

The Auditor-General
Audit Report No.39 2006–07
Performance Audit

Distribution of Funding for Community Grant Programmes

**The Department of Families, Community Services and
Indigenous Affairs**

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of Australia 2007

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Canberra ACT
24 May 2007

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 *Distribution of Funding for Community Grant Programmes*.

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.

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Abbreviations

ANAO	Australian National Audit Office
DOTARS	Department of Transport and Regional Services
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
FOFMS	FaCSIA Online Funding Management System
HORERA	House of Representatives Standing Committee on Environment, Recreation and the Arts
MP	Member of Parliament
VSEG	Volunteer Small Equipment Grants

Glossary

Acquittal	A process by which FaCSIA verifies that a service provider has expended government funding for the purpose and in the manner specified in the funding agreement.
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 only required by FaCSIA where a long-form funding agreement is utilised.
FMA Regulations	FMA Regulations are those made by the Governor-General that relate to matters necessary or convenient for carrying out or giving effect to the <i>Financial Management and Accountability Act 1997</i> . They are made on the recommendation of the Government.
FOFMS	The FaCSIA Online Funding Management System is an information technology system that manages grant funding for the department, except Indigenous programmes managed through the Grants Management System. It has the capacity to create funding agreements and their schedules, record expenditure and stores detailed information at the organisation, programme and agreement levels.
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	<p>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.</p> <p>The term grant does not include funding of activities relating primarily to the provision of goods and services directly to a government agency.</p>
GrantsLINK	<p>GrantsLINK is a portal that makes it easier for individuals, businesses and communities to find suitable and relevant grants for community projects from the many Australian government grants that are available.</p>
Ministerial Submission	<p>Provides formal, written advice or information to a Minister on a matter. In a formal decision-making context, it seeks the Minister's consideration of and rulings on options to be taken, and/or approval for a particular course of action, or for expenditure of money.</p>
Portfolio Budget Statements	<p>Form part of the Budget papers and function like an explanatory memorandum for a Bill before the Parliament. They explain the provisions of the Budget Bills to the Parliament.</p>

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.
2. Service providers funded by FaCSIA deliver services for the Australian Government's family and community support programmes through grants,¹ subsidies and various related funding arrangements.² In 2005–06, FaCSIA administered approximately 20 000 funding agreements, and administered \$1.029 billion in direct funding to a range of non-government service delivery outlets.³
3. This audit builds on the work of Audit Report No.47 2005–2006, *Funding for Communities and Community Organisations* which was tabled in June 2006. Audit Report No.47 2005–2006 covered those aspects of FaCSIA's administration of grants to communities and community organisations occurring once the decision to fund a particular applicant has been made and notified to the applicant.⁴ To determine organisations to fund via community grant programmes, FaCSIA is typically responsible for: promoting funding rounds; developing, distributing and receiving application forms; appraising applications; providing advice to Ministers regarding which applicants to

¹ In May 2002, the Australian National Audit Office (ANAO) released the *Administration of Grants Better Practice Guide*. The ANAO guide (p. 1) 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'.

² Related funding arrangements include case-based funding and funding according to milestone events.

³ Department of Family and Community Services, *Portfolio Budget Statements 2004–05*, p. 37.

⁴ Those components of FaCSIA's administration of grants and funding agreements examined in Audit Report No.47 2005–2006 included: the execution of grants; risk management procedures; the financial framework; arrangements to monitor service providers; and performance reporting.

fund⁵; and notifying organisations of the outcomes of their applications. This audit examines FaCSIA's administration of these processes.

4. The ANAO noted in Audit Report No.47 2005–2006 that grants provided to eight organisations as a result of government commitments made during the 2004 Federal Election⁶ were not included in the scope of that audit but would be considered in this second audit.⁷ This was because those grants were not part of the FaCSIA programmes examined in Audit Report No.47 2005–2006. By the time the current audit was underway, these grants were being administered by the branch responsible for administering the Local Answers and Volunteer Small Equipment Grant (VSEG) programmes. The ANAO's focus in the current audit was on whether FaCSIA administered these one-off grants according to their objectives, and in line with relevant legislation and guidelines.

Audit approach

5. The scope of this audit included grant programmes administered by the department between March 2003 and March 2006, relating to four of the five funding groups of programmes providing funding for communities and community organisations.⁸ In total, these funding groups involved expenditure of some \$517 million in 2005–06. The audit focused on four separate grant sub-programmes within these four major funding groups, as well as the eight community projects funded as a result of government commitments during the 2004 Federal Election (see Figure 1).

⁵ Many community grant programmes administered by FaCSIA are discretionary, in that the responsible Minister has discretion, within programme guidelines, to select organisations to receive funding and the conditions that are imposed. Ministers may also be involved in notifying successful applicants.

⁶ As part of the 2004 Federal Election, held on 9 October 2004, the Coalition Government made commitments to fund, among other things, eight community projects to a value of \$565 000. The projects involved a range of organisations, especially community or sports clubs and scout groups. Following the 2004 Federal Election, FaCSIA became responsible for administering Australian Government funding for these projects.

⁷ See footnote 18 on p. 33 and footnote 19 on p. 34 of ANAO Audit Report No.47 2005–2006, *Funding for Communities and Community Organisations*.

⁸ Similar to the coverage in ANAO Audit Report No.47, 2005–2006, *op. cit.*, the four funding groups are Youth and Student Support; Community Support; Family Assistance; and Childcare Support. That audit, and the current audit, excludes disability services. ANAO Audit Report No. 14 2005–2006, *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 ANAO is considering a possible future audit of disability employment services. These two audits will provide comprehensive coverage of disability services.

Figure 1

Grants examined in audit

Sub-programme/ Round	Expenditure 2005–06 (\$m)	Description
Local Answers (Rounds 1–3 in 2004, 2005 & 2006)	20.1	Local Answers is one of the key components of the Stronger Families and Communities Strategy announced by the Prime Minister on 7 April 2004. Local Answers provides funding for community-based projects that help to strengthen disadvantaged communities by building skills and capacity to identify opportunities and take action for the benefit of their members.
Volunteer Small Equipment Grant (2003, 2004- Round 1, 2004- Round 2, 2005)	3.3 ^{A B}	The Volunteer Small Equipment Grant programme is a smaller component of the Stronger Families and Communities Strategy. The programme is designed to provide funding of up to \$3000 to help organisations purchase equipment in the direct support of volunteers whose work contributes to supporting families and strengthening communities.
Reconnect (2000)	22.6	The Reconnect programme uses community-based early intervention services to bring about family reconciliation for young people who are homeless, or at risk of homelessness, and their families. Reconnect helps these young people improve their level of engagement with family, work, education, training and their local community.
Minor Capital Upgrade Funding (2005)	9.5	Minor Capital Upgrade Funding is a grant designed to provide eligible not-for-profit community-operated child care services with the funding necessary to carry out urgent work required to meet health, safety or licensing standards.
One-off grants	0.6 ^C	The audit also included eight one-off grants to community organisations provided in line with commitments made by the Government during the 2004 Federal Election campaign. While not part of any FaCSIA programme, these grants were administered by the same FaCSIA branch responsible for administering the Local Answers and VSEG grant programmes.

Note: (A) Expenditure for the VSEG 2005 round covered in this audit was 2004–05 expenditure.

(B) Total funding provided under the VSEG programme was \$3.3 million in 2003 and 2005, and \$12.1 million in 2004. The Government announced in the 2007–08 Budget that it will provide \$66 million over five years for an expansion of the VSEG programme, including \$10 million in 2006–07.

(C) This was the total funding for the eight projects.

Sources: Local Answers Programme Guidelines (Draft) 2004–2008, Volunteer Small Equipment Grants 2004 (Round Two) Guidelines, <www.facsia.gov.au>, Budget Measures 2007-08, Budget Paper No.2, p. 194, and FaCSIA advice to ANAO.

6. In October 2005, Mr Chris Bowen MP, the Federal Member for Prospect, wrote to the Auditor-General about concerns he had regarding the administration of two rounds of funding for the VSEG programme (the second funding round conducted in 2004 and the 2005 funding round). The ANAO had already commenced work on an audit of FaCSIA's administration of grants to communities and community organisations (including the VSEG programme) when Mr Bowen's letter was received. Having considered Mr Bowen's request, the Auditor-General decided that the ANAO would examine the issues raised by Mr Bowen but that, in order to ensure that the bulk of this audit work could still be published in a timely manner, the audit would be undertaken in two parts.

7. Audit Report No.47 2005–2006, tabled in June 2006, constituted the first part. This audit constitutes the second part, examining FaCSIA's administration of grants to communities and community organisations up to the point that recipients are selected, notified and the grants announced.

8. This audit also encompasses examination of grant selection and distribution for the Local Answers and VSEG programmes.⁹ In this context, the ANAO examined the pattern of approvals of grants to States/Territories¹⁰ and to electorates held by the Government and Opposition parties in recent funding rounds. The ANAO reviewed the allocation of grants under the VSEG programme for the 2003 round, both 2004 rounds and the 2005 funding round and, during the same period, under the larger Local Answers programme¹¹, which is also part of the Local Answers stream of the Stronger Families and Communities Strategy. This approach is similar to that undertaken by the ANAO in previous audits of grants programmes.¹²

⁹ Figure 1.1 in Chapter 1 sets out the relevant Ministers responsible for the grant funding decisions for the VSEG and Local Answers funding rounds examined in the audit.

¹⁰ Geographic distribution was a factor in the overall assessment of VSEG applications.

¹¹ Funding provided to organisations under the VSEG programme totalled \$3.3 million in each of 2003 and 2005, and \$12.1 million in 2004. Funding to organisations provided under the Local Answers Programme totalled \$17.1 million in 2004, \$21.3 million in 2005 and \$20.5 million in 2006.

¹² For example, ANAO Audit Report No.30 1999–2000 *Examination of the Federation Cultural and Heritage Projects Program*, applied a similar methodology to examining the pattern of approvals of grants to States/Territories and to electorates held by the Government and Opposition parties.

Audit objectives and methodology

9. The objectives of the audit were to assess:
- whether FaCSIA has effectively administered the distribution of funding for the Local Answers, VSEG, Reconnect and Minor Capital Upgrade programmes, including promoting the relevant schemes to potential applicants, developing application forms, handling and appraising applications, selecting recipients and making grant announcements;
 - the pattern of approvals of grants to States/Territories and to electorates held by the Government and Opposition parties under the Local Answers and VSEG programmes; and
 - whether FaCSIA administered eight one-off grants to community organisations provided as a result of Government commitments during the 2004 Federal Election campaign in line with relevant legislation and guidelines.

10. The methodology for the audit involved an analysis of the funding distribution processes and practices for the grants set out in Figure 1. The methodology and criteria for the audit were developed using the ANAO *Administration of Grants Better Practice Guide*. The ANAO also surveyed organisations that applied for the VSEG 2005 funding round and the third Local Answers funding round, completed in 2006.¹³ The survey sought information about the promotion of the two programmes, and client satisfaction with: the application process and feedback provided by FaCSIA on application outcomes; and the funding agreement process (for successful applicants only).

11. During and subsequent to the ANAO's audit fieldwork, FaCSIA was undertaking a number of initiatives to improve its administration of grant programmes. These reforms include re-engineering its business process to support greater efficiency, effectiveness, consistency and improved

¹³ Organisations that applied for funding under these programmes were selected at a random and invited to participate. However, the sample was stratified to include applicants from all States and Territories in proportion to the jurisdiction's share of total applications. The sample covered 528 of the 10 238 VSEG applicants in 2005, and 311 of the 568 Local Answers Round Three applicants. The sample included both successful and unsuccessful applicants.

accountability for its decisions through all stages of the funding agreement lifecycle.¹⁴

12. The department also advised the ANAO that it intends to enhance over time its recently implemented FaCSIA Online Funding Management System (FOFMS), which supports the department's community services programmes and provides improved reporting mechanisms. The VSEG Round 2006 was the first community grants programme to use the FOFMS online application system.¹⁵

13. The ANAO considers that these initiatives have the potential to 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

14. The ANAO found that FaCSIA had established generally sound procedures to administer the Local Answers, VSEG, Reconnect and Minor Capital Upgrade programmes. Across these four grant programmes, FaCSIA has generally been able to attract a sufficient number and distribution of grant applications, receive sufficient information from applicants via a hard copy or online application, appraise these applications according to merit and based on programme guidelines, document the basis for recommendations to Ministers as to which organisations to fund, and notify organisations of the outcomes of their applications in a timely manner.

15. FaCSIA's administration of the approval processes for the one-off grants to community organisations and VSEG Round One 2004 was below the standard expected of Australian Government agencies. Given the fundamental importance of the approval process in relation to the expenditure of public funds, and for accountability purposes, it is critical that agencies have a clear understanding, and record, of ministerial decisions.

16. In the case of the one-off community grants, once a funding source had been agreed with the Minister for Finance and Administration for these Government election commitments, the department proceeded to enter into

¹⁴ FaCSIA implemented new procedures, guidelines, tools and templates to improve its community services programme administration. A compliance strategy and set of risk management tools will also assist in ensuring the new procedures are used across programmes.

¹⁵ The Strengthening Drought Affected Communities – Local Answers round also used FOFMS to assess applications and manage payments and funding agreements.

funding agreements with the grant recipients without obtaining the then Minister for Family and Community Services' approval of these spending proposals under the *Financial Management and Accountability Regulations 1997* (FMA Regulations).

17. In the case of VSEG Round One 2004, FaCSIA advised the ANAO that it proceeded to fund organisations on the basis of its understanding of the Ministers' decisions based on advice from the then Minister for Children and Youth Affairs' office that the Minister had decided to make a different decision on 120 applications compared to the department's funding recommendations for this round. However, the Ministerial Submission approving grants in VSEG Round One 2004, subsequently signed by both the then Minister for Family and Community Services and the then Minister for Children and Youth Affairs, did not include any reference to the then Minister for Children and Youth Affairs' 120 changes to the department's funding recommendations. There was generally very little documentation included in FaCSIA's records of the reasons why the then Minister reached a different decision on these applications to that recommended by the department.

18. The audit identified five key areas of departmental administration that warranted further attention. These concerned:

- reviewing the cost-effectiveness of its promotion strategies for all four programmes;
- improving the readability and logical structure of the application forms for the Local Answers and Reconnect programmes;
- clarifying appraisal guidelines to staff, and providing more comprehensive training to staff appraising applications for funding under the Reconnect and Minor Capital Upgrade programmes;
- applying greater discipline to departmental practices supporting Ministerial approval of the spending proposals relating to grant programmes so as to ensure that where such approvals are required they are obtained, and that accurate records of such approvals are maintained; and
- improving the explanation to applicants of reasons why they were not successful in their applications for funding under the Local Answers and VSEG programmes.

19. The audit has also reinforced aspects of the report of the House of Representatives Standing Committee on Environment, Recreation and the Arts (HORERA) into the Community, Cultural, Recreational and Sporting Facilities Program more than a decade ago. The Committee emphasised the importance of the Minister involved in the selection of grants under that programme documenting the processes that lead to decisions and recording reasons for decisions so that the Minister could be accountable to the Parliament. In addition, the Committee recommended that, 'where additional information is obtained and departmental officials' ratings¹⁶ are amended by the Minister, or if for any other reasons the ratings are amended, that additional information and its impact should be documented'.¹⁷ In the absence of Ministers recording such reasons, confidence in the administration of the programme and the equitable allocation of grants can be eroded.

Pattern of approvals

20. The Local Answers and VSEG programmes have distributed funding across States and Territories evenly on a per capita basis. ANAO statistical analysis found that, overall for these programmes, the political party holding an electorate did not have a statistically significant independent impact on either the average grant size or the success rate of applications in electorates.

21. While average funding to Labor Party electorates was around 10 per cent higher than to Coalition electorates for the three Local Answers rounds examined in this audit, average funding to Coalition electorates was around double that to Labor Party electorates for the four VSEG rounds.

22. The ANAO's analysis¹⁸ identified that the slightly higher average amount of funding provided in the three Local Answers rounds to electorates held by the Labor Party compared to those held by the Government was mainly due to a higher success rate, with average grant values also slightly higher for organisations successfully applying for Local Answers funding in Labor Party electorates compared to those held by the Government.

¹⁶ That is, the department's funding recommendations based on the outcome of the grants application appraisal process.

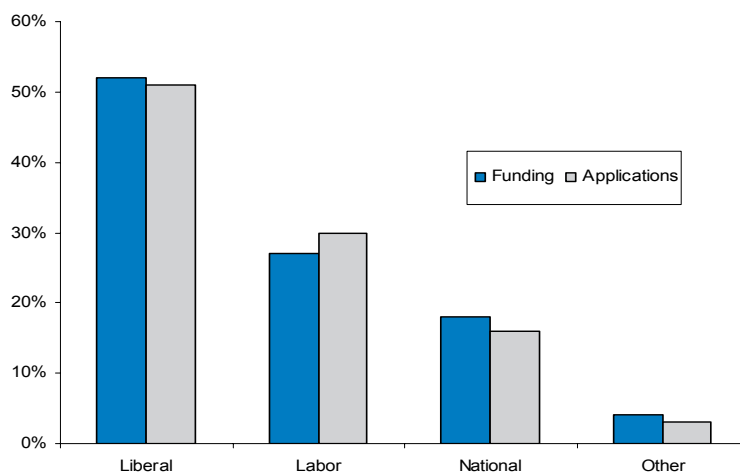
¹⁷ House of Representatives Standing Committee on Environment, Recreation and the Arts (1994) *The Community, Cultural, Recreational and Sporting Facilities Programme: a review of a report on an efficient audit by the Auditor-General*, pp. ix, 36.

