to adopt a risk-based strategy and how it should be applied.

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37 FaCS, *Annual Report 2004–05*, op. cit., p. 239.

38 Standards Australia, *AS/NZS 4360: 2004 : Risk Management.*

3. Financial Management

This chapter examines FaCSIA's financial management of funding agreements, including accuracy of payments made, financial acquittals, adequacy of financial payments and management systems, and compliance with key elements of finance legislation.

Introduction

3.1 The legislative framework for financial management of Australian Government departments, including FaCSIA, is the *Financial Management and Accountability Act 1997* (FMA Act). This Act also provides an accountability framework to which funding agreements and grant programmes administered by FaCSIA must conform. FaCSIA's current programme guidelines[39] offer specific guidance to staff on how to meet FMA Act requirements when administering financial components of grants and funding agreements. However, these guidelines were only promulgated to FaCSIA staff in January 2005.

3.2 The method and timing of payments by FaCSIA to service providers depends on the programme or grant type. This in turn dictates whether payment is made for services rendered after delivery or whether a start up advance and/or payment is provided.[40] Once a funding agreement takes effect, payments should be made according to the terms and conditions of the agreement, including any acquittal requirements.

3.3 During the audit period (that is, 1 July 2002 to 30 June 2005), management of payments in FaCSIA were administered on a programme basis, with the relevant programme administrator overseeing this process. As FaCSIA did not have a centralised departmental payments section, payments were made from the relevant programme area in the State or Territory office that administers the relevant funding agreement.

3.4 FaCSIA has advised the ANAO that the new FaCSIA Online Funding Management System (FOFMS) is now largely implemented, and by the end of June 2006 will be used to monitor and manage payments from all programme

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39 FaCS, *Practical Guide to Programme Administration*, op. cit., pp. 43–44.

40 Payments in advance are discretionary and depend on circumstances such as the type of programme as well as the service provider's ability to be able to meet expenses up-front. Further, top-up payments may be made in circumstances where it is deemed appropriate that additional funding is needed to achieve project objectives. Variation to the funding agreement is required to reflect such changes.

groups except childcare. FOFMS represents a significant financial investment for FaCSIA, with external contractor costs exceeding $17.3 million to February 2006.

3.5 In testing key aspects of the financial management of grants and funding agreements, the ANAO considered:

- whether FaCSIA pays service providers according to the terms and conditions of the funding agreement or grant;
- FaCSIA's procedures to acquit payments;
- the adequacy of FaCSIA's key systems that manage funding agreement payments; and
- FaCSIA's compliance with Commonwealth financial management legislation, in particular Regulation 10 of *Financial Management and Accountability Regulations 1997* (FMA Regulation 10).[41]

Accuracy of funding agreement payments to service providers

3.6 Funding agreement payments should be made according to agreed deliverables, timeframes for delivery, milestone achievements and be linked to a well-constructed project budget, under the terms and conditions of the funding agreement. This sometimes involves linking payments to an assessment of cash flow requirements or withholding payments where final reports or acquittals have not been provided.

3.7 To assess the robustness of FaCSIA's management of payments to service providers, the ANAO analysed a sample[42] of 102 grants for payments made. This analysis involved an interrogation of FaCSIA's electronic financial payment systems for all relevant payments. The test for payment accuracy mainly involved reconciling the payments made and recorded to FaCSIA's IMPACT[43] system with agreed funding amounts specified in funding agreements. Figure 3.1 presents this analysis.

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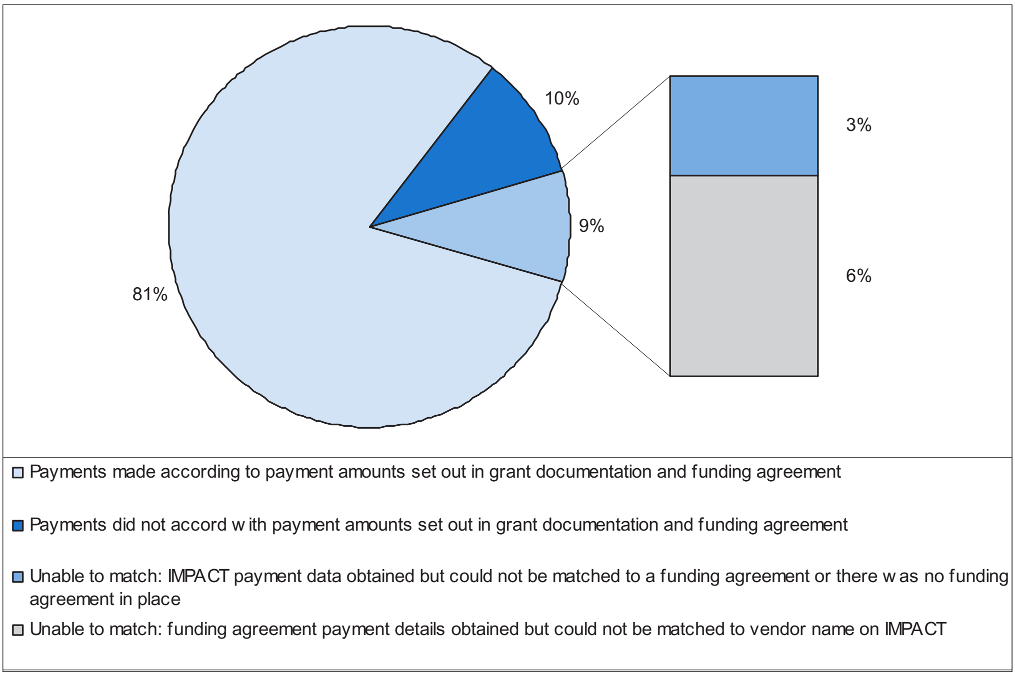
[41] FaCSIA must also comply with FMA Act Regulation 9, relating to spending public money efficiently and effectively. The ANAO will consider these issues in a forthcoming audit that examines FaCSIA's performance in selecting organisations for grants and funding agreements.

[42] As described in Chapter 1, paragraph 1.17.

[43] IMPACT is a SAP-based information technology system. It is the primary payments system for most programmes that fall within the scope of this audit and predates FOFMS.

Figure 3.1

Accuracy of payments to service providers in ANAO sample:[A] reconciliation between actual payments and grant documentation and funding agreements



Note: (A) Two of the sampled agreements were new, and did not involve payments, so have been excluded.

Source: ANAO analysis of the sample of grants and funding agreements, and IMPACT records.

3.8 Figure 3.1 indicates that the ANAO could reasonably determine that payments were made accurately, in accordance with payment amounts specified in funding agreements, in 81 per cent of the sampled cases. Ten per cent of sampled grants were paid amounts that did not reconcile with funding agreement specifications. For a further nine per cent of the sample of grants, it was not possible to readily match payment details to specific funding agreements. In combination, almost one-fifth of the sampled grants either had inaccurate payments or comprised payments that could not be readily reconciled. This finding casts doubt on the overall accuracy of payments for grants and funding agreements, and the adequacy of FaCSIA's acquittal procedures.

3.9 FaCSIA advised the ANAO in April 2006 that the introduction of FOFMS has already addressed many of the concerns raised by ANAO, and the business process re-engineering project, currently expected to be implemented in 2006 and 2007, is working to address the out of system aspects of this process for other parts of the department.

Service providers' views on FaCSIA's grant payments

3.10 The ANAO interviewed a sample of 26 service providers through a series of face-to-face and telephone interviews. The service providers were asked for any views and comments on their dealings and experiences with FaCSIA relating to grant payments.

3.11 The ANAO found that almost two-thirds of the service providers interviewed were satisfied with FaCSIA's performance in relation to payments. Approximately one-third of service providers interviewed had experienced difficulty with the payment process. This difficulty mainly related to the timeliness of payments. Three of the service providers interviewed advised that they had received their payments so late that they were forced to use funding from their other programmes in the interim.

Payment acquittal procedures

3.12 The ANAO *Better Practice Guide: Administration Of Grants, May 2002* describes the importance of effective acquittal procedures, stating:

> Adequate and well-documented arrangements to ensure financial accountability are the basis of effective grants acquittal. Administrative procedures to acquit grants on a regular basis are an important management control. The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance.[44]

3.13 FaCSIA's current guidelines indicate that payments to service providers are subject to acquittal processes, and that 'the stringency of acquittance should be balanced against the risk and take into account the cost of compliance'.[45] The purpose of acquittals of FaCSIA's funding agreements is to provide assurance that payments to service providers are made in accordance with payment specifications in those agreements, and that service providers have met stated performance requirements.

3.14 To provide guidance to its staff about acquittal procedures, the FaCSIA guidelines issued in January 2005 also state that:[46]

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[44] ANAO, op. cit., p. 61.

[45] FaCS, *Practical Guide to Programme Administration*, op. cit., p. 47.

[46] ibid., pp. 46–47.

- staff must analyse acquittance documentation for each component (objectives and funds) within one month of receipt;
- when analysing acquittance documentation, the relevant officer must comment on issues of relevance, including:[47]
  a. any concerns raised by the auditor;
  b. acknowledging evidence of good management practices during the course of the year;
  c. performance in relation to other Agency's activities; and
  d. ensuring all audit concerns from the previous year have been addressed, and where appropriate, rectified.
- for multiyear agreements, partial acquittal of expenditure should also occur in the following circumstances:
  a. the funding recipient has returned unspent funds in advance of acquittance documents (surplus funds);
  b. full expenditure of the released amount by the end of the financial year has not occurred and is required to complete activity in the next financial year (unexpended funds); or
  c. not all funds can be accounted for (abandonment).

3.15 The ANAO examined FaCSIA's payment acquittal processes applied to the sample of funding agreements to determine whether acquittal practices complied with relevant requirements, as outlined in the previous two paragraphs. This acquittal analysis involved comparing FaCSIA's records of grant payments made against financial and performance requirements of funding agreements.[48]

Adequacy of acquittals against financial specifications of funding agreements

3.16 Figure 3.1 showed that the ANAO could confidently determine that payments had been made according to payment amounts specified in the relevant funding agreements for 76 of 100 in the ANAO's sample of grants in respect of which payments had been made.[49]

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[47] Acquittal commentary must be noted on the relevant file or database.

[48] Although there were no funding agreements in place for some service providers in the Emergency Relief Programme at the time of audit fieldwork (see Chapter 2), grant documentation was still acquitted.

[49] Although the total sample of grants examined by the ANAO was 102, no payments had been made in respect of two of these grants during the audit period (1 July 2002 to 30 June 2005).

3.17 The ANAO also checked whether these payments satisfied other financial requirements of funding agreements, especially whether service providers returned any unspent funds to FaCSIA, or FaCSIA authorised the service providers to spend them in the next financial year (that is, to be rolled over).

3.18 This analysis identified another seven instances where there was no evidence on file that unspent funds were appropriately rolled over. In some of these instances, the ANAO identified evidence that FaCSIA notified the service provider that they needed to further acquit these surplus funds, but the acquittal did not occur.

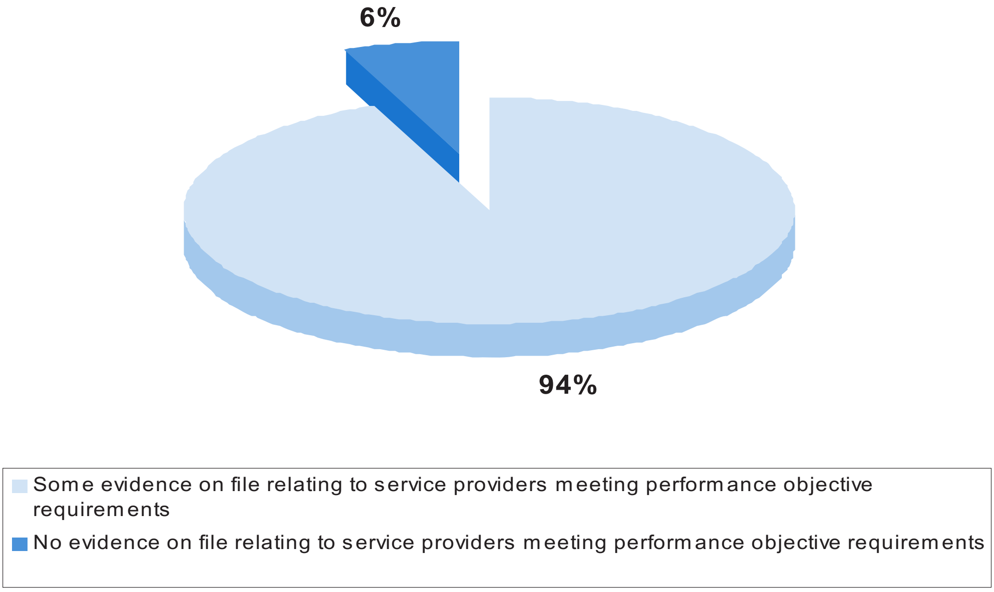
Adequacy of acquittals against performance deliverables in funding agreements

3.19 The ANAO examined FaCSIA's hard copy files for the sample of grants, to assess whether FaCSIA had adequately considered whether service providers had met the requirements of work plans and agreed deliverables as part of the financial acquittal process.

3.20 Figure 3.2 indicates that 94 per cent of the sampled grants and funding agreements had some information on file related to whether the service provider met performance requirements over the sample period. Such information typically involved either a service provider's self-evaluation or a FaCSIA monitoring report. This indicates that FaCSIA could have considered the performance of these service providers as part of the financial acquittal process for most grants and funding agreements.

Figure 3.2

Existence of information on FaCSIA's files relating to service provider performance: ANAO sample of grants and funding agreements[A]



Note: (A) Two of the sampled agreements were new, and did not involve payments in the audit period (1 July 2002 to 30 June 2005), so have been excluded.

Source: ANAO sample of grants and funding agreements.

3.21 However, there was little information on file that indicated whether FaCSIA actually had used this information as part of the acquittal process. FaCSIA staff may have used the information but not annotated that they had done so on the file. Conversely, the information may have been filed but not closely examined as part of the acquittal process.

3.22 The ANAO notes that no files recorded any adjustments for 'under performance' or 'exceptional performance', as outlined in FaCSIA's acquittal guidelines (see paragraph 3.14).

3.23 FaCSIA advised the ANAO in April 2006 that as part of the business process reengineering project, the department will be reviewing reporting requirements and how information is used to assess provider performance. Guidelines are also being prepared for use in the funding agreement negotiation process to develop consistency across all programmes nationally.

Case studies of FaCSIA's financial acquittals for grants and funding agreements

3.24 To illustrate the findings set out above, Table 3.1 provides a number of case studies drawn from the ANAO sample of funding agreements.

Table 3.1

Case studies of FaCSIA payment acquittal procedures, from ANAO sample of grants

Better acquittals practice

Some programmes, such as the Stronger Families and Communities Strategy and Reconnect, use a Payment Assurance and Certification Cover Sheet, which provides a checklist of tasks that need to be completed before payments are made. The sheet is generally signed by the delegate and links to financial and performance requirements of funding agreements. This provides a useful control mechanism for the financial acquittal process. The sheet could be further enhanced by ensuring all of the acquittal tasks outlined in FaCSIA guidelines are included (see paragraph 3.14).

Treatment of unexpended funds

A grant of $66 000 was made in the 2003–04 financial year under the Indigenous Parenting and Family Well-being Programme. In its acquittal form, the service provider reported spending $34 604 in that year, leaving an unexpended surplus of $31 396. There was no evidence that FaCSIA took appropriate action under the funding agreement to recover these funds or authorise the service provider to spend them the following year. The risk is that the service provider kept this money but did not provide the services FaCSIA expected.

Providing payments without knowing that performance requirements have been met

A Support For Childcare programme service provider received grants exceeding $1.2 million for the three years ended 2004–05. Payments were made on a regular basis. There was no performance reporting, monitoring, or other evidence on file to indicate that payment was contingent on the service provider fulfilling requirements of the funding agreement.

An Emergency Relief Programme service provider received over $187 000 in funding over the two years to 2003–04. Acquittals were limited to the provision of audited financial statements that were general in nature and did not separately address the funding provided. Further, there was little evidence on file of performance reporting, monitoring or evaluation.