¹⁸ The ANAO conducted statistical analysis to assess to what extent variations across electorates in Local Answers funding were due to variations in application numbers, success rates and average grant size.

23. The ANAO's analysis also identified that the higher value of VSEG funding to Coalition electorates across the four VSEG funding rounds examined in the audit was predominantly due to the higher number of applications by organisations in these electorates (see Figure 2).

Figure 2

Proportion of VSEG applications and funding (Round Two 2004^A) relating to electorates held by the major political parties



Note: (A) This round was typical in terms of the proportion of VSEG applications received from community organisations in the electorates held by each of the major political parties across all four VSEG rounds examined by the ANAO.

Source: ANAO analysis of data provided by FaCSIA.

Selection of grant recipients

24. The relevant portfolio Minister selects the applicants to be funded under these programmes on the basis of recommendations provided by the department formulated as a result of the application appraisal process. Responsible Ministers accepted FaCSIA's advice for funding, and not funding, organisations in around 99 per cent of cases over the three Local Answers and four VSEG rounds examined.

25. In VSEG Round One 2004 and Local Answers Round Two, the two funding rounds containing the greatest proportion of instances where Ministers' final funding decisions varied from the department's recommendations, Ministers still accepted the large majority of the department's funding recommendations (98.2 per cent and 96.1 per cent respectively). The relevant Minister reached a different decision in respect of

120 (or 1.8 per cent) of the department's 6818 funding recommendations in VSEG Round One 2004.¹⁹ In Local Answers Round Two, the Minister made a different decision in respect of 32 (or 3.9 per cent) of the department's 812 funding recommendations.²⁰ However, the effect of the then Ministers' changes in these funding rounds was to increase funding to Coalition electorates (see paragraphs 65 to 68 for further information).

26. There can be many reasons for Ministers funding, or not funding, projects contrary to departmental advice. For example, these decisions may be made taking into account the Minister's perspective on factors such as 'national interest, affordability, strategic considerations and other whole of government situations'.²¹ They may also be made on the basis of a Minister giving a higher priority to one or more assessment criteria than the department. Or they may be made for reasons not encompassed by the programme objectives and guidelines.

27. There is no requirement under the FMA Regulations for approvers, including Ministers, to record the reasons for their decisions or the nature and extent of the inquiries they undertake to satisfy themselves that a proposal to spend public money will make efficient and effective use of public money, as required under Regulation 9 of the *Financial Management and Accountability Regulations 1997* (FMA Regulation 9). Notwithstanding this, it is sound practice to do so, and is consistent with Parliamentary Committee views.²²

28. On those occasions where the relevant Minister made a different decision on a grant application to that recommended by the department, there was generally little record of the reasons why. The pattern of distribution of instances where the relevant Minister funded projects at variance to FaCSIA's advice for VSEG Round One 2004 and Local Answers Round Two favoured

¹⁹ In VSEG 2004 Round One, the then Minister for Children and Youth Affairs decided not to fund 38 organisations recommended for funding by the department and to fund 82 organisations not recommended for funding by the department. The then Minister for Children and Youth Affairs and the then Minister for Family and Community Services subsequently jointly approved funding in this round.

²⁰ In Local Answers Round Two, the then Minister for Family and Community Services decided not to fund 10 organisations recommended by the department and to fund 22 alternative organisations selected from a list of applicants the department had assessed as 'suitable' but not as among the 144 applicants assessed by the department as 'most highly rated'.

²¹ These reasons are cited in a model clause for inclusion in Commonwealth Request for Tender documentation, in those instances where the final recommendations of a tender process will be submitted to Cabinet for a decision on the preferred tenderer.

²² See paragraph 19 and the discussion of the findings and recommendations of the House of Representatives Standing Committee on Environment, Recreation and the Arts (HORERA) report into the Community, Cultural, Recreational and Sporting Facilities Program.

Coalition electorates. It would have been prudent for Ministers to annotate reasons for these decisions. Such documentation may have allowed Ministers to demonstrate that: the programme parameters, as established by the Government and advised to the public, were being met; and that all applicants were treated fairly. In the absence of such documentation, the then Ministers were not able to explain to the ANAO the reasons why they reached different decisions to the department's funding recommendations in respect of 120 applications in VSEG Round One 2004 and 32 applications in Local Answers Round Two, the distribution of which favoured Coalition electorates.

Administration of VSEG Round One 2004 approval process

29. Both the then Minister for Family and Community Services and the then Minister for Children and Youth Affairs were involved in the approval process for VSEG Round One 2004. The then Ministers were provided with a submission setting out the department's funding recommendations for the funding round on 5 April 2004. Subsequently, the then Minister for Children and Youth Affairs' office advised FaCSIA of the 120 changes that the Minister wished to make. FaCSIA then amended the entries regarding the 120 affected applications in its database such that the department's funding recommendations in the database agreed with the then Minister for Children and Youth Affairs' changes.

30. However, both Ministers subsequently signed the department's original 5 April 2004 Ministerial Submission²³ and the 120 changes which had been made by the then Minister for Children and Youth Affairs were not annotated on, or attached, to this document. Accordingly, the document signed by the Ministers did not specify that 38 organisations originally recommended for funding by the department were not to be funded in this round or that 82 organisations not originally recommended for funding by the department were to be funded.

31. The department did not subsequently provide a further submission to the Ministers requesting approval of the revised list of organisations to be funded in line with the variations advised by the then Minister for Children and Youth Affairs. Rather, the department advised the ANAO that it proceeded on the basis of the advice received from the then Minister for Children and Youth Affairs' office of the then Minister's decisions on the

²³ On 22 and 24 April 2004 respectively by the Minister for Children and Youth Affairs and the Minister for Family and Community Services.

120 applications affected.²⁴ This advice was received prior to the Ministers signing the 5 April 2004 Ministerial Submission.

32. The ANAO concluded that FaCSIA's administration of the approval process for VSEG Round One 2004 fell below the standard expected of Australian Government agencies in administering grant programmes.

One-off grants to community organisations

33. FaCSIA's administration of the approval process for the eight one-off grants to community organisations provided as a result of Government commitments during the 2004 Federal Election campaign also fell below the required standard.

34. FaCSIA did not seek the Minister's approval of the details of funding for these projects, once these details were established. If FaCSIA had gone back to the Minister at this point seeking approval of the details of all eight one-off grants, the requirements of FMA Regulation 9 would have been satisfied and the then Minister could have confirmed that the final funding details were consistent with the Government's intentions.

35. The ANAO concluded that, with the exception of the approval process, FaCSIA had generally administered these grants in line with relevant legislation and guidelines.

Key findings by chapter

Promotion of grant funding (Chapter 2)

36. The ANAO considers that FaCSIA's promotion of recent VSEG, Local Answers, Reconnect and Minor Capital Upgrade funding rounds was effective in attracting a sufficient number of eligible applicants from each State and Territory and from metropolitan and non-metropolitan areas.

37. Nevertheless, to help ensure that effective and consistent promotional strategies are adopted across all States and Territories, the ANAO considers that there would be merit in FaCSIA developing guidelines to assist staff tasked with promoting community grants programmes.

38. The ANAO also considers that there would be benefit in FaCSIA undertaking periodic reviews of its promotional activities in relation to

²⁴ And as entered in FaCSIA's database on the basis of this advice.

community grants programmes. This should assist FaCSIA to identify the most cost-effective promotional strategies that are well suited to its target audience(s).

39. Given the significant (and growing) reliance of community organisations on electronic communication methods, the ANAO considers it desirable that FaCSIA list all future public funding rounds for community grant programmes on the GrantsLINK website.

Application forms (Chapter 3)

40. The ANAO found that the VSEG, Local Answers, Reconnect and Minor Capital Upgrade application forms were generally user-friendly, with adequate accompanying guidance. An ANAO survey of VSEG applicants found that over 85 per cent of applicants were satisfied with the overall application process, with less than three per cent reporting concerns about the VSEG application form.

41. However, only 70 per cent of Local Answers applicants surveyed by the ANAO were satisfied with the overall application process, with around seven per cent citing concerns with the Local Answers application form as the reason for their dissatisfaction with the process.²⁵

42. Apart from peak load problems with online applications for VSEG funding in the 2005 round, the ANAO considers that FaCSIA has generally provided organisations with ready access to forms and appropriate alternative means to complete and submit these forms. FaCSIA has continuously improved VSEG, Local Answers and Minor Capital Upgrade application and assessment processes.²⁶

²⁵ The primary reasons cited for dissatisfaction with the Local Answers application form related to: the word limits on application responses; technical difficulties with the online application form; the time taken to complete application forms; and the design and flow of the application form. FaCSIA advised the ANAO that the application form for Local Answers funding has subsequently been redesigned and market tested by an independent consultant.

²⁶ To improve application and assessment processes, the department has drawn upon feedback from operational staff for each funding round, as well as any feedback received from applicants. FaCSIA is considering formalising these review procedures to ensure that all FaCSIA grant programmes benefit from such continuous improvement processes. FaCSIA is also considering seeking more systematic feedback on application processes from grant applicants. FaCSIA also advised the ANAO that it plans to examine community grant application processes in relation to: the word limits on the application responses; online lodgement; length of application form in relation to time taken to complete; and the design and flow of the application form.

Appraisal of grant applications (Chapter 4)

43. The ANAO found that that FaCSIA's overall application appraisal arrangements were adequate for the Local Answers and VSEG programmes, but not for the Minor Capital Upgrade Funding²⁷ and Reconnect²⁸ programmes. FaCSIA advised the ANAO in February 2007 that it would review the guidance to be provided for staff appraising Reconnect and Minor Capital Upgrade Funding applications to ensure that applications are assessed consistently.

44. Interviews with FaCSIA staff conducted during this audit, and the previous ANAO audit of FaCSIA's funding agreement management of programmes for communities and community organisations²⁹, revealed that a significant proportion of officers responsible for the assessment, selection and management of funding agreements were not sufficiently skilled or accredited to understand or assess financial reports or to perform viability assessments. The ANAO is aware that some of FaCSIA's State and Territory offices have recently been running financial training courses to improve officers' ability to read and analyse financial statements. FaCSIA further advised the ANAO in May 2007 that it has adopted a risk-based approach to assessing financial reports and viability, provides standard financial training to ensure staff are adequately skilled to undertake specific assessments, and engages appropriately skilled external assessors.

45. Each of the programmes examined by the ANAO in this audit had implemented a quality control process that involved other, senior members of the appraisal team reviewing appraisal decisions made by the original appraising officer. The ANAO considers that these processes improved the appraisal process.

²⁷ The Minor Capital Upgrade Funding guidelines required applicants to include specific supporting documentation, such as audited financial statements. Yet, the programme appraisal criteria allowed for the possibility that an application might succeed without including such documentation. Similarly, the rating scale used for assessing applications under the Minor Capital Upgrade Funding programme did not allow officers to adequately assess applicants' financial status. For future funding rounds of the Minor Capital Upgrade Funding programme, FaCSIA should align its selection criteria and rating scales to programme guidelines surrounding the need for evidence of financial viability.

²⁸ Five separate guidelines were available to staff appraising Reconnect programme funding applications. However, even in total, these guidelines did not provide staff with sufficient information to ensure that applications were assessed consistently and correctly by officers. Similarly, there were three separate, and conflicting, guidelines available to staff appraising the Minor Capital Upgrade Funding programme applications.

²⁹ ANAO Audit Report No.47 2005–2006, op. cit.

46. However, the ANAO notes that FaCSIA's quality control activities for the VSEG and Minor Capital Upgrade Funding programmes did not adequately consider whether appraisal processes were consistent across States and Territories. FaCSIA advised the ANAO in February 2007 that it is continuing to further improve the consistency of assessment processes.³⁰

47. The ANAO found that, with the exception of the Reconnect programme, the programmes examined had implemented an assessment process that generally recorded sufficient information to demonstrate that applications had been assessed according to merit. However, FaCSIA officers shredded all application assessments for the last funding round of the Reconnect programme (conducted in 2000). This decision was made on the basis of incorrect advice provided by the Reconnect probity advisor—that FaCSIA was not required to keep the application assessment records prepared by individual assessment officers.

Distribution of VSEG and Local Answers funding (Chapter 5)

48. The ANAO examined the pattern of approvals of Local Answers and VSEG grants to States/Territories and to electorates held by the Government and Opposition parties.

VSEG

49. The ANAO found that across the four VSEG funding rounds examined in the audit, the share of funding by State and Territory was closely correlated to each jurisdiction's share of the total Australian population. Thus, the programme was successful in achieving its objective of distributing funding evenly across all States and Territories.³¹

50. ANAO statistical analysis found that the political party holding an electorate did not have a statistically significant independent impact on either the average grant size or the success rate of applications in the electorate. The analysis indicates that around 95 per cent of the variation in VSEG funding across electorates held by the major parties is attributable to differences in the

³⁰ For example, during the 2006 VSEG funding round, an assessment team from the department's National Office in Canberra was used for all applications except for those received from the Australian Capital Territory. A team from a FaCSIA State office assessed the Australian Capital Territory applications, so that staff were not assessing applications from their own Territory.

³¹ Of the \$18.8 million allocated to the VSEG programme for the 2003 to 2005 funding rounds, Coalition electorates received \$12.8 million and Labor electorates received \$5.2 million. This allocation largely reflects the proportion of electorates held by the major parties at the time of funding decisions and the pattern of applications for funding.

number of applications from organisations in those electorates, with the other five per cent being mostly attributable to differences in the success rate. The ANAO identified virtually no variation attributable to differences in average grant size.

51. More applications for VSEG funding were received from Government electorates partly because the Government held more non-metropolitan seats (from which more VSEG applications are typically received than metropolitan seats), and partly because Government Members of Parliament (MPs) were much more active than Opposition MPs in encouraging organisations to apply for the grant.

52. The ANAO notes that ahead of the 2005 VSEG funding round, the then Minister for Family and Community Services wrote to Government MPs alerting them to the fact that the funding round was about to commence and inviting them to promote the programme. While it is always open to Ministers to write to other Government members to advise them of grant programmes, it would be consistent with their wider Ministerial responsibilities to provide equal opportunity to all MPs to become aware, or be reminded, of the programme funding available to community organisations in their electorate.³²

Local Answers

53. While the Local Answers programme did not have an explicit objective to distribute funding evenly, it distributed funding reasonably consistently with each State and Territory's share of the total Australian population, across the three funding rounds examined in the audit.

54. Over the three Local Answers funding rounds, average Local Answers funding to Labor electorates was around 10 per cent higher than average Local Answers funding to Coalition electorates. ANAO analysis indicated that the political party holding the electorate did not have a statistically significant independent impact on the total Local Answers funding received by organisations in an electorate, the application success rate, the average grant size or the number of Local Answers applications.

³² FaCSIA advised the ANAO that, ahead of the commencement of 2006 VSEG funding round, the current Minister for Families, Communities and Indigenous Affairs notified MPs from all political parties about the forthcoming round of VSEG funding.

Selection of grant recipients—VSEG and Local Answers (Chapter 6)

55. The administration of grant funding by Ministers has traditionally been a sensitive area of public administration, requiring care on the part of Ministers to ensure that programmes are administered in accordance with any legislative provisions and the programme parameters determined and announced by the government of the day. Ministers are expected to discharge their responsibilities in accordance with wide considerations of public interest and without regard to considerations of a party political nature.³³

56. Like many community grant programmes administered by FaCSIA, the VSEG and Local Answers grants are discretionary, in that the responsible Minister has discretion, within programme guidelines, to determine whether or not a particular applicant receives funding and the conditions that are imposed. There were a number of different responsible Ministers throughout the four VSEG and three Local Answers rounds examined in the audit (Figure 1.1 in Chapter 1 sets out the Ministers responsible for grant funding decisions for these funding rounds).

57. FaCSIA carries out appraisal processes for the Local Answers and VSEG programmes according to guidelines approved by the relevant Minister, and then makes recommendations to the Minister as to which organisations should be funded.

VSEG funding decisions

58. Relevant Ministers approved funding for over 99 per cent of those organisations that FaCSIA recommended for funding in its Ministerial Submissions for three of the four VSEG rounds examined.

Round One 2004

59. In VSEG Round One 2004, 1.8 per cent of funding decisions of the then Minister for Children and Youth Affairs',³⁴ involving 120 applications, varied from FaCSIA's recommendations. There was generally very little documentation included in FaCSIA's records of the reasons why the then Minister reached a different decision on these applications to that

³³ See King L.J (the Hon.), November 1999, 'The Attorney-General, Politics and the Judiciary', delivered to the *Fourth Annual Colloquium of the Judicial Conference of Australia*.

³⁴ Both the then Minister for Children and Youth Affairs and the then Minister for Family and Community Services signed the Ministerial Submission approving funding for VSEG Round One 2004. However, only the Minister for Children and Youth Affairs sought any changes to the department's funding recommendations in this round.

recommended by the department.³⁵ During the course of this audit, FaCSIA advised the ANAO that in future it will request the Minister and his/her office to provide reasons for any discretionary changes to the funding recommendations provided by the department. This information, when provided, will be retained on FaCSIA files.

60. The then Minister for Children and Youth Affairs' did not provide the ANAO with any further explanation of the reasons for his decisions in regard to these 120 applications. The ANAO notes that there is no requirement under the FMA Regulations for approvers, including Ministers, to record the reasons for their decisions or the nature and extent of the inquiries they undertake to satisfy themselves that a proposal to spend public money will make efficient and effective use of public money, as required under FMA Regulation 9. However, as noted in paragraph 19 it is sound practice to do so, and is consistent with Parliamentary Committee views.