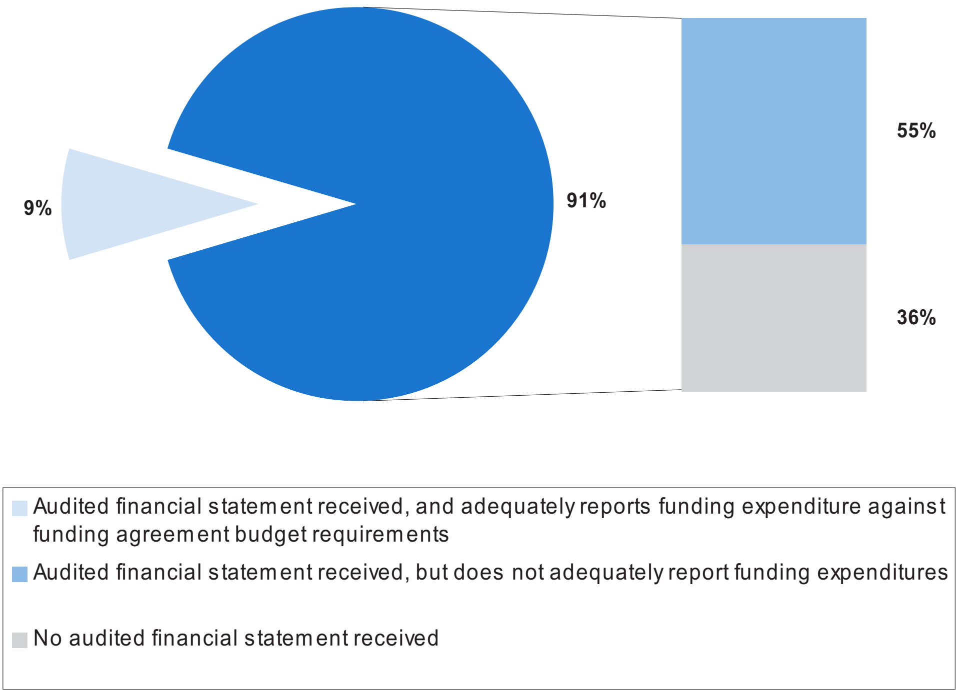
Source: ANAO sample of grants and funding agreements.

Auditing of funding agreement acquittals

3.25 An important part of FaCSIA's payment control is the requirement that service providers with long-form funding agreements provide FaCSIA with an audited financial statement each year. These audited financial statements should provide a professional audit opinion that the service provider has spent grant money in accordance with the terms of funding agreements, covering financial and performance requirements. Figure 3.3 presents the results of the ANAO's analysis of the extent to which FaCSIA ensured that it received adequate audited financial statements for all long-form funding agreements in the audit sample.

Figure 3.3

Financial statements audited to funding agreement budget



Note: (1) Of the 102 grants analysed, 24 grants were excluded either: because there was no funding agreement, the funding agreement was new and no acquittal was yet required; or because a minimalist or short-form funding agreement was used.

Source: ANAO analysis of grants and funding agreements.

3.26 The ANAO found that:

- for only 9 per cent of the relevant sample of long-form funding agreements had the service provider provided adequate audited financial statements—that reported service provider expenditures specifically against the funding agreement budget;
- while 55 per cent of the relevant sample of service providers had provided audited financial statements, most of these reported expenditure more broadly than the funding agreement level,[50] and so were not useful to FaCSIA in acquitting expenditures;

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[50] Most of these audited financial statements were of the overall business operations of the service provider, including non-grant business, rather than of the FaCSIA-funded programme, making it difficult to differentiate between programme and non-programme reporting.

- for around one-third of the sample, service providers did not provide audited financial statements, even though they were required; and
- approved auditors were used in accordance with FaCSIA requirements in most cases. However, the ANAO identified two instances of in-house audit reports being accepted by FaCSIA where independent audit reports were required, contravening the requirements of the relevant funding agreement.

3.27 In this circumstance, despite being a key financial payment control, for only a small proportion of the relevant sample of funding agreements (9 per cent) were adequate audited financial statements held in FaCSIA records.

3.28 The ANAO found that auditor reports were often accepted as is, rather than being checked and service providers required to provide revised audited financial statements where necessary.[51] A common finding from the ANAO's interviews with FaCSIA staff, was that not all FaCSIA officers responsible for the financial management of a funding agreement or grant were sufficiently skilled or accredited to assess financial reports or to perform financial viability assessments. However, the ANAO is aware that FaCSIA State and Territory offices have recently been running financial training courses, as some of these were being held at FaCSIA offices when visited during fieldwork.

3.29 Given that FaCSIA administers in excess of 20 000 funding agreements annually with some 16 000 providers, it is appropriate to apply risk management approaches to payment acquittals. Applying risk management approaches would mean that FaCSIA would be in a position to comprehensively assess the acquittals of the higher-value, high-risk service providers, and assess the acquittals of the lower-risk service providers less fully, or fully but on a rolling basis. FaCSIA does not currently apply such a risk-based approach to grant acquittals. Accordingly, there is no assurance that FaCSIA is effectively targeting resources to ensure that the funding agreements which are of higher value and/or higher risk are comprehensively acquitted.

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[51] A number of FaCSIA officers when interviewed by the ANAO expressed confusion about what the term 'financial statement for audit' meant, asking whether the term 'financial statement' meant a balance sheet, an income statement or a cash flow statement, for example. Accordingly, the ANAO suggests that FaCSIA clearly define 'financial statement' as well as 'final audited acquittal statement' in its funding agreements for audit acquittal purposes.

Recommendation No.3

3.30 The ANAO recommends that FaCSIA improves its processing of funding agreement acquittals, by:

(a) applying a risk management approach to financial acquittals, so that resources and efforts to process funding agreement acquittals are matched to perceived risks;

(b) implementing adequate quality control checking and accountability processes to ensure that acquittal processing adheres to the terms of funding agreements; and

(c) adequately training staff who process payment acquittals so that they can adequately interpret financial information and/or otherwise have access to technical advice to support them in undertaking this function.

3.31 FaCSIA response: **Agreed**.

FaCSIA's systems to manage funding agreement payments

3.32 Better practice management of funding agreement payments involves an electronic grants management system that matches payments to agreement budgets and milestone deliverables for all funding agreements, and generates extensive financial and performance information relating to these grants.[52]

3.33 The ANAO assessed whether FaCSIA's management information systems adequately provide these payment controls, and produce sufficient information to management about grants programmes.

Nature of FaCSIA's IT grants management systems in operation at the time of audit fieldwork

3.34 At the time of audit fieldwork, FaCSIA did not have an IT-based, corporate information management system for all funding agreements and grants. Instead, managers of the various programmes, administered throughout the National and State and Territory offices, utilised a range of payment systems and funding agreement management systems.

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[52] See ANAO Audit Report No.16 2002–03, *Administration of Grants (Post Approval) in Small to Medium Organisations*, p. 42.

3.35 For example, FaCSIA used the SAP-based system IMPACT to make payments for most programmes in the ANAO's sample. However, the Emergency Relief Programme used the EMEREL[53] system to make most payments, and programmes outside the scope of this audit used other payments systems, including the TARDIS system for disability payments.

3.36 A number of communities' programmes are presently operating under the new FOFMS system. It links to IMPACT and is being rolled out progressively, with completion planned for June 2006 for all community programmes except the Childcare group of programmes.[54] FOFMS is intended to:

- provide a case management system that tracks financial information;
- link financial information with the terms and conditions of funding agreements;
- work under one vendor code[55] and interface with other FaCSIA payments systems;
- perform tasks relating to programme administration;
- process unexpended grant monies re-credited to the department (FMA Act, section 30);
- auto-release payments on a milestone basis; and
- generate Receipt Created Invoices before payments can be made.

3.37 The ANAO sought to ascertain from relevant FaCSIA State and Territory officers what local management information systems capability they employed, if any, to manage or record information.

3.38 The ANAO found that some programmes and offices used locally-developed databases to combine payment and funding agreement information, often with commentary about key operational developments. These databases

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53 EMEREL is a SAP-based IT system. It is the primary payments system for the Emergency Relief Programme and is also used in conjunction with the IMPACT system.

54 FaCSIA will commence work in July 2006 to apply FOFMS to the Childcare group of programmes. Some programmes' historical data will not be migrated to the system, due to costs being assessed as outweighing the benefits.

55 The IMPACT system allows the use of multiple vendor codes to be entered for a service provider, especially when that provider has more than one funding agreement with FaCSIA. However, the use of multiple vendor codes can increase the complexity of managing payments and the risk of making duplicate payments.

helped individual officers to manage funding agreements.[56] However, there was little consistent format to these databases.

Adequacy of FaCSIA's IT grants management systems in operation at the time of audit fieldwork

3.39 Audit findings reported in Figures 3.1 and 3.3 indicate that FaCSIA's IT payment systems have contributed towards generally accurate payments of grant amounts specified in funding agreements. However, there were several IT payment systems, none of which were electronically linked to key financial and performance information contained in funding agreements. This reduced FaCSIA's capacity to check whether terms and conditions of funding agreements are being met when making decisions to approve payments, and has contributed to the weaknesses in payment acquittal processes reported in the previous sections.