Administration of VSEG Round One 2004 approval process

61. After Ministers were provided with a submission setting out the department's funding recommendations for the funding round on 5 April 2004, the then Minister for Children and Youth Affairs' office advised FaCSIA of the 120 changes that the Minister wished to make. FaCSIA then amended the entries regarding the 120 affected applications in its database such that the department's funding recommendations in the database agreed with the then Minister for Children and Youth Affairs' changes.

62. The then Ministers for Children and Youth Affairs and Family and Community Services each subsequently approved the applicants to receive funding in the VSEG Round One 2004, on 22 and 24 April 2004 respectively.³⁶ However, the Ministers signed the original 5 April 2004 Ministerial Submission provided by the department, and the 120 changes which had been made by the then Minister for Children and Youth Affairs were not annotated on, or attached, to this document. Accordingly, the document signed by the Ministers did not specify that 38 organisations originally recommended for funding by the department were not to be funded in this round or that 82 organisations not originally recommended for funding by the department were to be funded.

³⁵ For example, a Minister may reach a different decision on a grant application to that recommended by the department (as a result of its appraisal process for the grant programme) because the Minister gave a higher priority to one or more of the assessment criteria than the department.

³⁶ The Minister for Children and Youth Affairs and the Minister for Family and Community Services both signed the same submission, which contained the same lists of FaCSIA recommendations in attachments.

63. The department did not provide a further submission to the Ministers requesting confirmation of the revised list of organisations to be funded reflecting the variations requested by the Minister for Children and Youth Affairs. Rather, the department advised the ANAO that it proceeded on the basis of the advice received from the Minister for Children and Youth Affairs' office of the then Minister's decisions on the 120 applications affected.³⁷ This advice was received prior to the Ministers signing the 5 April 2004 Ministerial Submission.

64. In this circumstance, there is no evidence that the requirements of the FMA Regulations were complied with in terms of approving the spending proposals relating to the funding of the 82 organisations added by the then Minister Children and Youth Affairs. Further, the ANAO notes that the then Ministers, in approving the unannotated 5 April 2004 Ministerial Submission, approved the applications of 38 organisations which did not subsequently receive funding.

Distribution by electorate of Minister's variations to FaCSIA's funding recommendations

65. A consequence of the then Minister for Children and Youth Affairs' variations from FaCSIA's funding recommendations in the first round of VSEG funding in 2004 was an increase in the allocations to Coalition, particularly National Party, electorates. Although National Party electorates accounted for around 20 per cent of VSEG applications, around 70 per cent of the then Minister's variations from FaCSIA's funding recommendations (involving 85 applications) related to organisations in National Party electorates, with 15 per cent of variations (involving 17 applications) relating to organisations in the then Minister's own electorate. Most of these variations, including those relating to the then Minister for Children and Youth Affairs' electorate, involved funding organisations from National Party electorates that FaCSIA had not recommended to fund.³⁸ A small portion of the variations were to not fund projects that FaCSIA had recommended for funding.

66. Many of these variations involved replacing strongly ranked applications with those that were ranked significantly lower. There were also a

³⁷ And as entered in FaCSIA's database on the basis of this advice.

³⁸ The ANAO conducted regression analysis to assess the extent to which the net additional grants per electorate due to the Minister's changes could be explained by the political party holding the electorate, among other factors. This analysis found that the hypothesis that the decision by the Minister to add an organisation to the VSEG funding list was unrelated to the party holding the electorate in which the organisation is based was strongly rejected (at a statistical confidence level of over 99 per cent).

number of organisations that were approved for funding by the then Ministers whose applications FaCSIA had appraised as not consistent with the VSEG guidelines and, in terms of the department's appraisal, should not be funded. There was no evidence to suggest that any senior FaCSIA executives advised the then Minister for Children and Youth Affairs that, in the absence of additional information, such applications either did not satisfy the VSEG programme guidelines, or were relatively weak compared to other projects, and requesting that the Minister review these selections in light of this situation.

2005 Round

67. In the VSEG 2005 round, the then Minister for Family and Community Services accepted 10 264 (or 99.8 per cent) of the 10 283 funding recommendations provided by the department. Thirteen of the 14 organisations the then Minister for Family and Community Services added to FaCSIA's recommendations had a letter of support from an MP. Twelve of these 13 organisations had the support of Coalition MPs. However, consistent with the VSEG guidelines the Minister had approved for selecting successful applicants, the VSEG application form had advised applicants that attachments would not be taken into account.³⁹ Letters of support from parliamentarians and other individuals could be considered an attachment as they are separate from the submitted application forms.

68. Accordingly, using the existence of a letter of support from parliamentarians as an apparently highly influential factor when deciding whether an application should be funded, potentially disadvantaged the large majority of applicants in the VSEG 2005 round who did not obtain and submit with their application such a letter. To support the Minister to administer the VSEG 2005 funding round, the department could have provided a reminder that the approved VSEG guidelines did not allow for attachments, and that letters of support from parliamentarians could be considered as an attachment to an application.

Local Answers funding decisions

69. While the relevant portfolio Minister accepted virtually all of FaCSIA's 'most highly rated' recommendations for the three Local Answers funding rounds examined in the audit, the then Minister for Family and Community

³⁹ The cover page of the VSEG application form for the 2005 round stated 'please do not attach additional documents to your application forms. Attachments will not be considered'.

Services did not accept 3.9 per cent of these recommendations for the second round held in 2005.

70. In Local Answers Round Two, the then Minister for Family and Community Services accepted 780 (or 96.1 per cent) of the department's 812 funding recommendations. The Minister made a total of 32 changes to FaCSIA's recommendations (3.9 per cent of the total) deciding not to fund 10 organisations recommended by the department and to fund 22 alternative organisations selected from a list of applicants the department had assessed as 'suitable' but not as among the 144 applicants assessed by the department as 'most highly rated'.

71. The net impact of the Minister's variations from FaCSIA's recommendations for funding Local Answer's applicants in Round Two was to add nine grants to organisations in Liberal Party electorates, four grants to organisations in National Party electorates and one grant to an organisation in an electorate held by the Country Liberal Party, while organisations in Labor Party electorates received two fewer grants in total.⁴⁰ In the majority of instances where the Minister did not follow the department's advice in regard to whether a particular organisation should receive funding in this round, there was no documentation included in FaCSIA's records of the basis for these variations.

Administrative issues

72. Current VSEG programme guidelines do not describe the particular nature of the relationship between FaCSIA and the Minister's office during the appraisal and selection processes. For example, they do not specify how any communication with the Minister's office on the merits of particular applications should be managed prior to the department submitting its recommendations to the Minister.

73. The ANAO considers it important that FaCSIA avoid any communication with the Minister's office that may impinge on the application of objective, merit-based assessment of grant applications. This would generally preclude discussions with Ministers' offices on the merits of individual applications prior to the completion of the department's appraisal processes. Should, in exceptional circumstances, there be a reason for the

⁴⁰ The ANAO was unable to conduct regression analysis to assess the extent to which the net additional grants per electorate due to the Minister's changes could be explained by the political party holding the electorate for Local Answers Round Two because the sample size was too small to allow this analysis.

department to discuss the merits of a proposal with the Minister's office prior to the completion of FaCSIA's appraisal processes, it would be prudent for this to only proceed with the agreement of a senior member of the department's executive in view of the potential risks to the integrity of the appraisal process. Any such discussion should be appropriately documented. On the other hand, it is clearly important that the Minister's office be appropriately informed about other aspects of the programme's administration such as the total number of applications received, expected timing of the appraisal process, and other scheduling considerations.

74. In both the VSEG 2004 Round One and VSEG 2005 funding rounds, after the relevant Ministerial Submissions had been provided to the relevant Minister(s) setting out the department's funding recommendations for the round, FaCSIA changed the entry in its electronic database for each application where the relevant Minister's final decision was different to that recommended by the department in the relevant Ministerial Submission. This involved 120 applications in the VSEG 2004 Round One and 19 applications in the VSEG 2005 round. FaCSIA changed the entry in its database for each of these applications such that the department's funding recommendation recorded for each application aligned with the Ministers' final decision rather than the original recommendation put forward by the department in the relevant Ministerial Submission. To discharge its obligations to maintain records that adequately evidence business conducted and decisions made, FaCSIA should ensure the document history on its electronic VSEG records management system accurately and separately report FaCSIA's funding advice, and the Minister's funding decision.

Notifying organisations of the outcome of their application (Chapter 7)

75. FaCSIA completed the selection processes for recent Reconnect, Minor Capital Upgrade Funding and VSEG funding rounds in around two months.

76. Over six months elapsed between the application closing date and the announcement of outcomes for the 2005 Local Answers funding round. FaCSIA delivered the initial submission containing funding advice to the Minister on the 2005 Local Answers funding round in a timely manner. However slippage occurred due to the Christmas period and subsequent change of portfolio Minister. According to many respondents to a survey the ANAO conducted for the audit, these delays contributed to considerable dissatisfaction with the Local Answers selection process. FaCSIA advised the

ANAO that it would consider strategies for communicating with applicants about delays in selection processes for its various grant programmes.

77. The ANAO surveys of Local Answers and VSEG applicants also found that, in many instances, successful applicants were notified before unsuccessful organisations. FaCSIA officers interviewed by the ANAO indicated that the formal announcement of successful organisations had occasionally been delayed, at the request of Ministers, to enable Ministers and MPs to be the first to inform successful applicants.

78. The announcement of grants can be a very sensitive issue at any time but especially in the lead up to an election. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities.⁴¹ Nevertheless, from a programme administration perspective and, as a matter of good practice, it would generally be considered preferable for all decisions on approved or unsuccessful projects to be announced together, or within a relatively short period of time. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue any alternative sources of funding. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes. FaCSIA advised the ANAO that it will review the guidelines for funding announcements, and, to the extent possible, describe a process where grant selection outcomes are advised to all grant applicants, both successful and unsuccessful, at the same time, or within a relatively short time.

79. Many unsuccessful applicants surveyed by the ANAO considered that FaCSIA had not provided them with clear and/or useful feedback about their grant application. Many of these applicants also advised that they were unaware that more detailed information and individual feedback was available from the department on request.

Community Organisations One-off Grants (Chapter 8)

80. During the 2004 Federal Election⁴² campaign the Government made commitments to fund, among other things, eight community projects to a value of some \$565 000. The projects involved capital works for a range of

⁴¹ APSC, *Supporting Ministers, Upholding the Values*, p. 47.

⁴² The election was held on 9 October 2004.

organisations, especially community or sports clubs and scout groups. These projects were in marginal electorates.⁴³

81. On regaining office, the Government commenced actions to fund these projects, and FaCSIA became responsible for administering them. Six projects were transferred⁴⁴ from the Department of Transport and Regional Services (DOTARS), which was originally to fund them under the Regional Partnerships programme, one was transferred to FaCSIA via the Prime Minister's Office, and one was announced by the then Minister for Family and Community Services during the election campaign.⁴⁵

82. In executing funding agreements for these projects, the ANAO considers that FaCSIA used the appropriate format for all eight agreements. The objectives of six of the eight funding agreements were consistent with the objectives of the funding outlined in the available documentation relating to the election commitment announcements. However, for two of the eight projects, the ANAO noted some variations between the purposes for which the funding was to be made available as set out in the documentation relating to the election commitment announcements and the purposes stated in the funding agreements.

83. FaCSIA provided a Ministerial Minute to the then Minister for Family and Community Services on 9 April 2005 seeking permission to implement and fund seven of the eight election commitment projects. However, FaCSIA did not send a further Minute to the then Minister specifically seeking approval of these spending proposals under FMA Regulation 9⁴⁶, once the

⁴³ FaCSIA advised the ANAO that it was the department's understanding that the announcements of these election commitments were generally made as part of visits to the relevant communities by local Government MPs during the election campaign. In one instance, however, the announcement was made by the then Minister for Family and Community Services.

⁴⁴ In February 2005.

⁴⁵ None of the eight organisations which received funding via the community organisations one-off grants applied for funding for these projects under relevant FaCSIA programmes, such as the Local Answers programme.

⁴⁶ As discussed in Chapter 6, FMA Regulation 9 requires an approver of a proposal to spend public money to undertake such inquiries as are reasonable that the proposal is in accordance with the policies of the Commonwealth and will make effective and efficient use of public money. Accordingly, approval under FMA Regulation 9 for these election commitment projects would appropriately have been given at the time when the approver was provided information about the detailed terms of the individual spending proposals. These terms include: the quantum of funding to be provided to the recipient; the project that the funding contributed to; the purposes of the funding; the precise nature of the outputs from the funding; the identity and amount of cash and in-kind co-funding being contributed by other parties; and any conditions under which the funding was received. The Minister was not aware of the last four of these terms when she signed the Ministerial Minute of 9 April 2005 and the Minister could not, at this point, confirm that the final funding details for the individual projects were consistent with the Government's intentions, as for some projects this changed after this point.

project details were known. This was required given that two of the projects, as set out in the funding agreements signed with recipients, varied from the purposes for the funding as set out in the documentation relating to the Government's election commitment announcements and one of the projects was not included in the 9 April 2005 Ministerial Minute.⁴⁷ FaCSIA agreed that a Submission should have been sent to the then Minister seeking approval of the details of funding for the eight projects.

84. The ANAO found that FaCSIA had made payments according to the terms of the funding agreements for all eight agreements.

Recommendations

85. The ANAO made four recommendations to improve FaCSIA's administration of funding for communities and community organisations, and highlighted a range of other areas where some refinement in approach would be beneficial.

FaCSIA response

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

The Department of Families, Community Services and Indigenous Affairs (FaCSIA) considers that the findings of the report highlights the importance of the reforms of the administration of community grant programmes that FaCSIA has put in place since the audit was conducted.

Following an extensive period of development and testing which commenced in November 2005, consistent and detailed procedures, tools and templates now guide staff through all stages of program development and delivery and establish appropriate standards of accountability and monitoring of the administration of community grant programs. Some of these tools have been progressively released over the past year, with the March 2007 release of the *Program Funding Manual—Procedures and Requirements* providing a consolidated reference source for staff. All new community grant programs are designed to comply with the new process requirements and existing programs will be required to comply by 30 June 2008. FaCSIA is pleased that the ANAO acknowledged that the reforms to the administration of community grants

⁴⁷ The eighth project, involving the Swan Italian Sporting Club, was transferred to FaCSIA to administer after the 9 April 2005 Ministerial Minute was provided to the then Minister for Family and Community Services.

programs put in place by the department over the past two years have substantially addressed the concerns with program administration that were identified in the audit processes in place between 2003 and early 2006.

The department accepts the recommendations of this ANAO report.

Recommendations

**Recommendation
No. 1
Para. 2.16**

The ANAO recommends that FaCSIA improves its framework and practices for promoting the availability of community grant funding by:

- a) developing and disseminating to relevant staff, departmental guidelines for promoting community grant programmes;
- b) undertaking periodic reviews of the cost-effectiveness of key promotional activities; and
- c) advertising all community grant funding rounds on the GrantsLINK website.

FaCSIA response: Agree.

**Recommendation
No. 2**

Para. 6.35

The ANAO recommends that, to improve the transparency of decisions on FaCSIA grant programmes, and achieve compliance with the FMA Regulations:

- a) in the Ministerial Submissions that advise the relevant Minister of the outcome of FaCSIA's appraisal process for a grant programme, and seek the Minister's decision on which applicants are to be funded, the department invite the Minister to annotate that document with:
 - o the details of any decisions the Minister makes on applications which are different to those recommended by FaCSIA and set out in the Ministerial Submission and/or its attachments; and
 - o his/her reason(s) for all such decisions; and
- b) the department maintains appropriate records of any relevant discussions with the Minister, and his or her office, pertaining to such decisions by the Minister.

FaCSIA response: Agree.

**Recommendation
No. 3**

Para. 6.65

The ANAO recommends that to support the effectiveness and efficiency of the administration of the VSEG programme, documentation setting out the application assessment process should describe the nature of the relationship and communication between FaCSIA and the Minister's office during the appraisal and selection processes.

FaCSIA response: Agree.

**Recommendation
No. 4
Para. 7.19**

The ANAO recommends that FaCSIA review its notification processes for community grants programmes to:

- a) increase applicants' awareness of the opportunity to receive detailed feedback;
- b) ensure that applicants can readily access feedback services; and
- c) provide sufficient clarity of advice to organisations to allow an understanding of the main reason(s) why they were not successful.

FaCSIA response: Agree.

Audit Findings and Conclusions

1. Introduction

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

Introduction

1.1 The Department of Families, Communities Services and Indigenous Affairs (FaCSIA) is responsible for developing and implementing social policy initiatives.⁴⁸ While Centrelink, the Child Support Agency and State and Territory governments each play a key role in the delivery of particular elements of these initiatives, FaCSIA is responsible for developing and directly implementing a range of social policy programmes for the benefit of the Australian community.

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

1.3 In 2005–06, services were delivered on behalf of FaCSIA by almost 16 000 service providers, contributing to all of FaCSIA's outcome groups. Service delivery outlets funded by FaCSIA deliver services for the Australian Government's family and community support programmes through grants,⁴⁹ subsidies and various related funding arrangements.⁵⁰ In 2005–06, FaCSIA administered approximately 20 000 funding agreements, and administered

⁴⁸ Following the 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 current name, except where quoting documents produced by the former Department of Family and Community Services.

⁴⁹ In May 2002, the Australian National Audit Office (ANAO) released the *Administration of Grants Better Practice Guide*. The ANAO guide (p. 1) 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'.

⁵⁰ Related funding arrangements include case-based funding and funding according to milestone events.

\$1.029 billion in direct funding to a range of non-government service delivery outlets.⁵¹

Audit background

1.4 This audit builds on the work of Audit Report No.47 2005–2006, *Funding for Communities and Community Organisations* which was tabled in June 2006. Audit Report No.47 2005–2006 examined components of FaCSIA’s administration of grants and funding agreements relating to four of the five funding groups of programmes providing funding for communities and community organisations: Youth and Student Support; Community Support; Family Assistance; and Childcare Support.⁵² These components 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;
- the adequacy of FaCSIA’s arrangements to monitor whether service providers were 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.

Request for an audit of the Volunteer Small Equipment Grants programme

1.5 In October 2005, Mr Chris Bowen MP, the Federal Member for Prospect, wrote to the Auditor-General about concerns he had regarding the

⁵¹ Department of Family and Community Services, *Annual Report 2005–06*, p. 312.

⁵² The audit excluded disability services. ANAO Audit Report No. 14 2005–2006, *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 ANAO is considering a future separate audit of disability employment services. These two audits will provide comprehensive coverage of disability services.

administration of two rounds of funding for the Volunteer Small Equipment Grants (VSEG) programme (the second funding round conducted in 2004 and the 2005 funding round). The VSEG programme is a relatively small grants programme⁵³ sitting within the Local Answers stream of the Stronger Families and Communities Strategy.⁵⁴ The programme is designed to provide funding to assist organisations purchase equipment to directly support volunteers whose work contributes to supporting families and strengthening communities.

1.6 Mr Bowen's letter included the following:

I have no doubt that through the administration of around \$10 million in grant funding that you would expect to find some discrepancies across different electorates. However, a direct comparison with electorates by party status demonstrates a clear trend in funding, i.e. towards Coalition electorates. I am particularly concerned of apparent political bias in the distribution of funding under the VSEG program. Mr McPhee, I request that you examine the administration of grants under the VSEG program with the view to conducting a performance audit on this program.

1.7 ANAO had already commenced work on an audit of FaCSIA's administration of grants to communities and community organisations (including the VSEG programme) when Mr Bowen's letter was received. Having considered Mr Bowen's request, the Auditor-General decided that the ANAO would examine the issues raised by Mr Bowen but that, in order to ensure that the bulk of this audit work could still be published in a timely manner, the audit would be undertaken in two parts.

1.8 Audit Report No.47 2005–2006, tabled in June 2006, constituted the first part, covering those aspects of FaCSIA's administration of grants to communities and community organisations occurring once the decision to fund a particular applicant has been made and notified to the applicant. This audit constitutes the second part and examines FaCSIA's administration of grants to communities and community organisations up to the point that recipients are selected, notified and the grants announced.

⁵³ Funding provided to organisations under the VSEG programme totalled \$3.3 million in each of 2003 and 2005, and \$12.1 million in 2004.

⁵⁴ The Stronger Families and Communities Strategy is an Australian Government initiative for which funding amounting to \$490 million has been committed for the period 2004–2009. There are four streams to the new Strategy: Communities for Children, Early Childhood – Invest to Grow, Local Answers, and Choice and Flexibility in Child Care. The VSEG programme is part of the Local Answers stream. Total funding for the Local Answers stream is planned to amount to \$137 million over the period 2004 to 2009.

1.9 This audit also encompasses examination of grant selection and distribution issues for the VSEG programme. In this context, the ANAO sought to understand the pattern of approvals of grants to States/Territories and to electorates held by the Government and Opposition parties.⁵⁵ The ANAO reviewed the allocation of grants under the VSEG programme for the 2003 round, both 2004 rounds and the 2005 funding round and, during the same period, under the larger Local Answers programme⁵⁶, which is also part of the Local Answers stream of the Stronger Families and Communities Strategy.

1.10 Like many community grant programmes administered by FaCSIA, the VSEG and Local Answers grants are discretionary, in that the responsible Minister has discretion, within programme guidelines, to determine whether or not a particular applicant receives funding and the conditions that are imposed. As no Minister has authorised any other person to apply this discretion on their behalf, the responsible Ministers have been the approvers of these proposals to spend public money under the *Financial Management and Accountability Regulations 1997*.⁵⁷ As Figure 1.1 outlines, there were a number of different responsible Ministers throughout the four VSEG and three Local Answers rounds examined in the audit.

⁵⁵ Geographic distribution was a factor in the overall assessment of VSEG applications.

⁵⁶ Funding to organisations provided under the Local Answers Programme totalled \$17.1 million in 2004, \$21.3 million in 2005 and \$20.5 million in 2006.

⁵⁷ See *Financial Management and Accountability Regulations 1997, Part 4 Commitments to spend public money*. Chapter 6 explains the implications of these regulations for the responsible Minister.

Figure 1.1

Minister responsible for grant funding decisions for VSEG and Local Answers funding rounds examined in the audit

Programme/ round	Description
VSEG 2003	Senator the Hon. Amanda Vanstone, Minister for Family and Community Services
VSEG 2004 Round One	The Hon. Larry Anthony MP, Minister for Children and Youth Affairs; and Senator the Hon. Kay Patterson, Minister for Family and Community Services
VSEG 2004 Round Two	The Hon. Larry Anthony MP, Minister for Children and Youth Affairs
VSEG 2005	Senator the Hon. Kay Patterson, Minister for Family and Community Services
Local Answers Round One	The Hon. Larry Anthony MP, Minister for Children and Youth Affairs
Local Answers Round Two	Senator the Hon. Kay Patterson, Minister for Family and Community Services
Local Answers Round Three	The Hon. Mal Brough MP, Minister for Families, Community Services and Indigenous Affairs

Source: ANAO.

One-off grants resulting from Government commitments made during the 2004 Federal Election

1.11 As part of the 2004 Federal Election, held on 9 October 2004, the Coalition Government made commitments to fund, among other things, eight community projects to a value of \$565 000. The projects involved a range of organisations, especially community or sports clubs and scout groups. Following the 2004 Federal Election, FaCSIA became responsible for administering Australian Government funding for these projects.

1.12 The ANAO noted in Audit Report No.47 2005–2006 that the grants provided to these organisations as a result of government commitments in the 2004 Federal Election were not included in the scope of that audit but would be considered in this second audit.⁵⁸ This was because those grants were not part of the FaCSIA programmes examined in Audit Report No.47 2005–2006. However, by the time the current audit was underway, these grants were being administered by the branch responsible for administering Local Answers and VSEG funding.

⁵⁸ See footnote 18 on p. 33 and footnote 19 on p. 34 of ANAO Audit Report No.47 2005–2006, *Funding for Communities and Community Organisations*.

Audit approach

1.13 The objectives of the audit were to:

- assess whether FaCSIA has effectively administered the distribution of funding for the Local Answers, VSEG, Reconnect and Minor Capital Upgrade Funding programmes, including promoting the relevant schemes to potential applicants, developing application forms, handling and appraising applications, selecting recipients and making grant announcements;
- assess the pattern of approvals of grants to States/Territories and to electorates held by the Government and Opposition parties under the Local Answers and VSEG programmes; and
- assess whether FaCSIA administered eight one-off grants to community organisations provided as a result of Government commitments during the 2004 Federal Election campaign in line with relevant legislation and guidelines.

1.14 The scope of this audit included grant programmes administered by the department between March 2003 and March 2006, relating to four of the five funding groups of programmes providing funding for communities and community organisations: Youth and Student Support; Community Support; Family Assistance; and Childcare Support.⁵⁹ In total, these groups involved expenditure of some \$517 million in 2005–06.

1.15 The audit focused on four separate grant sub-programmes within these four major funding groups, as well as the eight community projects funded as a result of government commitments during the 2004 Federal Election (see Figure 1.2).

⁵⁹ This audit, like Audit Report No.47, 2005–2006 excludes disability services. See footnote 8 on page 14 for further information.

Figure 1.2

Grants examined in audit

Sub-programme	Expenditure 2005–06 (\$m)	Description
Local Answers	20.1	Local Answers is one of the key components of the Stronger Families and Communities Strategy announced by the Prime Minister on 7 April 2004. Local Answers provides funding for community-based projects that help to strengthen disadvantaged communities by building skills and capacity to identify opportunities and take action for the benefit of their members.
Volunteer Small Equipment	3.3 ^{A B}	The Volunteer Small Equipment Grant programme is a smaller component of the Stronger Families and Communities Strategy. The programme is designed to provide funding of up to \$3000 to help organisations purchase equipment in the direct support of volunteers whose work contributes to supporting families and strengthening communities.
Reconnect	22.6	The Reconnect programme uses community-based early intervention services to bring about family reconciliation for young people who are homeless, or at risk of homelessness, and their families. Reconnect helps these young people improve their level of engagement with family, work, education, training and their local community.
Minor Capital Upgrade Funding	9.5	Minor Capital Upgrade Funding is a grant designed to provide eligible not-for-profit community-operated child care services with the funding necessary to carry out urgent work required to meet health, safety or licensing standards.
One-off grants	0.6 ^C	The audit also included eight one-off grants to community organisations provided in line with commitments made by the Government during the 2004 Federal Election campaign. While not part of any FaCSIA programme, these grants were administered by the same FaCSIA branch responsible for administering the Local Answers and VSEG grant programmes.

- Note: (A) Expenditure for the VSEG 2005 round covered in this audit was 2004–05 expenditure.
 (B) Total funding provided under the VSEG programme was \$3.3 million in 2003 and 2005, and \$12.1 million in 2004. The Government announced in the 2007–08 Budget that it will provide \$66 million over five years for an expansion of the VSEG programme, including \$10 million in 2006–07.
 (C) This was the total funding for the eight projects.

Sources: Local Answers Programme Guidelines (Draft) 2004–2008, Volunteer Small Equipment Grants 2004 (Round Two) Guidelines, <www.facsia.gov.au>, Budget Measures 2007-08, Budget Paper No.2, p. 194, and FaCSIA advice to ANAO.

1.16 The methodology for the audit involved an analysis of the funding distribution processes and practices for the grants set out in Figure 1.2. To undertake analysis in this audit, the ANAO drew on material collected during fieldwork for Audit Report No.47 2005–2006. However, the analysis for this audit also involved significant additional fieldwork to obtain relevant data, including FaCSIA's electronic records of the assessment of all VSEG and Local Answers applications from March 2003 to March 2006.

1.17 FaCSIA provides some guidance to its staff on the planning and administration of grants and associated payments through its *Practical Guide to Programme Administration Chapter Six—Funding Agreements*. However, this document does not cover grant promotion, appraisal, selection and notification. The various FaCSIA programme areas provide guidance on the particular grant programmes they are responsible for administering.

1.18 The methodology and criteria for the audit were developed using the ANAO *Administration of Grants Better Practice Guide*. This guide covers a comprehensive range of issues relating to grants administration including: promoting the grant programme; selecting projects to fund; and notifying grant applicants of their success or failure to obtain funding. In assessing these issues, the ANAO compared the processes FaCSIA has in place to administer its funding programmes, and those recommended by the ANAO in the better practice guide.

1.19 The ANAO also surveyed organisations that applied for the VSEG 2005 funding round and the third Local Answers funding round, completed in 2006.⁶⁰ The survey sought information about the promotion of the two programmes, and client satisfaction with:

- the application process;
- feedback provided by FaCSIA on application outcomes; and
- the funding agreement process (for successful applicants only).

Assistance to the audit

1.20 The ANAO engaged Allanson Consulting Pty Ltd, which undertook statistical analysis of the distribution of funding for the VSEG and Local Answers programmes, and also surveyed organisations that applied for funding under these programmes. The audit was conducted in accordance with the ANAO Auditing Standards, at a cost to the ANAO of approximately \$380 000.

⁶⁰ Organisations that applied for funding under these programmes were selected at a random and invited to participate. However, the sample was stratified to include applicants from all States and Territories in proportion to the jurisdiction's share of total applications. The sample covered 528 of the 10 238 VSEG applicants in 2005, and 311 of the 568 Local Answers Round Three applicants. The sample included both successful and unsuccessful applicants.

Report structure

1.21 Figure 1.3 outlines the structure of each of the chapters in the report.

Figure 1.3 Outline of the report

<p style="text-align: center;">Chapter 1</p> <p style="text-align: center;">Introduction</p> <ul style="list-style-type: none"> • Background information about the distribution of funding for family and community grant programmes • Audit background and approach 	<p style="text-align: center;">Chapter 2</p> <p style="text-align: center;">Promotion of Grant Funding</p> <ul style="list-style-type: none"> • Strategies and practices FaCSIA uses to inform potential applicants of the availability of community grant funding
<p style="text-align: center;">Chapter 3</p> <p style="text-align: center;">Application Forms</p> <ul style="list-style-type: none"> • Adequacy of application forms used for the most recent funding round conducted for each of the four selected FaCSIA grant programmes examined in this audit 	<p style="text-align: center;">Chapter 4</p> <p style="text-align: center;">Appraisal of Grant Applications</p> <ul style="list-style-type: none"> • FaCSIA's processes and practices to appraise applications for the four selected grant programmes examined in this audit
<p style="text-align: center;">Chapter 5</p> <p style="text-align: center;">Distribution of Local Answers & VSEG Funding</p> <ul style="list-style-type: none"> • Examines the distribution of grants throughout Australia under the Local Answers and VSEG programmes over recent years 	<p style="text-align: center;">Chapter 6</p> <p style="text-align: center;">Selection of Grant Recipients-VSEG & Local Answers</p> <ul style="list-style-type: none"> • Examines the selection of grant recipients throughout Australia under the Local Answers and VSEG programmes over recent years
<p style="text-align: center;">Chapter 7</p> <p style="text-align: center;">Notifying Organisations of the Outcome of Their Applications</p> <ul style="list-style-type: none"> • Examines the timeliness and effectiveness of FaCSIA's processes to notify organisations of the outcome of their grant application 	<p style="text-align: center;">Chapter 8</p> <p style="text-align: center;">Community Organisation's One-off Grants</p> <ul style="list-style-type: none"> • Examines FaCSIA's administration of grants that resulted from commitments made by the Government when campaigning for the 2004 Federal Election

2. Promotion of Grant Funding

This chapter examines the promotional strategies and practices FaCSIA uses to inform potential applicants of the availability of community grant funding.

Introduction

2.1 To provide funding to organisations under its community grants programmes, FaCSIA typically conducts funding rounds. In such instances, the department generally advertises the existence of the funding programme widely, inviting eligible organisations to apply. It then usually institutes a merit-based assessment process to select organisations to receive funding.

2.2 FaCSIA's approach to promoting funding rounds is governed by the nature of the relevant grant programme, especially its objectives and the range and type of organisations it aims to attract. The objective of its promotion activities is to inform as many potential applicants as is practicable of the existence of the funding programme, in a cost-effective and equitable manner.

2.3 Common principles for promoting the availability of grant funding include ensuring that 'there is both general information and information that is targeted to organisations to promote and encourage fair access to the available grant programmes'.⁶¹ For recent funding rounds of the four community grant programmes covered in this audit, the ANAO examined:

- the main ways FaCSIA promoted the availability of grant funding to eligible organisations;
- the overall effectiveness of FaCSIA's promotional activities, in terms of the number and distribution of applications; and
- the adequacy of support and guidance provided to FaCSIA staff in relation to promoting community grant programmes.

⁶¹ Controller and Auditor-General, New Zealand, *Principles to Underpin Management by Entities of Funding for Non-Government Organisations*, p. 59.

How FaCSIA promotes community grant programmes

2.4 Successful grant programmes generally have a high level of interest from a broad range of potential applicants. This requires effective promotion, whether through electronic technology or traditional media to increase awareness in target groups.⁶²

2.5 Table 2.1 shows that FaCSIA used both traditional media (in particular, major metropolitan, regional, rural and Indigenous newspapers) and electronic technology (in particular, the FaCSIA and GrantsLINK⁶³ websites) to promote recent funding rounds for VSEG, Local Answers, Reconnect and Minor Capital Upgrade Funding programmes.

Table 2.1

Types of communication methods used by FaCSIA to promote recent funding rounds of the VSEG, Local Answers, Reconnect, and Minor Capital Upgrade Funding programmes

Communication method	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Newspapers	✓	✓	✓	✗
Newsletters / direct mail	✗	✗	✗	✓
FaCSIA website	✓	✓	✗	✗
GrantsLINK website	✓	✓	✓	✗

Source: ANAO analysis.

Overall effectiveness of FaCSIA's promotional activities

2.6 Promotion of the 2005 Minor Capital Upgrade Funding round was straightforward. It involved FaCSIA contacting all eligible child care centres⁶⁴ across Australia and inviting them to submit an application for Minor Capital Upgrade Funding. The ANAO found that FaCSIA did contact all eligible child

⁶² ANAO *Better Practice Guide: Administration of Grants*, May 2002, p. 39.

⁶³ GrantsLINK is a website that has been developed to make it easier for community members to find suitable and relevant grants for community projects from the many Australian Government grants that are available. GrantsLINK also helps people find the best source of funding and assists people to complete application forms.

⁶⁴ Eligible child care centres are community based not-for-profit long day care centres, occasional care services (established under Commonwealth planning processes) and multi-functional Indigenous services.

care centres within an appropriate timeframe and therefore concludes that FaCSIA effectively promoted the Minor Capital Upgrade Funding programme in 2005.