3.40 Another consequence for FaCSIA of not having a comprehensive grants management system was the limitation on its capacity to generate adequate and comprehensive information to FaCSIA management and external entities. At the commencement of this audit the ANAO requested FaCSIA to list all funding agreements and grants in recent years, by dollar value, categorised by programme and sub-programme. It took FaCSIA around three months to manually extract and collate relevant information, which was eventually provided to a lesser level of detail than originally requested—in that the value of grants were not reported at the sub-programme level.

3.41 FaCSIA advised that to respond to the ANAO's information request in full would have been too labour intensive and taken too long. Further, FaCSIA was not able to assure the ANAO that the information provided to the ANAO comprised the entire grants population in the scope of the ANAO's audit. This necessarily constrained programme management and the department's ability to compile accurate information in a timely manner for its Annual Reports and other accountability documentation.

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[56] Some of these databases are sophisticated. FaCSLink is an example. It is a case data capture transmission software application that is used by contracted service providers of the Family Relationships Services Program. The data that is transmitted is used to report to the Government, the Attorney General's Department, FaCSIA, Industry Representative Bodies and individual outlets on the delivery of Family Relationship Services. It is also used as part of the Needs Based Planning process and the Performance Management Framework. (Source: FaCSIA website).

3.42 FaCSIA advised the ANAO in April 2006 that the introduction of FOFMS is expected to provide FaCSIA with a strong capacity to provide accurate aggregated performance information relating to grants and funding agreements.

Recommendation No.4

3.43 The ANAO recommends that FaCSIA improves the management of grant payments, such that:

(a) payments are consistently made according to the terms of funding agreements;

(b) management information systems readily match financial information with funding agreement information; and

(c) timely and accurate information about grant payments can be extracted across all FaCSIA programmes, including for communities and community organisations' programmes.

3.44 FaCSIA response: **Agreed**.

Fraud control and funding agreements

3.45 Given that FaCSIA distributes over $1 billion in funding to around 16 000 separate organisations, it is important that FaCSIA has a robust approach to fraud control.

3.46 FaCSIA has fraud control plans that guide its approach to managing fraud associated with grants and funding agreements. The FaCS *Fraud Action Plan 2002–04* identified fraud or misappropriation of grant monies as its greatest fraud risk. The most recent plan, FaCSIA *Fraud Control Plan (2005–2007)* addresses risks by organisational branch. Because of this approach, the plan does not separately rank the fraud risk associated with grants and funding agreements.

3.47 However, FaCSIA's *Fraud Control Plan (2005–2007)* rates the residual risk of fraud to be significant or high for branches responsible for many grant programmes. For example, the Community Branch, responsible for programmes such as the Local Answers and Volunteer Small Equipment Grants programmes has a rating of 'significant' for three identified risks related to misappropriating grant funds. The existing controls identified to address these risks involved the use of effective agreements and application of the financial acquittal process.

3.48 As reported earlier in this chapter, however, this audit has identified a number of problems with FaCSIA's administration of grants and funding agreements that indicates that existing controls are not fully effective. These problems include FaCSIA: not always using the appropriate type of funding agreement; often inadequately acquitting payments, including making payments without the required audited statements; and an instance of FaCSIA funding a service provider more than once for the same service and for services they had not provided for extended periods of time.

3.49 Further, the ANAO notes that FaCSIA has provided only limited fraud awareness training to its staff about risks associated with grants. FaCSIA has also undertaken few initiatives designed to specifically identify instances of fraud in its grants programmes.

3.50 Despite the high risk ratings ascribed by FaCSIA to grants programmes, the department has identified very few cases of fraud relating to these programmes in recent years. FaCSIA advised the ANAO that it was not able to provide data to identify instances of suspected fraud detected in grant programmes for years prior to 2005. The department advised that from 21 December 2004 to 12 April 2006, there were 18 reports suggesting misuse of grant funds. These 18 instances involve a range of different issues, but the majority related to Indigenous programmes. The total value of the agreements implicated is $1.8 million, based on the estimates of complainants. One matter has been completed, with fraud identified to the value of $4 241.

3.51 The ANAO considers, therefore, that FaCSIA's fraud control practices have not been adequate, given the magnitude of expenditure under its grant programmes, and the fraud risks it has identified through its various fraud control plans.

Recommendation No.5

3.52 The ANAO recommends that FaCSIA implements improved fraud control practices and procedures across all of its grants programmes and at the individual service provider level, by:

(a) ensuring that it effectively implements the key fraud control mitigation strategies contained in its current fraud control plan, such as using effective funding agreements and applying sound financial acquittal practices;

(b) providing relevant staff with fraud awareness training; and

(c) undertaking risk-based initiatives specifically designed to identify fraud in the agency's grant programmes.

3.53 FaCSIA response: **Agreed**.

Multi-year agreements and compliance with FMA Regulation 10

3.54 FaCSIA must comply with FMA Regulation 10, which states:

> If any of the expenditure under a spending proposal is expenditure for which an appropriation of money is not authorised by the provisions of an existing law or a proposed law that is before the Parliament, an approver must not approve the proposal unless the Finance Minister has given written authorisation for the approval.

3.55 In respect of funding provided under an administered annual appropriation, the requirement to obtain authorisation under FMA Regulation 10 applies where an agency is entering into multi-year funding agreements with service providers, or where there has been a variation to an agreement that extends to another financial year.[57]

3.56 Where FMA Regulation 10 applies, the written authorisation of the Finance Minister, or his delegate, is required before an approver can consider approving a spending proposal. The Finance Minister has made certain delegations to the FaCSIA Chief Executive, and in turn to FaCSIA's Chief

[57] See Finance Circular 2004/10, *Using the Financial Management and Accountability Regulation 10 Delegation*—FMA Regulation 10 authorisation will be required for a spending proposal supported by an annual administered appropriation where the period of the spending extends beyond the period of the relevant appropriation. This is because of the convention that the Finance Minister determines the amount available to be issued out of the Consolidated Revenue Fund (CRF) for each annual administered appropriation in accordance with the annual and additional estimates Appropriation Acts.

Financial Officer to approve spending proposals to which FMA Regulation 10 applies.

3.57 FaCSIA's current guidelines[58] advise staff that FMA Regulation 10 authorisation is required where there are no budgeted funds available for a project which extends beyond the current financial year. FaCSIA also has a Regulation 10 template, which has been in existence for quite some time. The template represents a request for FMA Regulation 10 authorisation for multi-year spending proposals. It requires the project manager to report key financial and operational details of the proposal, in order to obtain FMA Regulation 10 authorisation by the appropriate delegate, usually the FaCSIA Chief Financial Officer. The ANAO analysed the level of FaCSIA's compliance with FMA Regulation 10 in respect of multi-year funding agreements included in the ANAO's sample.

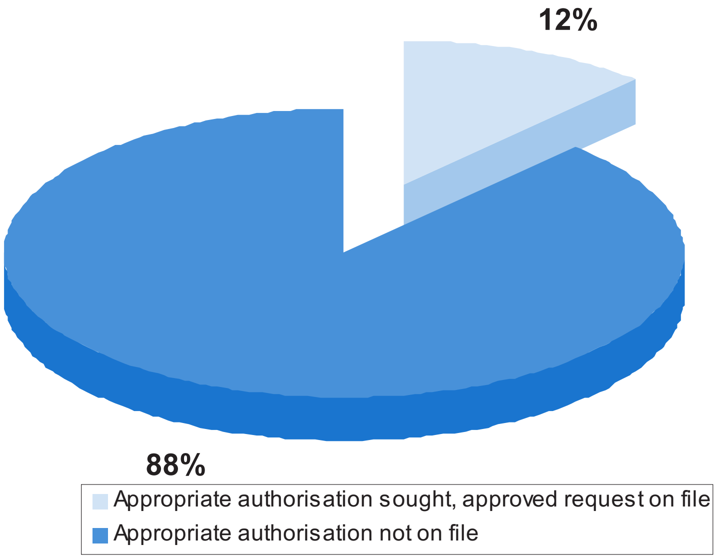
3.58 Figure 3.4 indicates that for around two-thirds of the ANAO sample of grants, FMA Regulation 10 authorisation for the expenditure should have been obtained from the Finance Minister or an appropriate delegate. However, only a small proportion (12 per cent) of these agreements did receive such authorisation, which was documented on file.[59] This is a low level of compliance, and indicates a potential widespread failure in FaCSIA to obtain appropriate FMA Regulation 10 authorisation in respect of grants and funding agreements to which the regulation applies.