2.7 To determine whether FaCSIA had effectively promoted recent VSEG, Local Answers and Reconnect funding rounds, the ANAO considered whether there had been a sufficient number and appropriate regional distribution⁶⁵ of grant applications from community organisations.

2.8 Table 2.2 shows that FaCSIA received grant applications well in excess of these programmes' capacity to fund under recent VSEG, Local Answers and Reconnect funding rounds. The success rate (the proportion of applications that were successful in obtaining funding) ranged from 21 per cent in the 2005 VSEG funding round to 54 per cent in the 2000 Reconnect funding round.

Table 2.2

Number of applications and approved grants for recent Reconnect, VSEG and Local Answers funding rounds

	VSEG (2005)	Local Answers (2006)	Reconnect (2000)
Number of applications	10 283	568	38
Number of grants approved	2 131	140	20
Success rate	21%	25%	54%

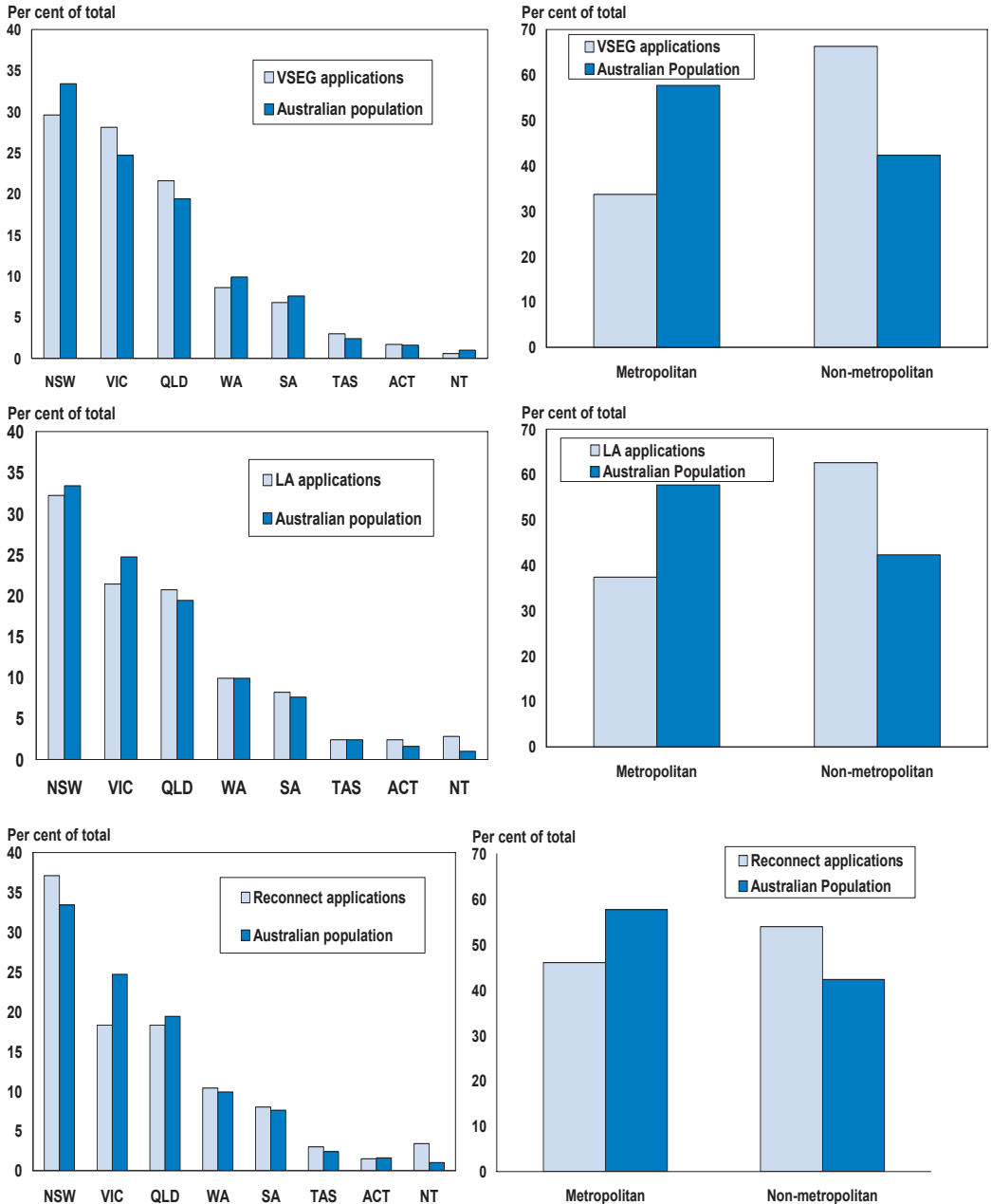
Source: ANAO analysis.

2.9 Figure 2.1 below shows that the distribution of Reconnect, VSEG and Local Answers applications across each of the States and Territories were broadly in line with their population shares, with non-metropolitan areas being well represented in terms of their relative share of applications. The number and distribution of VSEG, Local Answers and Reconnect grant applications indicates that FaCSIA's promotional activities have been effective in informing a wide range of eligible organisations of the availability of funding under these programmes.

⁶⁵ FaCSIA's grant programmes often specify objectives of a representative distribution of funding across geographic areas, with priority being provided to areas of socio-economic disadvantage.

Figure 2.1

The distribution of VSEG (2005), Local Answers (LA) (2006) and Reconnect (2000) applications, across States/Territories and regions



Source: ANAO analysis of data provided by FaCSIA.

Guidance provided to FaCSIA staff in relation to promoting community grant programmes

2.10 It is important for agencies such as FaCSIA, which administer multiple grant programmes across States and Territories, to take adequate steps to ensure as far as possible that effective, equitable, cost-effective and nationally consistent promotional strategies are implemented for their grant programmes. This can be assisted through the development and adoption of appropriate departmental guidelines. Such guidelines should be made readily available to staff and provide a structured approach to implementing an appropriate and effective promotional strategy.

2.11 The ANAO noted that FaCSIA had not developed overarching guidelines for promoting community grant programmes.⁶⁶ While the ANAO found the overall promotion of recent VSEG, Local Answers, Reconnect and Minor Capital Upgrade Funding rounds to be effective, it considers that there would be merit in the department developing guidelines to assist FaCSIA staff tasked with promoting community grants programmes.

2.12 The ANAO also notes that FaCSIA has not reviewed the effectiveness of its promotional activities in relation to the VSEG, Local Answers, Reconnect, and Minor Capital Upgrade Funding programmes.

2.13 Periodic reviews of promotional activities would enable FaCSIA to evaluate the effectiveness of its promotional strategies and make adjustments where necessary. For example, an ANAO survey of VSEG applicants found that the proportion of applicants who had seen FaCSIA newspaper advertisements about the VSEG programme varied considerably across States and Territories.⁶⁷ Such findings may have implications for the proportion of FaCSIA resources applied to the individual promotional activities. Periodic reviews could also examine more detailed issues, such as whether the current FaCSIA practice of typically placing promotional advertisements in weekend, rather than weekday, newspaper editions is cost-effective.

⁶⁶ While FaCSIA's *Practical Guide to Programme Administration* details the application and management of funding agreements, it does not offer guidance on promotion of funding rounds.

⁶⁷ The proportion of VSEG applicants who had seen newspaper advertisements for the 2005 VSEG funding round varied from around one-quarter in the ACT and Queensland to almost two-thirds in the Northern Territory.

Electronic promotion

2.14 Electronic promotion of funding rounds for grant programmes is primarily conducted on the FaCSIA and GrantsLINK websites. ANAO analysis found that not all recent FaCSIA grant funding rounds have been electronically promoted on the GrantsLINK website, with several major programmes not being advertised on the website. Programmes such as Mentor Market Place, Early Intervention Parenting programme, Volunteer Management programme, Invest to Grow, and Communities for Children, have not been listed on the website.

2.15 ANAO telephone surveys of VSEG and Local Answers applicants for recent funding rounds for these programmes found that internet advertisement plays a significant role in communicating grants and funding rounds to potential applicants.⁶⁸ Given the significant (and growing) reliance of community organisations on electronic communication methods, the ANAO considers that there would be merit in FaCSIA more fully utilising the GrantsLINK resource and list all future public funding rounds for the department's community grant programmes on the GrantsLINK website.

Recommendation No.1

2.16 The ANAO recommends that FaCSIA improves its framework and practices for promoting the availability of community grant funding by:

- (a) developing and disseminating to relevant staff, departmental guidelines for promoting community grant programmes;
- (b) undertaking periodic reviews of the cost-effectiveness of key promotional activities; and
- (c) advertising all community grant funding rounds on the GrantsLINK website.

FaCSIA's response

2.17 The Department **agrees** with this recommendation and will enhance the Program Funding Manual to provide more detailed guidance for staff on:

- a) promoting funding opportunities to potential service providers, including use of the GrantsLINK website, and
- b) the benefits of undertaking periodic reviews of the cost effectiveness of promotional activities.

⁶⁸ The ANAO surveys of applicants for the VSEG 2005 round and Local Answers Round Three found that approximately the same proportion of applicants first found out about these programmes via newspaper and internet advertisements.

3. Application Forms

This chapter examines the adequacy of application forms used for recent funding rounds conducted for each of the four selected FaCSIA grant programmes examined in this audit.

Introduction

3.1 It is important that grant application forms collect enough information to allow FaCSIA to adequately appraise the merits of grant applications, yet are concise and easy for applicants to complete and submit.

3.2 Using guidance from two relevant ANAO Better Practice Guides—Administration of Grants⁶⁹ and User-Friendly Forms⁷⁰, the ANAO sought to determine if application forms used for recent funding rounds conducted for each of the four selected FaCSIA grant programmes examined in this audit:

- contained questions that covered the selection criteria and other programme requirements;
- were written in clear and concise language, with adequate accompanying guidance;
- were easy to obtain and submit; and
- were based on robust business processes.

3.3 Table 3.1 outlines the main characteristics of the application forms used to collect information from organisations applying for funding through the selected grant programmes. It shows that the four application forms had a number of key similarities. All four forms: were used as the basis of decision-making for competitive tendering processes; contained stand-alone guidance material; and collected a broad range of information covering applicant details and credentials, project details and financial information. At the time of the audit, the VSEG and Local Answers application forms could be submitted online or in hard-copy format. The Reconnect and Minor Capital Upgrade Funding programmes only offered hard-copy application forms to applicants.

⁶⁹ ANAO *Administration of Grants Better Practice Guide*, op. cit.

⁷⁰ ANAO *User-Friendly Forms, Key Principles and Practices to Effectively Design and Communicate Australian Government Forms, Better Practice Guide*, January 2006.

Table 3.1**Characteristics of application forms for the selected grant programmes**

Characteristic	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Was the form used to inform a competitive tender?	✓	✓	✓	✓
Date of form	March 2005	Sept 2005	Feb 2000	March 2005
Length of form (pages):	5	26	26	11
Stand-alone guidance material	✓	✓	✓	✓
Did the application collect:	✓	✓	✓	✓
Applicant details	✓	✓	✓	✓
Applicant credentials	✓	✓	✓	✓
Project details	✓	✓	✓	✓
Financial details	✓	✓	✓	✓
Able to be completed and submitted online?	✓	✓	✗	✗

Source: ANAO analysis.

Adequacy of information sought in application forms

3.4 Application forms must collect sufficient information about the applicant's ability to satisfy the appraisal criteria and allow FaCSIA staff to make informed decisions about the relative merits of grant applications. As indicated in Table 3.2, the ANAO found that each of the four programmes had application forms that collected sufficient information to adequately cover the selection and appraisal criteria and associated programme requirements.

Table 3.2**Adequacy of information sought in application forms**

Information sought	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Does the form collect sufficient information about the applicant's ability to deliver agreed outputs and outcomes?	✓	✓	✓	✓
Are information requirements consistent with risks involved?	✓	✓	✓	✓
Does the form collect sufficient information to fully inform the appraisal criteria?	✓	✓	✓	✓

Source: ANAO analysis of Reconnect, VSEG, Local Answers and Minor Capital Upgrade application forms.

Useability of application forms and accompanying guidance and support

3.5 It is important that agencies ensure application forms are easy to understand and provide all necessary information in a logical fashion.⁷¹

3.6 The ANAO examined the application forms and accompanying guidance for each of the four selected programmes. As indicated in Table 3.3, the ANAO found that the four programmes generally had user-friendly application forms, with adequate accompanying guidance. As is discussed below, VSEG applicants surveyed by the ANAO typically provided positive feedback on the VSEG application form. However, the ANAO considers that there is scope to improve the language and format of the Local Answers and Reconnect application forms (see paragraphs 3.11 to 3.14).

Table 3.3

Useability of application forms and adequacy of accompanying guidance

Useability	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Is the form written in clear language and logically formatted?	✓		✗	✓
Does the information in the programme guidelines complement the application form?	✓	✓	✓	✓
Does the form provide adequate guidance and information on eligibility?	✓	✓	✓	✓
Does the form provide guidance and information about the appraisal criteria and approval process?	✓	✓	✓	✓
Is there an applicant support number or helpline available for applicants to consult?	✓	✓	✓	✗

Source: ANAO analysis.

VSEG application form

3.7 The ANAO conducted a telephone survey of VSEG applicants who applied for funding in 2005. The survey asked applicants: whether the VSEG application form made it clear what type of equipment was eligible for a VSEG grant; how satisfied they were with the VSEG application process; and, if dissatisfied, the reasons for their dissatisfaction.

⁷¹ ANAO *Administration of Grants Better Practice Guide*, op. cit., p. 51.

3.8 The ANAO survey of VSEG applicants found that:

- 89 per cent of applicants⁷² considered that the VSEG application form clearly described the kind of equipment that was eligible for a VSEG grant;
- 86 per cent of applicants⁷³ were satisfied with the overall VSEG application process; and
- only 12 per cent of applicants⁷⁴ were not satisfied with the application process and less than three per cent cited concerns about the VSEG application form as the reason for their dissatisfaction. These concerns were primarily related to the word limits placed on VSEG application responses.⁷⁵

3.9 The ANAO considers that these survey results indicate that the VSEG application form and accompanying guidance was easily read and understood by applicants.

Local Answers application form

3.10 The ANAO also conducted a telephone survey of Local Answers applicants who applied for funding in the 2006. This survey found that:

- 89 per cent of applicants⁷⁶ considered that the Local Answers application form made it clear what was eligible for a Local Answers grant;
- however, only 70 per cent of Local Answers applicants⁷⁷ were satisfied with the overall application process; and

⁷² This is a population estimate based on the VSEG applicant survey results. The 95 per cent confidence interval surrounding this estimate (of 89.3 per cent) is 85.4 per cent to 92.3 per cent.

⁷³ The 95 per cent confidence interval surrounding this estimate (of 86.4 per cent) is 82.2 per cent to 89.7 per cent.

⁷⁴ The 95 per cent confidence interval surrounding this estimate (of 11.5 per cent) is 8.5 per cent to 15.5 per cent. Only 2.1 per cent of applicants reported that they were neither satisfied nor dissatisfied with the application process.

⁷⁵ In relation to these findings, the word limit on the two written questions in the VSEG application form was increased from 50 to 100 words for the 2006 round.

⁷⁶ The 95 per cent confidence interval surrounding this estimate (of 89.2 per cent) is 86.3 per cent to 91.5 per cent.

⁷⁷ The 95 per cent confidence interval surrounding this estimate (of 70.2 per cent) is 66.4 per cent to 73.8 per cent.

- 25 per cent of Local Answers applicants⁷⁸ were not satisfied with the application process, with around seven per cent citing concerns with the Local Answers application form as the reason for their dissatisfaction.

3.11 The primary reasons cited for dissatisfaction with the Local Answers application form related to: the word limits on application responses; technical difficulties with the online application form; the time taken to complete application forms; and the design and flow of the application form (some applicants considered that the questions on the application form were not well ordered or asked for the same information).

Box 3.1

Examples of comments by Local Answers grant applicants about why they were dissatisfied with the application form

It wasn't a very logical way of presenting what we did, and there was some repetition in it. Some of the important questions didn't come up until later in the application and this made it difficult to answer logically.

The application was very disjointed and it was extremely difficult to get our message across. There were way too many parts, forcing me to be far too repetitive.

The process was badly organised, the questions were repetitive and they don't specify the difference between the terms they were using [for example, aims, and objectives]. We end up having to regurgitate the same information over and over again and it was difficult to figure out what it was they wanted, what they were looking for.

The application form was difficult to navigate. With the Local Answers application there were a lot of problems with the electronic application uploading and we lost a lot of data.

[When filling the form out online] It's not easy to print what's on the screen. You can't print out what you submitted; once it's sent it's gone. Also the word limits were a bit tight and the questioning was repetitive.

We found the web application process very difficult to figure out. It was difficult to access the application, to save it, and the fact that we had to use password to access it was a pain in the bottom, as we had a number of people working on it at different times.

Sources: ANAO surveys of the Local Answers applicants (March 2006 funding round).

3.12 These results suggest that there is scope to improve the useability of the Local Answers application form by reducing duplication of questions, improving the flow of questions and making the online form easier to access, save and print. FaCSIA advised the ANAO that the application form for Local Answers funding has subsequently been redesigned and market tested by an independent consultant.

⁷⁸ The 95 per cent confidence interval surrounding this estimate (of 25.4 per cent) is 22.0 per cent to 29.1 per cent.