58 FaCS, *Practical Guide to Programme Administration*, op. cit., pp. 25–26.

59 FaCSIA provided documentation that Regulation 10 approval had been given by the Finance Minister for some programmes. However, FaCSIA was not able to show that these approvals related specifically to individual grants or funding agreements.

Figure 3.4

Compliance with FMA Act Regulation 10 for relevant sample of grants and funding agreements



Note: (A) The sample included 36 agreements that were one year agreements, not requiring authorisation under Regulation 10. These grants have been excluded.

Source: ANAO analysis of the sample of grants and funding agreements.

3.59 In recognition of the department's poor compliance, FaCSIA has recently updated the template used to encourage compliance with FMA Regulation 10.

3.60 Subsequent to the ANAO's audit fieldwork, FaCSIA advised the ANAO in April 2006 that it has introduced funds availability controls in the IMPACT system. While these controls are reliant on funding agreements being correctly entered through either a management system such as FOFMS or directly into IMPACT, they do provide a strong compliance mechanism to assist in ensuring FMA Regulation 10 requirements are met. Additionally, FaCSIA advised that Financial Rules are being finalised that will provide detailed direction to staff regarding the application and procedures for FMA Regulation 10.

Recommendation No.6

3.61 The ANAO recommends that FaCSIA ensures compliance with departmental practices and procedures relating to its administration of grants that support compliance with Regulation 10 of the *Financial Management and Accountability Regulations 1997*.

3.62 FaCSIA response: **Agreed.**

4. Monitoring and Reporting Performance

This chapter assesses FaCSIA's monitoring of service provider's progress in fulfilling the requirements of funding agreements, and the adequacy of internal and external performance reporting mechanisms for programmes that have substantial funding agreements.

Introduction

4.1 Properly drafted and executed funding agreements are not in themselves sufficient to effectively manage funding to communities and community organisations. Integral to the success of the grant funding process is an on-going monitoring regime to ensure service providers are meeting agreed milestones and other key requirements of their funding agreements.

4.2 Another key component of successful grants management is an appropriate performance information framework, complemented by a programme evaluation strategy, which assists with the agency's management of grants and provides adequate performance information for external accountability.

4.3 Performance information requirements set out in funding agreements should provide information to enable broader programme monitoring, and link with FaCSIA's higher-level performance reporting requirements contained in its Portfolio Budget Statements and Annual Report.

4.4 In assessing whether FaCSIA adequately monitors grant recipients, and reports associated performance, the ANAO considered:

- FaCSIA's monitoring arrangements with service providers; and
- information reported by service providers and its links to programme performance information and FaCSIA's higher-level reporting framework.

4.5 As explained in Chapter 1, the criteria for this analysis were drawn from relevant guidance in the ANAO's *Better Practice Guide: Administration of Grants 2002*.

FaCSIA's arrangements for monitoring grant recipients

4.6 Monitoring the progress of service providers in delivering services is an integral component of effective grants administration, as regular performance monitoring helps ensure that a service provider is on schedule to deliver programme outputs and outcomes. Monitoring is important throughout the project cycle, from the implementation stage through on-going management to post-implementation evaluation.

4.7 Funding agencies such as FaCSIA, that have multiple programmes being delivered across all States and Territories, should encourage all elements of their network to adopt similar approaches to performance monitoring. This not only represents sound programme management, but also assists service providers to achieve outcomes, regardless of their location.

4.8 Complementing these monitoring arrangements, the funding agency should have in place administrative support arrangements that assist service providers to comply with programme objectives and guidelines.

4.9 The ANAO examined FaCSIA's performance monitoring processes to assess whether FaCSIA had:

- adequate guidelines for monitoring the performance of service providers, available to all relevant staff; and
- a consistent approach to monitoring its programmes across its network of offices.

FaCSIA's guidelines for monitoring funding agreements

4.10 It is important that FaCSIA provides its staff with guidance about better approaches to monitoring the progress of service providers in complying with requirements of funding agreements. Such guidance can support effective and efficient monitoring practices across the network.

4.11 The ANAO found that FaCSIA introduced performance monitoring guidelines at a national level in January 2005.[60] Prior to this FaCSIA had a programme-based approach to providing such guidance.

4.12 These national guidelines were part of the primary guidance provided to staff by FaCSIA for administering grants, released in January 2005. The guidelines were brief and offered no substantive guidance to FaCSIA officers,

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60 FaCS, *Practical Guide to Programme Administration*, op. cit., pp. 42–43.

with the exceptions of identifying performance monitoring as an important function, and advising that site visits to providers may be required in some instances, dependant on the programme.

4.13 The guidelines do discuss how to target monitoring resources. The ANAO regards this as a significant issue for FaCSIA. Fieldwork visits to the State and Territory offices during this audit identified that FaCSIA's monitoring activities were often not targeted effectively.

4.14 As FaCSIA does not monitor every service provider for every funding agreement, it should prioritise its monitoring activities on a risk basis. Such an approach should consider the potential likelihood and consequence of non-compliance by providers with agreement requirements. The likely savings from this monitoring activity in reducing non-compliance costs then needs to be weighed against the cost of the monitoring approach selected. For example, lower-cost monitoring channels such as email, phone contact or completion of forms may be suitable for lower risk providers, or in instances where the cost of personal visits are high (such as in remote areas).

4.15 The ANAO identified some confusion within FaCSIA as to how to measure risk. In particular, staff at two FaCSIA offices advised the ANAO that they rated risk solely according to the financial position of the service provider, while staff at the remaining FaCSIA offices considered both the financial position and the ability of the service provider to deliver the proposed service.

4.16 The ANAO also observed that the frequency of reporting required of different service providers was not always appropriate given the perceived risk associated with the relevant service providers. The ANAO would expect those providers identified by FaCSIA as higher risk to be required to report more frequently than lower risk providers. However, this was often not the case. A number of relatively low risk service providers were required to provide quarterly reports to FaCSIA on their performance. Conversely, providers with larger and higher risk agreements were often only required to provide bi-annual or annual reports on their performance to FaCSIA.

4.17 The ANAO recognises that there may be other business needs that influence the frequency of reporting. Nevertheless, the reporting information requirements imposed on providers are not always commensurate with the risk to service delivery in the various programmes and for individual providers.

Consistency of FaCSIA's performance monitoring practices

4.18 Agencies such as FaCSIA, that deliver multiple programmes through a network of State and Territory offices, frequently decentralise their monitoring processes. While monitoring processes are often more effective when decentralised, there is a greater risk of inconsistent processes and practices being applied across the network.[61] This risk can be mitigated by developing standards for the frequency, consistency and quality of monitoring, that all locations must apply.

4.19 In FaCSIA, the National Office monitors service providers for some programmes, while the network of State and Territory offices monitors service providers for other programmes. A clear majority of State and Territory office staff interviewed by the ANAO identified that there was no clear line of delegation between the National Office and State and Territory offices on performance monitoring responsibilities. Seven service providers, especially those with multiple funding agreements with FaCSIA, advised the ANAO that they did not know which office they were supposed to deal with on performance issues.

4.20 Where the responsibility for performance monitoring had been delegated to State and Territory offices, the ANAO observed an inconsistent approach across these offices and across programme areas within individual State and Territory offices. For example, each programme area within individual State and Territory offices appeared to have their own monitoring regime which had been locally developed. Some programme areas within State and Territory offices adopted vigorous risk-based monitoring regimes, while other State and Territory offices had less stringent, ad hoc monitoring regimes for the same programme.

4.21 A possible consequence of this approach is that programmes in FaCSIA with decentralised monitoring regimes may have different outcomes for each State and Territory.

4.22 The inconsistency of FaCSIA's monitoring processes appears to be due to two main factors. First, as identified in the previous section of this paper, there is a lack of comprehensive uniform guidelines available to FaCSIA officers. Secondly, due to this lack of central guidance, many programme areas

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61 ANAO, op. cit., p. 57.

within State and Territory offices have developed their own monitoring methodology and procedures.

4.23 The ANAO identified that where programmes were monitored at a national level, there was a more consistent approach to monitoring the performance of service providers than where FaCSIA's State and Territory offices monitored the programmes. For example, standard documentation has been developed by FaCSIA National Office for use by State and Territory office project officers in monitoring projects in the Local Answers programme.

Recommendation No.7

4.24 The ANAO recommends that FaCSIA develops uniform guidelines for monitoring the performance of its service providers. These guidelines should include better practices for: assessing risk; determining monitoring approaches given broad risk ratings and monitoring costs; and undertaking the main monitoring practices. These monitoring guidelines should form an integral part of the broader guidance on FaCSIA's administration of grants, and be promulgated to all relevant staff.

4.25 FaCSIA response: **Agreed**.

Performance information

Adequacy of performance information required by funding agreements

4.26 Performance information provided by grant recipients to FaCSIA performs a number of important functions. First, it offers FaCSIA the capacity to monitor the performance of grant recipients and therefore support compliance with the grant recipients' contractual requirements. Secondly, it allows FaCSIA to monitor the performance of its programmes in ensuring the delivery of their policy objectives and outcomes and therefore assist in the efficient, effective and economic use of public resources.

4.27 FaCSIA's funding agreements require the funding recipients to provide periodic reports on their performance in delivering against the programme objectives. The frequency and detail of these reports is dependent on the programme under which the recipient is funded. At the time of audit fieldwork, each of FaCSIA's programme areas developed their own guidelines and requirements for performance reporting. In October 2005, FaCSIA's Community Program Design Branch published guidance for programme managers to use when further developing performance management frameworks.

4.28 The ANAO examined performance information included in FaCSIA's funding agreements with grant recipients to determine whether:

- it adequately measured performance against grant objectives; and
- was seen as useful by the grant recipients in measuring their performance.

Adequacy of service provider performance information for selected funding agreements

4.29 The ANAO assessed the adequacy of the performance information FaCSIA required grant recipients to provide by focussing on whether this information included measures of:

- Effectiveness**—**these indicators measure the contribution of the service provider to the achievement of programme outcomes;
- Quality**—**these indicators measure the quality of service being provided by the service provider; and
- Quantity**—**these indicators measure the quantity of service provided.

4.30 Such measures are generally required to provide an adequate indication of whether grant recipients are meeting the objectives of their grants. They also contribute to the development of higher-level performance information contained in FaCSIA's annual reports which requires the measurement of these indicators.[62]

4.31 Figure 4.1 sets out the results of the ANAO's examination of performance information contained in the sample of funding agreements with FaCSIA grant recipients.

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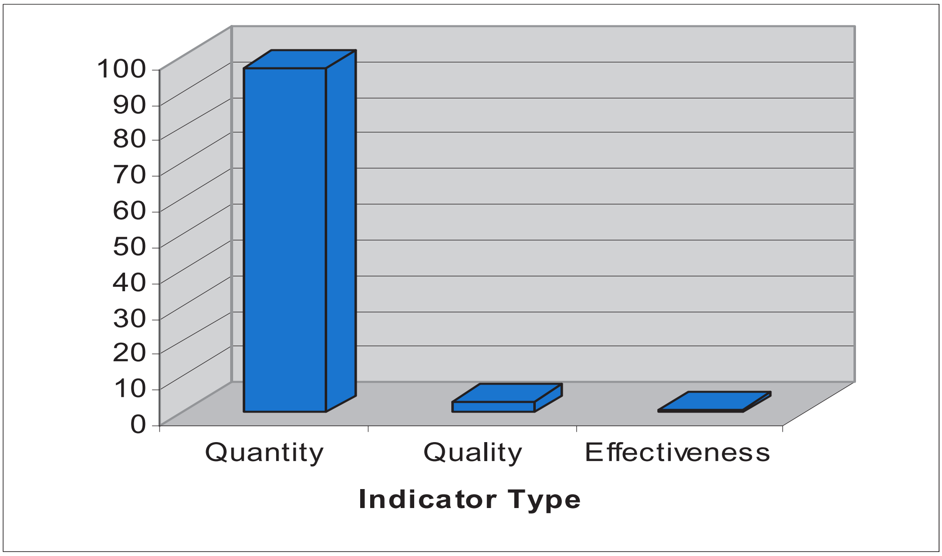
[62] The Department of the Prime Minister and Cabinet's *Requirements for Annual Reports* (June 2005, pp. 6–7) requires Departments, Executive Agencies and FMA Act bodies to include in their annual reports information relating to the respective agency's performance in achieving the planned outcomes, and the efficiency and effectiveness of the agency's outputs in achieving these outcomes.

Figure 4.1

Number of funding agreements containing adequate performance information



Source: ANAO analysis of the sample of 102 grants and funding agreements.

4.32 The ANAO's examination of performance information included in the sample of FaCSIA funding agreements with grant recipients found that in most cases the performance information was not adequate. Generally, the performance information:

- measured the completion of tasks, as opposed to the outcomes of these tasks;
- did not attempt to measure effectiveness;
- did not attempt to measure quality;
- did not include a description of the methodology used to measure the indicator. This was especially the case for indicators measuring client satisfaction and client outcomes; and
- did not include minimum standards of performance, and where applicable, targets.

4.33 While the coverage and substance of performance information varied between agreements, the ANAO identified only one agreement that contained adequate performance information from the sample of 102 funding agreements. This agreement provided comprehensive quantitative and qualitative performance information. Quantitative project evaluation involved the collection of demographic information after the first year of operation of the project to measure both the impact of the project on communities and the outcomes of the project. Qualitative information was gathered from focus groups, resource workers diaries, and summary reports.

4.34 With the remainder of agreements, the most common shortcoming was a tendency to measure the completion of tasks rather than outcomes of the services being provided. The measurement of the outcomes of the individual funding agreements is important, as the aggregation of the results of individual agreements allows FaCSIA to determine the effectiveness of its programmes.

4.35 The ANAO recognises for the smaller agreements it would often not be economically viable for the grant recipients to undertake an analysis of what outcomes have been achieved. However, for the larger[63] agreements, it is important that grant recipients measure the outcomes that are being achieved as a result of their funding.

4.36 There was also a distinct lack of performance indicators measuring the quality of service being provided by grant recipients, contained in the funding agreements. Where quality indicators were included, they were general, for example: *number of clients satisfied with service*; and lacked a credible methodology for their measurement. The lack of measurable quality indicators means that FaCSIA is unable to determine the quality of service being provided by funding recipients.

4.37 For output indicators there was either no comparison to any minimum requirements or targets, or where there were minimum requirements or targets there was no justification for their selection. Consequently, the ANAO considers that FaCSIA would have difficulty in determining from these output indicators whether grant recipients were achieving an adequate level of activity to justify funding.

Usefulness of performance measures to grant recipients

4.38 Of the 26 service providers the ANAO interviewed, 18 thought that performance information contained in the funding agreements lacked meaning and did not reflect their activities. In two cases, service providers considered

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63 Larger agreements would usually be those categorised by FaCSIA as being long-form agreements, as paragraph 2.4 explains. In particular, the funding value exceeds $40 000. Smaller agreements would typically be those categorised by FaCSIA as minimalist and short-form, totalling $40 000 or less.

the performance information to be so unrepresentative of their activities that they said they had to fabricate performance measurements to satisfy the reporting requirements.

4.39 Ten service providers interviewed by the ANAO expressed concern that FaCSIA did not analyse the performance reports they submitted. The ANAO also identified this in discussions with staff during fieldwork visits to the State and Territory Offices. With the exception of programme areas relating to Indigenous services, the ANAO was advised by FaCSIA staff that performance reports were immediately filed upon receipt, with no detailed analysis of the service providers' performance being undertaken.

4.40 These same ten service providers also expressed the view to the ANAO that they did not believe FaCSIA treated the collection of performance information seriously, and consequently these organisations did not put any real effort into collecting it. In essence, the absence of an effective performance information structure at the programme level was, in some cases, having a trickle down effect on the funding recipients' attitude towards performance information.

4.41 These ten service providers also advised that performance reporting requirements were a burden on their daily operations. The ANAO considers reporting by service providers on their performance to be an important component in the administration of funding programmes. However, when service providers are experiencing difficulty with their reporting requirements, FaCSIA should liaise with these organisations to explain the rationale and expectations concerning the information. FaCSIA could also consider simplifying the performance indicators or reducing the frequency of the service providers' reporting requirements where appropriate, taking into account the relative risk associated with the programmes and the service provider (see paragraph 4.16).