Reconnect application form

3.13 Based on examination of the most recent Reconnect application form, the ANAO considers that FaCSIA could improve its readability. Some questions on the form are written in a bureaucratic manner and/or assume the applicant has a thorough understanding of the programme. For example, Question 8 of the full application form states:

Describe the service you are proposing to provide. Include specific strategies you will use to achieve outcomes consistent with the objective of the program within the target group for which you are applying for funding.

3.14 Such language can make it difficult for applicants to complete the form correctly or fully address the selection criteria. The ANAO suggests that FaCSIA simplifies the language used in the Reconnect application form, and uses plain English, with less bureaucratic phrasing.

Minor Capital Upgrade Funding application form

3.15 The ANAO found that the questions in the Minor Capital Upgrade Funding application form were clear and unambiguous.

Applicant support

3.16 It is important that organisations are able to contact FaCSIA to ask for information that will assist them to complete application forms.

3.17 Table 3.4 outlines the support FaCSIA provided to applicants for each of the four selected grant programmes.

Table 3.4

Support FaCSIA provided to applicants for each of the four grant programmes

Support provided	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Is there an applicant support number or helpline available for applicants to consult?	✓	✓	✓	✗
Are applicants provided with discussion seminars or other types of information services?	✗	✓	✓	✗

Source: ANAO analysis.

3.18 The ANAO considers that where the sorts of facilities identified in Table 3.4 are made available they provide a good basis for supporting organisations to complete application forms for grant funding.

Accessibility of application forms

3.19 The ANAO examined the accessibility of application forms—that is, the ease with which applicants can obtain and return application forms to FaCSIA.

3.20 For the VSEG, Local Answers and Reconnect programmes, potential applicants could:

- download application forms from the FaCSIA website;
- access online application forms via the FaCSIA website; and
- contact FaCSIA to request a hardcopy application form be mailed to them.

3.21 The Minor Capital Upgrade Funding programme involved FaCSIA approaching all eligible not-for-profit community operated child care services. Accordingly, FaCSIA mailed hardcopy applications forms to all such eligible organisations.

3.22 The ANAO notes that FaCSIA is moving towards an online application system for most grant programmes and is encouraging applicants to use this facility for those programmes where the facility has been made available. However, this move has created some problems, particularly with recent Local Answers and VSEG funding rounds examined in the audit.

3.23 During the 2005 VSEG funding round, FaCSIA aimed to have the majority of the application forms lodged online. Approximately 80 per cent (8 200) of the 10 283 applications received in total were submitted using the online system. As the lodgement period neared closure, an influx of applications was received with approximately 35 per cent (3 500) of total applications being submitted in the last three days. The large amount of applications that were submitted during these last days caused the online application system to fail, with many of the applications being declined by the system. This frustrated those potential applicants who were then unable to lodge an application form and so could not compete for any funding under the programme.

3.24 Local Answers applicants also reported difficulties in using the online application system for the round of funding announced in 2006. As indicated in Box 3.1, some respondents to the ANAO survey reported difficulties in accessing, completing, saving and submitting the application.

3.25 The ANAO considers that FaCSIA has generally provided community organisations with ready access to grant application forms and appropriate

means to complete and submit grant applications. However, the ANAO considers it important that, for future funding rounds of the VSEG and Local Answers programmes, FaCSIA improves the capacity of its online lodgement facility to deal with last minute spikes in demand for online lodgement of applications.

3.26 FaCSIA advised the ANAO that the 2006 VSEG round was the first funding round application process to use online lodgement via the FaCSIA Online Funding Management System (FOFMS). Action is underway by FaCSIA to address the performance issues identified in the post-implementation review of VSEG 2006, including an upgrade of the Forms Server that supports funding round processes and the redesign of the funding round web-site. FaCSIA advised that it is continuing to examine ways to improve the department's capacity to deliver online funding round capability.⁷⁹

Design and review of grant application forms

3.27 For each of the grant programmes examined by the ANAO, the application forms were developed by adapting forms previously used for similar programmes.

3.28 At the conclusion of each of the VSEG, Local Answers and Minor Capital Upgrade Funding rounds in recent years, FaCSIA has reviewed its application and assessment processes. These reviews drew upon feedback from staff involved in the assessment and selection processes and any feedback received from applicants. Suggested process and/or application form improvements were then implemented in subsequent funding rounds. These review processes have resulted in improved and streamlined application forms, applicant guidelines and appraisal and selection procedures.

3.29 In light of these benefits, the ANAO considers that that there may be merit in formalising these review procedures to ensure that all FaCSIA grant programmes benefit from such continuous improvement processes. FaCSIA advised the ANAO that it will review the programme management guidelines and incorporate post implementation review processes to capture the experiences of significant funding application processes.

⁷⁹ Provision for the submission of a late application has subsequently been included in the Local Answers and VSEG guidelines to cater for applicants who may have experienced problems with lodging application forms.

3.30 FaCSIA also advised the ANAO that it will consider the inclusion of an applicant feedback process in the review process conducted after each funding round. Feedback from FaCSIA staff regarding the application phase of the 2006 VSEG and 2006 Local Answers funding round have been compiled. FaCSIA will consider formalising the review outcomes to share the learnings with all staff.

3.31 FaCSIA also advised that it plans to examine the community grant application process in relation to: the word limits on the application responses; online lodgement; length of application form in relation to time taken to complete; and the design and flow of the application form.

4. Appraisal of Grant Applications

This chapter examines FaCSIA's processes and practices to appraise applications for the four selected grant programmes examined in this audit.

Introduction

4.1 Appraisal of applications for funding under a grant programme should be equitable and likely to select those projects/service providers that best represent value for money, given the objectives and desired outcomes of the programme. To satisfy accountability requirements, it is important that appraisal and selection processes are underpinned by a clear management trail and documentation of funding decisions.⁸⁰

4.2 Many community grants administered by FaCSIA are discretionary, in that the Minister for Families, Community Services and Indigenous Affairs has discretion, within programme guidelines, to determine whether or not a particular applicant receives funding and the conditions that are imposed. This is opposed to a non-discretionary grant, where the programme or legislation creates an entitlement if the criteria for receiving such a grant have been met.

4.3 While for such discretionary grants the Minister has the authority to determine which organisations to fund,⁸¹ grant programmes generally have guidelines for appraising applications and selecting successful organisations. On the basis of these guidelines, FaCSIA provides advice to the Minister and its recommendations as to which organisations should and should not receive funding under the particular programme. Taking account of such advice, the Minister ultimately selects the organisations that will receive funding.

4.4 Appraising projects/service providers on the basis of merit and equity requires FaCSIA to apply criteria that assess applicants' prospects of achieving the key objectives of the programme.

4.5 For the four grant programmes assessed in this audit,⁸² the ANAO examined: the adequacy of FaCSIA's appraisal processes, including the use of numerical rating scales; guidelines on appraisal methodology; training of

⁸⁰ ANAO *Administration of Grants Better Practice Guide*, op. cit., p. 42.

⁸¹ Chapter 6 discusses the authority of Ministers to fund projects for discretionary grant programmes, and their responsibilities according to the *Financial Management and Accountability Regulations 1997*.

⁸² Consistent with the other chapters, this chapter focuses on Local Answers Round Three, VSEG 2005 round, Reconnect 2000 round and Minor Capital Upgrade 2005 major round.

appraisal staff; quality control mechanisms involving the review of decisions by other FaCSIA staff; and recording of reasons for appraisal assessments.⁸³

Overview of FaCSIA's appraisal of grant applications

4.6 To assess the adequacy of FaCSIA's appraisal methods, the ANAO reviewed the appraisal framework, processes and practices for each of the four programmes included in the audit. The ANAO also conducted an in-depth examination of the VSEG and Local Answers programme funding decisions.

4.7 The ANAO found that FaCSIA's overall application appraisal arrangements were adequate for the VSEG and Local Answers programmes, but not for the Reconnect and Minor Capital Upgrade Funding programmes (see Figure 4.1).

Figure 4.1

Adequacy of appraisal processes and practices for the four selected grant programmes

- *VSEG*—appraisal processes and practices for this programme were of a good standard. Appraisal was based on a suitable rating scale and appraisal criteria. Appraisal staff were required to attend training and had access to comprehensive appraisal guidelines. An advisory group was used during the appraisal process. However, quality control efforts focussed on eligibility, rather than the consistency of appraisal ratings. Despite the process having a good audit electronic trail, there was little justification on record of reasons for the department's recommendations to the Minister on funding.
- *Local Answers*—appraisal processes and practices for this programme were of a high standard. Appraisal was based on a high quality rating scale and appraisal criteria. Appraisal staff were well-trained and had access to comprehensive guidelines. The quality control process considered consistency of ratings, not just eligibility. The programme used an advisory group, and recorded decisions comprehensively to create a clear audit trail.
- *Reconnect*—there was scope to improve the usefulness of guidance to appraisal staff and record the rationale for funding advice.
- *Minor Capital Upgrade Funding*—a variety of rating scales had been made available to staff, each with different weightings. These rating scales were not based on a sound methodology. Staff had not participated in training prior to conducting appraisal activities and did not review financial documents during the appraisal process. Taxation issues were not properly communicated to applicants.

Source: ANAO analysis.

4.8 FaCSIA advised the ANAO in February 2007 that it would review the guidance to be provided for staff appraising Reconnect and Minor Capital

⁸³ Criteria for the assessment were drawn from the ANAO *Administration of Grants Better Practice Guide*.

Upgrade Funding applications to ensure that applications are assessed consistently.

Appraisal criteria and rating scales

4.9 To establish whether FaCSIA's appraisal processes underpin the sound assessment of the relative merits of applicants, the ANAO reviewed the appraisal criteria, rating scales and associated processes used by the four grant programmes examined in the audit.

4.10 As Table 4.1 outlines, each of the programmes examined, except for the Minor Capital Upgrade Funding programme, used application appraisal criteria that had been developed in accordance with programme guidelines and objectives.

Table 4.1

Adequacy of appraisal criteria and rating scales

Appraisal criteria	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Were appraisal criteria developed?	✓	✓	✓	✓
Did appraisal criteria accord with programme guidelines?	✓	✓	✓	✗
Did appraisal criteria appropriately rate the applicants' financial status?	✓	✓	✓	✗
Was an appropriate rating scale in place?	✓	✓	✓	✗

Source: ANAO analysis.

4.11 The Minor Capital Upgrade Funding programme guidelines required applicants to include specific supporting documentation with their applications, such as audited financial statements. Yet, the programme's appraisal criteria allowed for the possibility that such documentation was not submitted. The ANAO noted that a number of organisations were successful in receiving funding, even though their application did not provide all the required supporting documentation stipulated in the programme guidelines (see Box 4.1).

Box 4.1

Example where despite submission of an incomplete application for funding under the Minor Capital Upgrade Funding programme the applicant was successful

During Round One of the 2005 Minor Capital Upgrade Funding programme, a childcare centre received a grant for \$10 691 to replace three shade structures.

Although the application was rated highly, the applicant did not provide all supporting documentation requested within the application form. In particular, the applicant did not provide the most recent audited financial statements.

Minor Capital Upgrade Funding programme guidelines state that 'services must include a copy of their last audited financial statement'. Additionally, the application checklist stated that unless the applicant attached all of the required documentation, the application would not be considered for funding.

However, this child care centre's incomplete application was successful.

Appraisal rating scales

4.12 A consistent and well-developed rating scale should underpin the application appraisal process. The rating scale should use numerical ratings whenever possible.⁸⁴ However, numerical rating scales will only produce useful results when they are based on a sound underlying methodology.

4.13 The ANAO reviewed the assessment rating scales used by each of the four audited programmes. This review aimed to determine if each of the rating scales was able to rate the relative merits of applicants, consistent with the selection criteria and objectives of the programme.

4.14 As outlined in Table 4.1, the ANAO found that three of the four programmes had applied an effective rating scale for each of the assessment criterion.

4.15 However, the Minor Capital Upgrade Funding programme's rating scale did not allow officers to adequately assess applicants' financial status. In particular, the scale allowed an organisation to gain rating points by responding to Question 5 of the application form that it 'was not operating at a break even basis'.

⁸⁴ The House of Representatives Committee on Environment, Recreation and the Arts (HORERA) recommended the use of numerical ratings for assessing grant applications in the report into the Community, Cultural, Recreational and Sporting Facilities programme, February 1994. The recommendation was accepted in principle by the Government of the day in May 1994.

4.16 By failing to adequately understand an organisation's financial status before providing funding, FaCSIA risked funding organisations that were financially unviable and at risk of closure.

4.17 The ANAO suggests that for future funding rounds of the Minor Capital Upgrade Funding programme, FaCSIA aligns its selection criteria and rating scales to programme guidelines surrounding the need for evidence of financial viability.

Guidance to appraisal staff

4.18 The complexity of grant programmes and the number and range of applications received by FaCSIA requires the department to provide its appraisal staff with extensive guidance on how to assess the relative merits of applicants. Such guidance can help FaCSIA achieve consistent appraisal approaches and funding advice to Ministers, especially when appraisal is undertaken in separate State and Territory offices of the department.

4.19 The ANAO examined the development, availability and use of guidance documentation for each of the four grant programmes (see Table 4.2).

Table 4.2

Adequacy of guidance to FaCSIA staff of appraisal methodologies

Guidance	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Was guidance available to staff?	✓	✓	✓	✓
Was this guidance logical and comprehensive?	✓	✓	✗	✗
Did staff generally use this during the appraisal process?	✓	✓	✓	✓
Was consistent guidance available in each State and Territory Office?	✓	✓ ^A	✓	✓

Note: (A) All FaCSIA State and Territory offices were represented at the National Assessment Centre in Canberra to appraise Local Answers applications.

Source: ANAO analysis.

4.20 For each of the four grant programmes, FaCSIA developed guidelines for application assessment, and disseminated them to appraisal staff. However, the overall quality and usefulness of these guidelines varied.

4.21 FaCSIA developed and had disseminated clear assessment guidance for staff appraising the VSEG and Local Answers programmes. However, there was scope to improve guidance to staff appraising the Reconnect and Minor Capital Upgrade Funding programmes.

4.22 There were five separate guidelines available to staff appraising the Reconnect programme. However, even in total, these guidelines did not provide staff with sufficient information to ensure that applications were assessed consistently and correctly by officers.

4.23 Similarly, there were three separate guidelines available to staff appraising the Minor Capital Upgrade Funding programme. However, the information provided throughout each of these guidelines was not consistent. In particular, the *Child Care, Minor Capital Upgrade Assessment Plan* (2005 Part 2) provided information that was inconsistent with the *Assessment Proforma* that was used during the application assessment process. The ratings listed within the guidelines were not the same as those available on the proforma.⁸⁵ ANAO interviews with officers in FaCSIA's State and Territory offices revealed that some officers had used one guideline to assess the applications while others had used another.

4.24 The ANAO considers that FaCSIA should review the guidance provided to staff appraising future rounds of the Reconnect and Minor Capital Upgrade Funding programmes to ensure that:

- the guidelines contain sufficient information to support the correct and consistent appraisal of applications; and
- consistent information is provided for the appraisal of grant applications for each programme.

Skills and training of assessment staff

4.25 To effectively implement programme appraisal approaches, assessment officers should have a full understanding of the methodology involved, especially the detailed assessment criteria used to appraise each of the applications.

⁸⁵ The *Child Care, Minor Capital Upgrade Assessment Plan* (2005 Part 2) Criterion 5—Financial position, provides for an organisation to receive a highest possible score of five. However, the proforma used to assess and rate the applications only allows a possible score of four to be applied to the same criterion.

4.26 To determine if assessment officers were adequately skilled to appraise applications, the ANAO conducted interviews with a range of FaCSIA's appraisal staff.

4.27 Based on these interviews, Table 4.3 indicates that staff were sufficiently skilled to appraise applications in three of the four programmes audited. Most of these officers had an adequate knowledge of the assessment arrangements from their direct involvement with the programme and additional assessment training that FaCSIA had conducted. These training sessions primarily focussed on the assessment processes and use of supporting information technology systems.

Table 4.3

Skills and training of assessment staff

Skills and training	VSEG (2005)	Local Answers (2006)	Reconnect (2000)	Minor Capital Upgrade Funding (2005)
Were staff sufficiently skilled to assess applications (with the exception of financial material)?	✓	✓	✓	✗
Did staff receive training to assess applications?	✓	✓	✓	✗
Were staff adequately trained to analyse financial information?	na ^A	✓	✓	✗

Note: (A) Not applicable. Financial training of assessors for VSEG rounds is not necessary, as the assessment process does not include financial analysis.

Source: ANAO analysis.

4.28 The Minor Capital Upgrade Funding programme did not carry out any training for assessment officers. FaCSIA advised the ANAO that assessment officers received adequate exposure to the assessment process during the application refinement stage, which takes place prior to the funding round.

4.29 However, FaCSIA also advised the ANAO that due to the large number of applications received during funding rounds, it was not uncommon for FaCSIA officers from other branches to help in the Minor Capital Upgrade Funding assessment process. As these officers generally had not been previously involved with the programme, their knowledge of the appraisal methodology was not comprehensive.

4.30 The implementation of a training session prior to the Minor Capital Upgrade Funding assessment process would have provided FaCSIA with the

opportunity to clarify the correct version of guidelines that were to be used by officers (see paragraph 4.23 and footnote 85) and would also have enabled it to ensure that all officers had a basic knowledge of financial statement analysis.