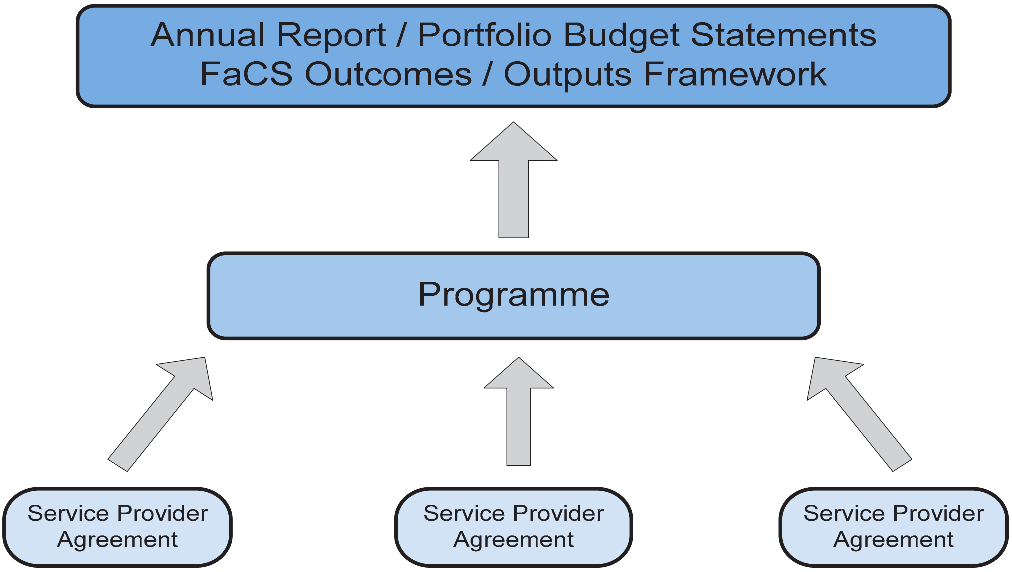
Linking service provider performance information to FaCSIA's higher-level performance reporting requirements

4.42 To support the credibility of its higher-level indicators of performance, it is important that FaCSIA ensures that performance information contained in funding agreements enables FaCSIA to monitor the effectiveness of its grants programmes. In turn, these indicators must contribute to measures of overall programme performance, which form the basis of FaCSIA's high-level performance information contained in its Portfolio Budget Statements and Annual Report.

4.43 Figure 4.2 demonstrates the flow of performance information from the funding agreement level to the annual reporting level.

Figure 4.2

FaCSIA Performance Information Structure



Source: ANAO analysis of FaCSIA information.

4.44 The ANAO examined whether performance information contained in funding agreements provided useful information on programme performance that contributed positively to FaCSIA's higher-level performance reporting requirements contained in its Portfolio Budget Statements and Annual Report.

Programme performance information

4.45 Programme performance information is important as it allows programme managers to assess the overall effectiveness of their programmes, and hence efficiently target their resources. As discussed earlier, performance information relating to FaCSIA's grants programmes should be primarily based on the collation of data provided to FaCSIA by the funding recipients through their reporting requirements, although it is also possible to obtain performance information through other sources such as client surveys.

4.46 The ANAO examined the performance information for the programmes represented in the sample of FaCSIA funding agreements and grants. Specifically, the ANAO examined the existence of adequate effectiveness, quantity, quality and price indicators at the programme level.

4.47 Table 4.1 shows that performance information used to measure the effectiveness and quality of FaCSIA's grant programmes examined in this audit was, in most cases, either non-existent or inadequate. However, many programmes had adequate measures of quantity.

Table 4.1

Existence of adequate programme performance information

Programme/sub-programme	Data Collation[A]	Indicators		
		Effective-ness	Quality	Quantity
Family Relationships Support Programme	✓	×	×	×
Commonwealth Financial Counselling Programme	×	×	×	✓
Indigenous Parenting and Family Well Being	×	✓	×	✓
Stronger Families and Communities Strategy 2004–2009	✓	×	×	✓
Stronger Families and Communities Strategy 2000–2004	✓	✓	×	✓
Services for Families with Children	×	×	×	×
Child Abuse Prevention	×	×	×	×
Reconnect	✓	×	×	✓
Mentor Marketplace	×	×	×	×
Transition to Independent Living Allowance	×	✓	×	✓
Family Liaison Worker Programme	✓	×	×	×
Youth Activities Service	✓	×	×	×
Childcare Support	×	×	×	×
Emergency Relief Programme	×	×	×	×
Family and Community Networks Initiative	×	×	×	×
Family Violence Regional Activities Programme	×	×	×	×
Indigenous Childcare	×	×	×	×
Volunteer Management Programme	×	×	×	×
Family Like Support Services	×	×	×	×

Note: (A) Data collation relates to whether a system exists in the programme areas to collate the data provided by service providers to develop overall performance information for the programme.

Source: ANAO analysis.

4.48 The main reason for inadequate performance information relating to these FaCSIA programmes was an absence of relevant high-quality performance information being provided by service providers. This was occurring because of the poor quality of the indicators being stipulated in providers' funding agreements.

4.49 Another problem was an absence of systems and procedures in place to collect and collate performance information from service providers. At the time of audit fieldwork, only around half of FaCSIA's programmes had adequate systems to collate performance data from funding agreements.[64]

4.50 However, even with the presence of data collation systems, the adequacy of performance information being collected from funding recipients was of such a low standard, it would have made little difference to FaCSIA's ability to develop adequate performance information at the programme level.

Linking service provider and programme performance information to FaCSIA's outcomes/outputs framework

4.51 As mentioned in paragraph 4.42, measures of overall programme performance form the basis of FaCSIA's high-level performance information contained in its Portfolio Budget Statements and Annual Report.

4.52 However, as discussed in the previous section, there is a lack of adequate performance information in relation to most programmes. This undermines the capacity for FaCSIA's higher-level performance reporting to contain credible and meaningful indicators.

4.53 To demonstrate this point, Table 4.2 shows the indicators in the FaCSIA 2005–06 Portfolio Budget Statements related to the performance for two programmes funded under Outcome 3, *Reconnect* and *Youth Activities Services*. The table shows that the absence of appropriate performance information in funding agreements prevents FaCSIA from measuring the effectiveness of these two programmes at the agency reporting level. Consequently, the ANAO has reservations about the evidence supporting the relevant performance information reported in FaCSIA's Annual Reports, against these indicators identified in the Portfolio Budget Statements.

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64 For example, programmes funded through the *Stronger Families and Communities Strategy* were able to use the SFCS Database. This is a national database that allows project managers to enter data directly from the performance reports submitted by grants recipients, thus collating the performance information.

Table 4.2

Performance indicators for funding programmes contained in FaCSIA's 2005–06 Portfolio Budget Statements for Outcome 3

Outcome 3 **Seniors, people with a disability, carers, youth and women are supported, recognised and encouraged to participate in the community.**		
Programme	Indicator	ANAO Comment
Reconnect	**Effectiveness** Percentage of clients with a positive change in their overall situation. Target 70% Percentage of clients with an improved level of engagement with family Target 70% **Quantity** Number of people assisted Target 7000 Number of families assisted Target 5000	These effectiveness measures would be difficult to compile. The quality of effectiveness indicators at the service provider level are not of a standard that would allow FaCSIA to measure performance against these targets or produce an overall measure of the programme's effectiveness. FaCSIA would be able to measure the quantity indicator from the performance information received from providers.
Youth Activities Services (YAS)—Family Liaison Workers Programme (FLW)	**Effectiveness** Percentage of young people and YAS service providers reporting positive outcomes from participation in YAS activities. Target 70% Percentage of young people, young peoples' families and FLW service providers reporting positive outcomes from the FLW programme. Target 70% **Quantity** Number of contacts with young people through YAS programme activities Target 100 000 Number of people engaged through FLW activity	As with the Reconnect program, FaCSIA would have difficulty in compiling these effectiveness indicators due to insufficient performance information requirements contained in the service provider agreements. The compilation of these indicators would be more difficult due to the lack of a programme performance information system for YAS that would allow for the collation of performance information provided by service providers. FaCSIA would be able to measure the quantity indicator through a count of YAS agreements.

Source: ANAO analysis of FaCSIA's 2005–06 Portfolio Budget Statements.

4.54 FaCSIA advised the ANAO in April 2006 that it is nearing the end of a project to develop a Youth Performance Management Framework. Reconnect, Youth Activities Services and the Family Liaison Workers Programme will operate under this new framework from July 2006.