4.31 Interviews conducted during this audit, and the previous ANAO audit of FaCSIA's funding agreement management, *Funding for Communities and Community Organisations*⁸⁶, revealed that a significant proportion of officers responsible for the assessment, selection and management of funding agreements were not sufficiently skilled or accredited to understand or assess financial reports or to perform viability assessments. However, the ANAO is aware that some of FaCSIA's State and Territory offices have recently been running financial training courses to improve officers' ability to read and analyse financial statements.

4.32 FaCSIA advised the ANAO in February 2007 that it would provide relevant financial management training, which reflects the complexity of the application and assessment process, for all staff assessing applications in future grants funding.

Quality control

4.33 To support the selection of the best projects/providers on the basis of merit and equity, FaCSIA staff are expected to appraise applications on a consistent basis. A key process to support such consistency is the quality control arrangements that involve the review of decisions by other FaCSIA staff.

4.34 The ANAO examined whether the quality control arrangements for each of the selected programmes were sufficient to support FaCSIA to assess applicants in accordance with programme objectives and appraisal guidelines.

4.35 The ANAO found that each of the programmes had implemented a quality control process that involved other, senior members of the appraisal team reviewing appraisal decisions made by the original appraising officer. The ANAO considers that these processes improved the appraisal process, especially due to the efforts of the reviewing officer to exclude ineligible applications from further consideration. However, the ANAO notes that FaCSIA's quality control activities for the VSEG and Minor Capital Upgrade Funding programmes did not adequately consider whether appraisal processes were consistent across States and Territories.

⁸⁶ ANAO Audit Report No. 47 2005–2006, op. cit.

4.36 As discussed in paragraph 4.23, three separate and conflicting guidelines were available to staff appraising the Minor Capital Upgrade Funding programme. These conflicting guidelines also caused problems during the quality control process. Ultimately, given the existence of these different guidelines, FaCSIA was unable to ensure that each application had been assessed using the same rating scale.

4.37 The ANAO suggests that FaCSIA reviews quality control arrangements for future funding rounds of the VSEG and Minor Capital Upgrade Funding programmes, to increase the consistency of appraisal ratings for applications.

4.38 FaCSIA advised the ANAO in February 2007 that it is continuing to further improve the consistency of assessment processes. For example, during the 2006 VSEG funding round a National Office assessment team was used, with only one State team. The State team assessed applications from the Australian Capital Territory, to ensure that staff were not assessing applications from their own Territory.

Documentation of the selection process and record keeping

4.39 The design of the grant programme should ensure that decisions in relation to the approval or refusal of applications for grants are transparent and well documented.⁸⁷

4.40 Although the ANAO did not specifically audit the adequacy of FaCSIA's record-keeping, some issues surrounding inadequate record-keeping practices were noted during the audit.

4.41 The ANAO found that all programmes, with the exception of the Reconnect programme, had implemented an assessment process that generally recorded sufficient information to demonstrate that applications had been assessed according to merit.

4.42 The assessment processes for the VSEG and Local Answers programmes were each conducted using an electronic Lotus Notes based system. This enabled each of the applications to be electronically stored, assessed and managed.

4.43 The Reconnect programme assesses applications using a manual assessment process. The programme has implemented an *Application*

⁸⁷ ANAO *Administration of Grants Better Practice Guide*, op. cit., p. 22.

Assessment Proforma, which has been designed for assessors to record ratings and the justification for the ratings. However, FaCSIA officers shredded all application assessments for the last funding round of the Reconnect programme (conducted in 2000). This decision was made on the basis of incorrect advice provided by the Reconnect probity advisor—that FaCSIA was not required to keep the application assessment records prepared by individual assessment officers.

4.44 Although the Department has recorded the final decisions for the recommendations for funding recipients, the preceding processes and decision-making details were destroyed. The ANAO 2002 Better Practice Guide *Administration of Grants* states that:

The criteria and basis for recommendations and decisions at all stages of the grant process—including appraisal and approval—must be effectively documented. Appraisal forms or some other systematic process should provide for the recording of reasons for decisions and recommendations to demonstrate the process has been rigorous and transparent. They should be maintained consistently as part of the official record, in accordance with the National Archives of Australia standards and guidelines, and be accessible under Freedom of Information provisions.⁸⁸

4.45 FaCSIA advised the ANAO in February 2007 that subsequent to the Reconnect funding round in 2000, it has been complying with the guidelines contained in the ANAO 2002 Better Practice Guide *Administration of Grants* for documenting the criteria and basis for funding recommendations at all stages of the grant process.

4.46 There was also very little documentation available about reasons why the relevant Minister did not accept FaCSIA’s recommendations on whether or not to fund particular organisations in a small number of instances in the VSEG funding Round One in 2004 and the 2005 Local Answers funding round (see Chapter 6 for further discussion of this issue).

4.47 Consistent with Recommendation No.2 of this audit, the ANAO suggests that FaCSIA maintains appropriate records of any relevant discussions with the Minister, and his or her Office, pertaining to decisions where a Minister funds an organisation contrary to FaCSIA’s advice.

⁸⁸ *ibid.*, p. 22.

5. Distribution of Local Answers and VSEG Funding

This chapter examines the distribution of grants throughout Australia under the Local Answers and VSEG programmes over recent years.

Introduction

5.1 As discussed in Chapter 1, one of the objectives of this audit was to assess whether community grant funding available under the Local Answers stream of the Stronger Families and Communities Strategy, including the VSEG programme, was distributed according to programme guidelines. Moreover, the ANAO sought to understand the pattern of approvals of grants to States/Territories and to electorates held by the Government and Opposition parties.⁸⁹

5.2 Overall, the ANAO applied the following methodology to examine whether organisations had been selected for funding according to programme guidelines, representing an equitable distribution by State and Territory, and electorate. The ANAO:

- examined the processes and practices for appraising Local Answers and VSEG applications to determine whether the department had recommended selection of recipients consistent with programme guidelines (see Chapter 4);
- tracked the status of recommended funding decisions within the department, and from FaCSIA's National Office to the relevant Minister, who made the ultimate selection decisions (this aspect is covered in Chapter 6);
- examined the distribution of Local Answers and VSEG funding by State and Territory; and

⁸⁹ Geographic distribution was designated as a factor in the overall assessment of VSEG applications. Unlike the VSEG programme, Local Answers programme guidelines did not state an objective to evenly distribute funding across jurisdictions for all three rounds. However, this distribution was given some consideration in the funding process—at the outset of each funding round FaCSIA determined an approximate allocation of funding to each State and Territory based on their proportion of Australia's total population.

- undertook a detailed analysis of funding by political party holding each Federal House of Representatives seat, including the total number of applications per electorate, the number and value of successful grants, the relative success rate of grant applications, the nature of the seat (for example, metropolitan, regional, or rural), and changes over time in the above parameters, all taking into consideration the programme design.

5.3 This chapter addresses the distribution of Local Answers and VSEG funding by State and Territory, and by political party holding Federal electorates.

Key characteristics of the Local Answers and VSEG programmes

Local Answers Programme

5.4 Local Answers is a major grants programme under the Stronger Families and Communities Strategy. It is designed to 'strengthen disadvantaged communities by funding local, small-scale, time limited projects that help communities build skills and capacity to identify opportunities and take action for the benefit of their members'.⁹⁰

5.5 There have been three rounds of funding under the Local Answers programme, committing funding of almost \$60 million over four years. Funding provided to organisations under Local Answers totalled \$17.1 million for the August 2004 funding round, \$21.3 million for the June 2005 round and \$20.5 million for the March 2006 round. No limit was specified as to the funding any individual organisation could receive under Local Answers in Round One in 2004. However, for the two later rounds a limit of \$300 000 per organisation has applied. Average funding per organisation was \$180 373 in 2004, \$136 517 in 2005 and \$146 137 in 2006. The total number of applications received for each round of funding under the Local Answers programme has fallen each year.

5.6 Table 5.1 summarises the key characteristics of recent funding rounds of the Local Answers programme.

⁹⁰ FaCSIA website, <http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/programs/sfsc-local_answers.htm>, accessed 26 May 2006.

Table 5.1**Key characteristics of funding rounds for the Local Answers programme**

Characteristic	Round One	Round Two	Round Three
Date successful applicants announced	August 2004	June 2005	March 2006
Funding limit per organisation	None specified	\$300 000	\$300 000
Number of applications	994	812	568
Number of grants approved	95	156	140
Value of funding	\$17.1 million	\$21.3 million	\$20.5 million
Average value of grant	\$180 373	\$136 517	\$146 137
Success rate	10%	19%	25%

Source: Data provided to the ANAO by FaCSIA

VSEG Programme

5.7 VSEG is a much smaller programme which also sits within the Local Answers stream of the Stronger Families and Communities Strategy. The programme is designed to provide funding to assist organisations purchase equipment to directly support volunteers whose work contributes to supporting families and strengthening communities.

5.8 The amounts of funding provided to individual organisations under the VSEG programme are relatively low, with the maximum amount of funding provided to any organisation in the 2003 and both 2004 rounds set at \$5 000, and at \$3 000 for the 2005 funding round. Total funding provided under the VSEG programme was \$3.3 million in 2003 and 2005, and \$12.1 million in 2004. FaCSIA advised that the main reasons for the greater funding in 2004, involving two separate rounds, were the popularity of the scheme and the availability of funds through the Local Answers stream.

5.9 VSEG has seen a strong growth in the number of applicants, resulting in over 10 000 applicants in 2005. The programme has historically had a large number (and percentage) of unsuccessful applicants. The 'success rate' (that is, the percentage of VSEG applicants that were successful in obtaining funding) has ranged between 41 per cent in the second funding round of 2004 and 21 per cent in the 2005 round. Table 5.2 outlines the key characteristics of recent funding rounds for the VSEG programme.

Table 5.2**Key characteristics of recent funding rounds for the VSEG programme**

Characteristic	2003	2004–R1	2004–R2	2005
Date successful applicants announced	September 2003	May 2004	July 2004	May 2005
Funding limit per organisation	\$5000	\$5000	\$5000	\$3000
Number of applications	5 324	6 818	8 376	10 283
Number of grants approved	1 405	2 082	3 414	2 131
Value of funding (including GST)	\$3.3 million	\$4.5 million	\$7.7 million	\$3.3 million
Average value of grant	\$2347	\$2143	\$2225	\$1554
Success rate	26%	31%	41%	21%

Source: Data provided to the ANAO by FaCSIA.

Distribution of funding across jurisdictions

5.10 VSEG funding guidelines for the various funding rounds typically state that every effort will be made to distribute funding as evenly as possible across all States and Territories.⁹¹ To achieve this even distribution of funding, at the outset of each funding round FaCSIA determines an approximate allocation of funding to each State and Territory based on their proportion of Australia's total population. ANAO analysis confirmed that funding for each round of the VSEG programme examined in this audit was distributed to each jurisdiction consistent with its share of total population.

5.11 Unlike the VSEG programme, Local Answers programme guidelines do not state an objective to evenly distribute funding across jurisdictions for all three rounds. However, this distribution was given some consideration in the funding process—as with the VSEG programme, at the outset of each funding round for Local Answers FaCSIA determined an approximate allocation of funding to each State and Territory based on their proportion of Australia's total population.

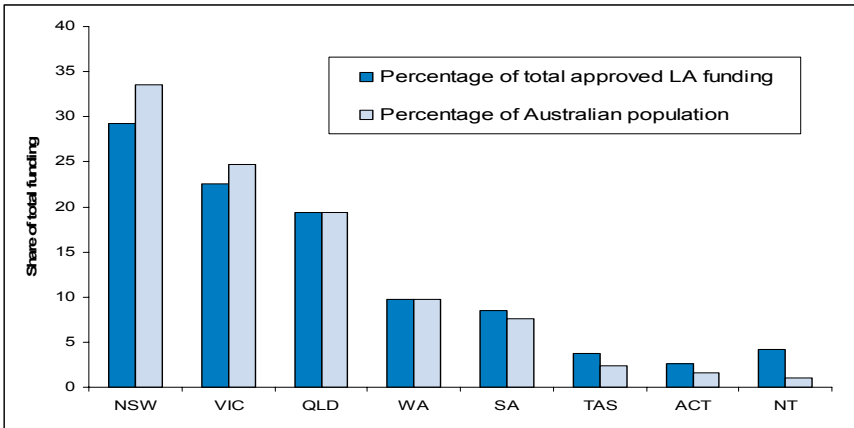
5.12 Figures 5.1 and 5.2 show that the distribution of Local Answers and VSEG funding⁹² across States and Territories was reasonably similar to the distribution of the Australian population.

⁹¹ Such as on the front page of FaCSIA's *Guidelines for Applying for Volunteer Small Equipment Grant 2004 (Round 2) Funding*.

⁹² In total, for the four VSEG rounds from 2003 to 2005 and for the three Local Answers funding rounds.

Figure 5.1

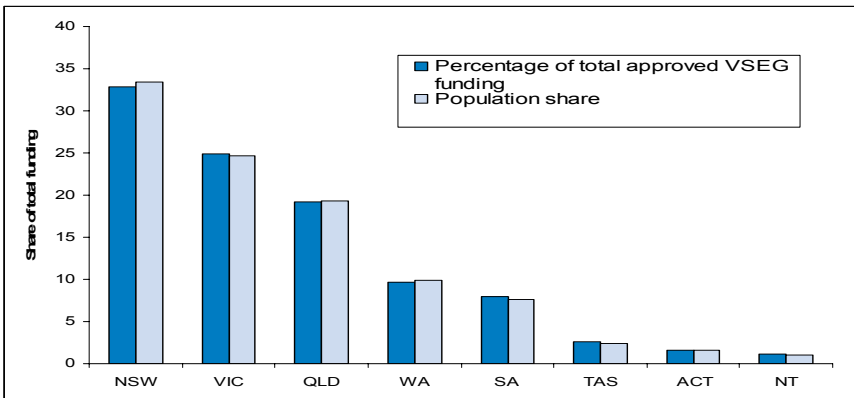
Distribution of total funding for all three Local Answers (LA) rounds, across States and Territories



Source: ANAO analysis of data provided by FaCSIA and ABS resident population estimates for States and Territories (June 2004).

Figure 5.2

Distribution of total funding for all four VSEG rounds between 2003 and 2005, across States and Territories



Source: ANAO analysis of data provided by FaCSIA and ABS resident population estimates for States and Territories (June 2004).

5.13 In order to attain this even distribution of VSEG funding across States and Territories, the success rate of VSEG applicants varied across States and Territories, ranging from 28 per cent in Queensland to 38 per cent in the Northern Territory. Similarly, the success rate of Local Answers applicants ranged from 14 per cent in New South Wales to 22 per cent in Tasmania.

Distribution of funding by electorate—Local Answers

5.14 As noted in previous ANAO audit reports⁹³, access and equity are important elements of the administration of Commonwealth programs. Questions are frequently raised about the even-handed treatment of grant applications both by Parliament and the general public, for example, in their distribution by electorate.

5.15 The ANAO assessed the pattern of approvals for Local Answers funding in the three rounds for organisations in electorates held by major political parties.

5.16 Of the \$58.8 million allocated to the Local Answers programme for the three funding rounds, organisations in electorates held by Coalition parties received \$29.9 million and organisations in electorates held by the Labor Party received \$26.2 million.⁹⁴ However, as an average per electorate, those held by the Labor Party received around 10 per cent more funding than those held by the Government over the same period.

5.17 The ANAO conducted statistical analysis to assess to what extent variations across electorates in Local Answers funding were due to variations in application numbers, success rates and average grant size. Figure 5.3 indicates that the slightly higher average amount of funding to electorates held by the Labor Party compared to those held by the Government was mainly due to a higher success rate, with average grant values also slightly higher, for organisations successfully applying for Local Answers funding in Labor Party electorates compared to those held by the Government.

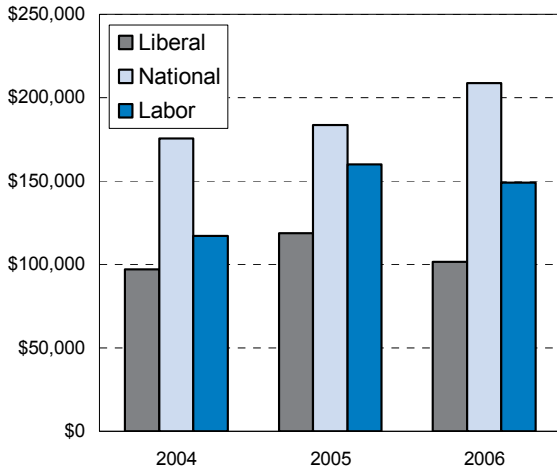
⁹³ Including ANAO Report No.30 1999–2000, *Examination of the Federation Cultural and Heritage Projects Program*, p. 49.

⁹⁴ The balance of \$0.8 million is made up of funds allocated to electorates held by other political parties and independents. Due to this small relative amount of funding, it is not possible to obtain meaningful statistics for this group of electorates, so they have not been reported in this audit.