4.55 FaCSIA has also been working to improve its performance management approaches throughout the department. As mentioned in paragraph 4.27, the Community Program Design Branch published on the FaCSIA intranet in October 2005, guidance for program managers about performance management frameworks. This guidance discusses the principles for effective performance management frameworks at the programme level. It also provides examples of performance management approaches, based on a program logic model.

4.56 This approach, together with other work being undertaken by individual programmes, is being used to build an evaluation module within FOFMS.

4.57 The ANAO considers that this performance management guidance and the approaches being undertaken by some FaCSIA programmes have the potential to facilitate adequate measures of performance for grant programmes and their associated higher-level programmes. However, many of these developments were occurring as fieldwork for the audit was ending, and sufficient time had not elapsed to allow the ANAO to assess their impact.

Example of recent efforts by FaCSIA to improve performance reporting

4.58 In respect of the Stronger Families and Communities Strategy's *Local Answers Programme,* FaCSIA has taken considerable steps to address the problems with performance information outlined above. FaCSIA developed the *Programme Outcomes and Performance Indicator Toolkit* for the 2004–05 round of funding. The Toolkit is issued to grant recipients to assist them with developing and collecting performance information.

4.59 The Toolkit explains the purpose of performance indicators and the processes required for their development. The kit contains three sets of performance indicators:

- **National Performance Indicators**—it is compulsory for the service provider to complete these indicators.[65] These are the indicators that feed into higher level performance information such as programme performance information and the information contained in the Annual Report;
- **Project Performance Indicators**—these indicators cover a number of different types of projects and outcomes that could be undertaken under the Local Answers Programme. The service provider is required to choose the indicators that are relevant to his or her project, and collect and report this information to FaCSIA; and
- **Community Organisation's Performance Indicators**—these indicators are developed by the service provider to provide FaCSIA with performance information it would not otherwise collect, and which the service provider believes is important.

4.60 The ANAO examination of the *Toolkit* found it to be a substantial improvement on what had existed previously. The main shortcoming of the Toolkit related to the national set of indicators, which still focussed on quantity, with a minimal number of effectiveness and quality indicators. These are the indicators that feed into higher-level performance information.

4.61 However, the Project Performance Information, while still focussing on quantity, introduced more quality indicators, including suggested survey questions to assist the service provider in deriving this information. The ANAO suggests that FaCSIA introduce more of these quality indicators into the National Performance Indicator set contained in the Toolkit.

4.62 FaCSIA also advised the ANAO that two other Stronger Families and Communities Strategy initiatives (Communities for Children and Invest to Grow) have in place a set of performance indicators and outcomes, similar to the Local Answers Programme Outcomes and Performance Indicator Toolkit.

4.63 The ANAO welcomes FaCSIA's recent efforts to improve performance reporting, particularly in relation to some of its grants programmes. However, there remains considerable scope for further improvement.

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65 The frequency for completing and submitting these indicators is dependent on the type of funding agreement in place. Grant recipients operating under short-form funding agreements are required to provide performance reports subject to the conditions of their individual funding agreement as negotiated with FaCSIA. Grant recipients operating on long-form funding agreements are required to provide this information quarterly.

Recommendation No.8

4.64 The ANAO recommends that FaCSIA improves its performance measurement framework relating to grants, such that:

(a) performance information schedules to funding agreements include measures of effectiveness, quality and quantity;

(b) these measures are suitable to be aggregated to the programme level and thereby contribute to the department's performance information framework contained in its Portfolio Budget Statements and Annual Reports; and

(c) performance information collection and collation systems are established that facilitate the aggregation of performance information in funding agreements to the programme level.

4.65 FaCSIA response: **Agreed**.

Ian McPhee
Auditor-General

Canberra ACT
21 June 2006

Appendices

Appendix 1: Sample of funding agreements

Output Group	Programme	Sub-Programme	Number of Agreements
1.1 Family Assistance	Child Abuse Prevention	Responding Early Assisting Children	4
1.1 Family Assistance	Child Abuse Prevention	Responding Early Assisting Children / Early Intervention Parenting	1
1.1 Family Assistance	Commonwealth Financial Counselling Program	General	2
1.1 Family Assistance	Commonwealth Financial Counselling Program	General & Sugar Industry Reform Program	2
1.1 Family Assistance	Family Relationship Services Program	Sugarcane Industry Counselling	1
1.1 Family Assistance	Indigenous Parenting and Family Well-Being	Indigenous Parenting and Family Well-Being	1
1.1 Family Assistance	Indigenous Parenting and Family Well-Being	Parenting Support Group	1
1.1 Family Assistance	Multifunctional Aboriginal Childcare Service	Multifunctional Aboriginal Childcare Service	1
1.1 Family Assistance	Services for Families with Children	Aboriginal and Islander Childcare Agency	4
1.1 Family Assistance	Services for Families with Children	Early Intervention Parenting	4
1.1 Family Assistance	Services for Families with Children	Out Of Scope[1]	4
1.1 Family Assistance	SFCS - Families are Strong	Early Intervention Parenting	5
1.1 Family Assistance	SFCS—Families are Strong	Early Childhood Initiatives	1
1.1 Family Assistance	SFCS—Families are Strong	Invest to Grow	1
1.1 Family Assistance	SFCS—Families are Strong	Parent Support Program	1
1.1 Family Assistance	SFCS—Families are Strong	Potential Leaders in Local Communities Initiative	2

Output Group	Programme	Sub-Programme	Number of Agreements
1.2 Youth & Student Support	Reconnect	Reconnect	2
1.2 Youth & Student Support	Targeted Youth Assistance Program	Innovative Collaborative Youth Servicing pilot	1
1.2 Youth & Student Support	Transition to Independent Living Allowance	Transition to Independent Living Allowance	1
1.2 Youth & Student Support	Youth Activity Services / Family Liaison Workers Program	Youth Activity Services / Family Liaison Workers Program	1
1.4 Childcare Support	Support for Childcare	Child Care Benefit / Disadvantaged Area Subsidy	2
1.4 Childcare Support	Support for Childcare	Childcare Support	1
1.4 Childcare Support	Support for Childcare	Childcare Support Program	1
1.4 Childcare Support	Support for Childcare	Children's Contact Services	1
1.4 Childcare Support	Support for Childcare	Disability Supplementary Services Program	3
1.4 Childcare Support	Support for Childcare	Disadvantaged Area Subsidy	2
1.4 Childcare Support	Support for Childcare	Families in Crisis	1
1.4 Childcare Support	Support for Childcare	Family Day Care	1
1.4 Childcare Support	Support for Childcare	Long Day Care	2
1.4 Childcare Support	Support for Childcare	Minor Capital Upgrade[2]	8
1.4 Childcare Support	Support for Childcare	Outside School Hours Care	3
1.4 Childcare Support	Support for Childcare	Outside School Hours Care / Disadvantaged Area Subsidy	1
1.4 Childcare Support	Support for Childcare	Regional Assistance Grant	1

Output Group	Programme	Sub-Programme	Number of Agreements
1.4 Childcare Support	Support for Childcare	Special Needs Subsidy Scheme	5
1.4 Childcare Support	Support for Childcare	Supplementary Services Program	1
2.2 Community Support	Emergency Relief Program	General	7
2.2 Community Support	Family and Community Networks Initiatives	Computer Culture	1
2.2 Community Support	Family and Community Networks Initiatives	Indigenous Community Coordination Pilot Program	2
2.2 Community Support	SFCS - Communities are Strong	Family Income Management Project	1
2.2 Community Support	SFCS - Communities are Strong	Leadership	2
2.2 Community Support	SFCS - Communities are Strong	Local Answers	6
2.2 Community Support	SFCS - Communities are Strong	Local Solutions to Local Problems	5
2.2 Community Support	SFCS—Families are Strong	Local Answers - Parents & Kids Together	1
2.2 Community Support	Volunteering	Volunteer Management Program	4
Total Funding Agreements			102

Notes: (1) The term Out of Scope refers to funding arrangements with service providers that are not considered by FaCSIA to fall within the prevailing corporate Output Groups, as described at paragraph 1.4, but are nonetheless funded through these prevailing corporate Output Groups under FaCSIA's Funding for Communities and Community Organisations strategy. The Out of Scope programme therefore falls within the scope of this audit.

(2) Minor Capital Upgrade funding is available to not-for-profit, community based, long day care centres for health and safety or state licensing work. Minor Capital Upgrades are generally in the form of a letter and acceptance of offer rather than being in the form of a FaCSIA standard funding agreement, but these are considered by FaCSIA to constitute a minimalist agreement.

Source: ANAO sample of FaCSIA's community grant programmes.

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