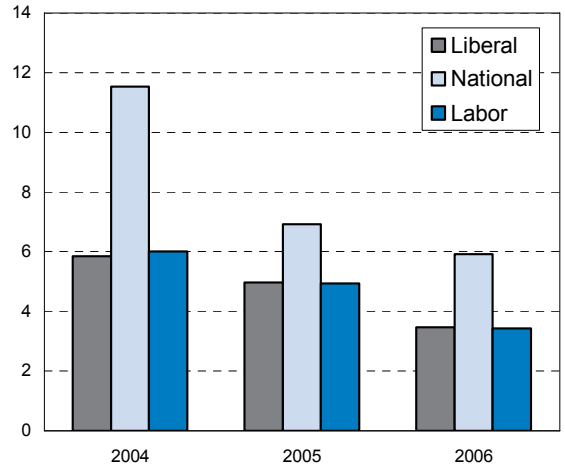
Figure 5.3

Key characteristics of Local Answers funding by major political party^A

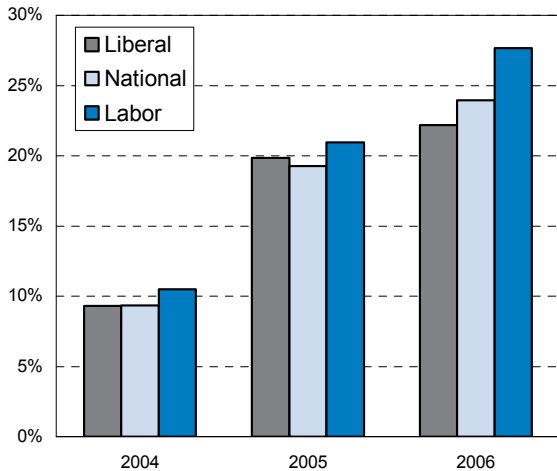
(i) average funding per electorate



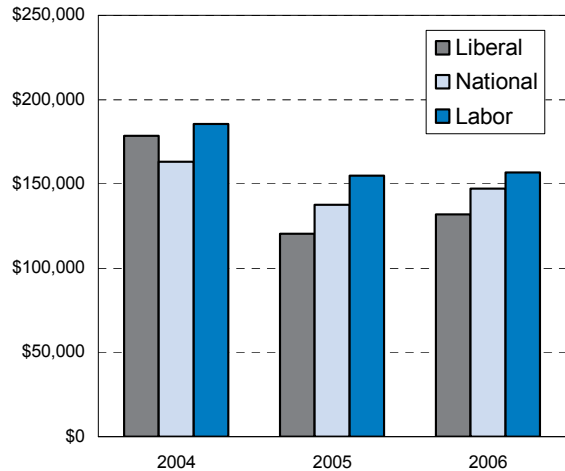
(ii) average applications per electorate



(iii) success rate



(iv) average grant size



Note: (A) The analysis excludes electorates held by Independents, Country Liberal and Greens. Together these individuals and groups held only five of the 150 House of Representative seats at the time of the 2004 funding round, and four seats for the 2005 and 2006 Local Answers rounds.

Source: ANAO analysis of data provided by FaCSIA.

5.18 The ANAO estimated to what extent these variations across electorates in Local Answers funding could be explained by: regional factors (in terms of the electorate’s State or Territory and whether it was in a metropolitan,

regional or rural/remote area); the Local Answers round being conducted; and the political party holding the electorate.

5.19 The ANAO found that the political party holding the electorate did not have a statistically significant independent impact on the total Local Answers funding received by organisations in an electorate, the application success rate, the average grant size or the number of Local Answers applications.

Distribution of funding by electorate—VSEG

5.20 Of the \$18.8 million provided in grants under the VSEG programme in the four funding rounds examined in this audit (2003, Round One 2004, Round Two 2004, and 2005), organisations in Coalition electorates received \$12.8 million and those in Labor electorates received \$5.2 million.⁹⁵ Organisations in Coalition marginal electorates received \$4.0 million and Labor marginal electorates \$2.1 million.

5.21 As an average per electorate over the same period, organisations in National Party electorates received more than three times the average funding provided to organisations in Labor Party electorates, and organisations in Liberal Party electorates received around 60 per cent more funding than organisations in Labor Party electorates.

5.22 The ANAO conducted statistical analysis to assess to what extent these variations across electorates in VSEG funding were due to variations in application numbers, success rates and average grants size.

5.23 This analysis found that the political party holding an electorate did not have a statistically significant independent impact on either an electorate's average grant size or its success rate.⁹⁶

5.24 The analysis also indicates that around 95 per cent of the variation in VSEG funding across electorates held by the major parties is attributable to differences in the number of applications from organisations in those electorates, with the other five per cent being mostly attributable to differences in the success rate. The ANAO identified virtually no variation attributable to differences in average grant size. In other words, the higher than average

⁹⁵ The balance of \$0.8 million is made up of funds allocated to electorates held by other political parties.

⁹⁶ The VSEG Round number and the electorate's location (in terms of its State and regional area) had a statistically significant independent impact on the success rate and average grant size.

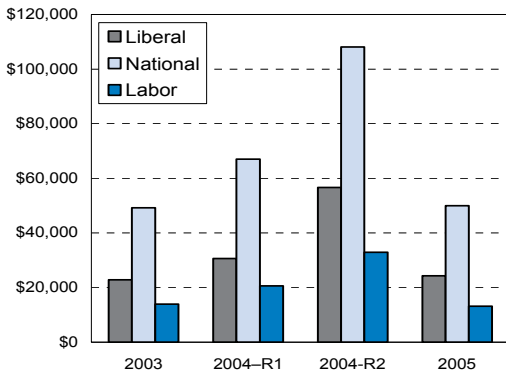
funding provided to Coalition electorates was largely due to the higher number of applications by organisations in these electorates.

5.25 Figure 5.4 illustrates these findings. It shows that while there is higher average funding per electorate to those held by the Coalition parties (see Chart (i)), there is little difference in success rate (see Chart (iii)) and average grant size (see Chart (iv)) between electorates held by the major political parties.

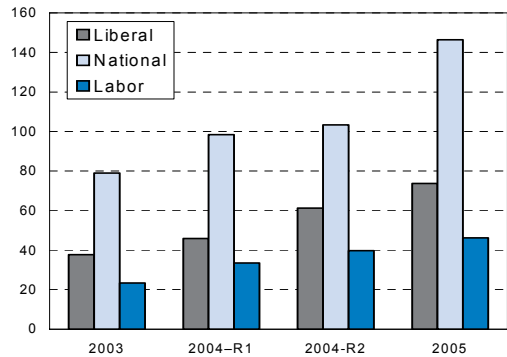
Figure 5.4

Key characteristics of VSEG funding by major political party^A

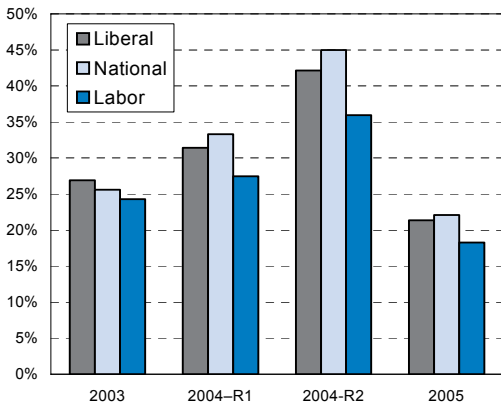
(i) average funding per electorate



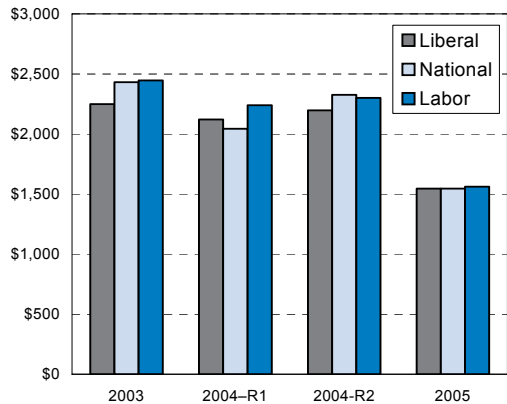
(ii) average applications per electorate



(iii) success rate



(iv) average grant size



Note: (A) The analysis excludes electorates held by Independents, Country Liberal and Greens. Together these individuals and groups held only five of the 150 House of Representative seats at the time of the 2003 and 2004 funding rounds, and four seats for the 2005 VSEG round.

Source: ANAO analysis of data provided by FaCSIA.

5.26 Figure 5.4 (Chart (iii)) shows that more VSEG applications were lodged by organisations in Government electorates than were lodged by organisations

in Labor electorates.⁹⁷ The correlation between the number of applications and amount of funding is illustrated by the finding that:

- Liberal electorates accounted for 50 per cent of total VSEG funding and 49 per cent of VSEG applications;
- Labor electorates accounted for 28 per cent of total VSEG funding and 29 per cent of VSEG applications; and
- National electorates accounted for 18 per cent of total VSEG funding and 19 per cent of VSEG applications.

5.27 The following section examines likely reasons why organisations in Government electorates lodged more VSEG applications than those in Opposition electorates.

Reasons for the greater number of VSEG applications in Coalition electorates

5.28 Electorates in rural and remote areas typically rely on volunteers for many community services, such as fire control and rescue operations. The Australian Bureau of Statistics publication *Voluntary Work 2000*, indicates that the volunteering rate outside capital cities was 38 per cent compared to capital cities at 28 per cent. This suggests that the number of VSEG applications were likely to be higher for non-metropolitan electorates than for metropolitan electorates (see Table 5.3).⁹⁸

Table 5.3

Average number of VSEG applications per electorate, metropolitan vs. non-metropolitan electorates

Average number of VSEG applications from:	VSEG round				
	2003	2004–R1	2004–R2	2005	Average all rounds
Metropolitan electorates	20	28	35	40	31
Non-metropolitan electorates	57	69	84	108	80

Source: ANAO analysis of data provided by FaCSIA.

⁹⁷ While the greater funding to organisations in Coalition electorates was mainly due to a greater number of applications from organisations in these electorates, Chapter 6 reports some actions by responsible Ministers that impacted on the distribution of funding by political party holding an electorate in the Round One 2004 and the 2005 VSEG funding rounds (see paragraphs 6.12 to 6.42).

⁹⁸ The ANAO used metropolitan / non-metropolitan electorate classifications developed by the Australian Electoral Commission. Under the Australian Electoral Commission classification system, 87 electorates are classified as metropolitan and 63 electorates are classified as non-metropolitan.

5.29 Table 5.3 shows that, on average, organisations in non-metropolitan electorates lodged over two and a half times as many VSEG applications as those in metropolitan electorates. This suggests that the higher average number of VSEG applications from organisations in Government electorates would at least be partly due to the fact that the Government holds a large proportion of non-metropolitan electorates.⁹⁹

5.30 The ANAO conducted statistical analysis to assess the extent to which the higher number of applications in Government electorates reflected their location. In particular, this analysis estimated to what extent the number of VSEG applications per electorate could be explained by: the electorate's extent of urbanisation (in terms of its State and whether it was in a metropolitan, regional or rural/remote area); the VSEG round being conducted; and the political party holding the electorate.

5.31 The ANAO found that an electorate's extent of urbanisation was the most statistically significant influence on the number of VSEG applications from the electorate. The ANAO also found that there was a correlation between the political party holding the electorate and the number of applications.¹⁰⁰ In particular, compared with Labor electorates, organisations in Liberal and National electorates appear to have lodged more VSEG applications than could be explained by their location alone.

Promotion of the VSEG grant programme by MPs

5.32 The ANAO's examination of media releases by Members of Parliament (MPs) suggested that compared with Opposition MPs, Government MPs were more active in promoting the VSEG programme to organisations within their electorates and that this may have contributed to the higher number of VSEG applications from Government electorates.

5.33 To assess the extent to which this was the case, the ANAO included questions about this issue in a telephone survey it undertook of organisations that lodged VSEG applications in the 2005 round.¹⁰¹ The survey asked VSEG

⁹⁹ For example, for the 2005 funding round, the Coalition parties held 46 (73 per cent) of the 63 non-metropolitan electorates. The Australian Labor Party held 14 non-metropolitan electorates.

¹⁰⁰ The political party holding the electorate had an independent and statistically significant impact on the number of applications from the electorate.

¹⁰¹ The sample covered 528 of the 10 238 VSEG applicants in 2005. Organisations that applied for this were selected at a random and invited to participate. The sample was stratified to include applicants from all States and Territories in proportion to the jurisdiction's share of total applications. It was not stratified by political party, with 59 per cent of respondents from Coalition electorates (compared to 71 per cent of all applicants) and 38 per cent from Labour Party electorates (compared to 26 per cent of all applicants). The sample included both successful and unsuccessful applicants.

applicants whether their local MP had encouraged organisations in their area to apply for a VSEG grant and, if so, whether they had supported the applicant in applying for a VSEG grant. The ANAO found from the survey that:

- local MPs were very active in encouraging relevant organisations to apply for a VSEG grant;
 - 32 per cent of VSEG applicants interviewed said that they received such encouragement from their local MP—this is similar to the proportion of applicants (35 per cent) who said that they had seen a newspaper advertisement for the VSEG programme;
 - 14 per cent said that they received MP support in applying for the grant;
- Government MPs were much more active than Opposition MPs in encouraging organisations to apply for the grant;
 - 44 per cent of applicants interviewed from Liberal Party electorates received encouragement from their MP to apply;
 - 27 per cent of applicants interviewed from National Party electorates received encouragement from their MP to apply; and
 - 15 per cent of applicants interviewed from Labor Party electorates received encouragement from their MP to apply.¹⁰²

5.34 These survey results indicate that one of the main reasons for the greater number of VSEG applications from Government electorates in the 2005 VSEG round, and the greater amount of associated funding to organisations in those electorates, was that Government MPs more actively encouraged relevant organisations to apply for a VSEG grant.

Factors influencing the promotion of the VSEG grant programme by MPs

5.35 There are likely to have been a number of reasons why Coalition MPs promoted the VSEG 2005 funding round more actively than Labor Party MPs. In this regard, the ANAO notes that ahead of the 2005 VSEG funding round, the then Minister for Family and Community Services wrote to Government MPs alerting them to the fact that the funding round was about to commence

¹⁰² The differences between Liberal, National and Coalition electorates were statistically significant at a 99 per cent confidence level.

and inviting them to promote the programme. In December 2005, a FaCSIA officer noted on file that:

the Minister's office has already sent out a preliminary notice to MPs alerting them that VSEG and LA [Local Answers] would soon be opened and it was an opportunity for people to update databases (assuming he was referring to MP's constituent databases).

5.36 The file note further indicated that the then Minister's office provided notice about upcoming funding only to Government MPs and not to Opposition Party MPs.

5.37 While it is always open to Ministers to write to other Government members to advise them of grant programmes, it would be consistent with their wider Ministerial responsibilities to provide equal opportunity to all MPs to become aware, or be reminded, of the programme funding available to organisations in their electorate. In this context, the ANAO notes FaCSIA's advice that, ahead of the commencement of 2006 VSEG funding round, the current Minister for Families, Communities and Indigenous Affairs notified MPs from all political parties about the forthcoming round of VSEG funding.

5.38 Departmental resources were not used to support the Minister to provide notice about upcoming funding only to Government MPs for the VSEG 2005 funding round. The ANAO considers that if departmental resources are used in such circumstances, then the department should advise all parties about the forthcoming round of grant funding.

6. Selection of Grant Recipients— VSEG and Local Answers

This chapter examines the selection of grant recipients throughout Australia under the VSEG and Local Answers programmes over recent years.

Introduction

6.1 For each funding round of the Local Answers and VSEG programmes, FaCSIA undertakes an appraisal process to formulate the department's recommendations to the Minister as to which applications should be funded in line with the programme guidelines. This process is discussed in Chapter 4.¹⁰³ The final decision on which applicants will receive funding under these grant programmes is then made by the relevant Minister.

6.2 The administration of grant funding by Ministers has traditionally been a sensitive area of public administration, requiring care on the part of Ministers to ensure that programmes are administered in accordance with any legislative provisions and the programme parameters determined and announced by the government of the day. Ministers are expected to discharge their responsibilities in accordance with wide considerations of public interest and without regard to considerations of a party political nature.¹⁰⁴

¹⁰³ The appraisal processes undertaken by FaCSIA for each of the four programmes examined in this audit, including the Local Answers and VSEG programmes, are discussed in Chapter 4.

¹⁰⁴ See King L.J (the Hon.), November 1999, 'The Attorney-General, Politics and the Judiciary', delivered to the *Fourth Annual Colloquium of the Judicial Conference of Australia*.

6.3 The decision to approve an application for funding under an Australian Government programme involves a commitment to spend public money and is, therefore, subject to the requirements set out in the *Financial Management and Accountability Regulations 1997* (FMA Regulations).¹⁰⁵ FMA Regulation 3 provides that these requirements apply to Ministers where they approve proposals to spend public money.

6.4 The Minister approves the substantive elements of each of the grants under the Local Answers and VSEG programmes (that is: the funding recipient, purpose of the grant, amount of grant, and timing of payments). Accordingly, there is little left for the Department to substantively negotiate or approve in respect to settling a standardised funding agreement with successful applicants. The Minister, therefore, is the approver for the purposes of FMA Regulation 9.¹⁰⁶ In reliance on this approval, FaCSIA is then empowered, in terms of FMA Regulation 13, to enter into a funding agreement for each approved grant.

Ministerial approval process

6.5 Once FaCSIA has completed the appraisal process for applicants for each round of the Local Answers and VSEG grants programmes, it then provides its recommendations for funding to the Minister for approval, via a Ministerial Submission. In the case of Local Answers, these Submissions contain attachments that separately list all applicants ranked ‘most highly

¹⁰⁵ Part 4 of the FMA Regulations, *Commitments to spend public money*, sets out a hierarchy of requirements that must be satisfied, in the appropriate sequence, in order for a commitment to spend public money to be lawfully entered into. FMA Regulations 9 to 12 control the approval by approvers of spending proposals. FMA Regulation 13 controls the entering into by any person of a contract, agreement or arrangement under which public money is, or may become, payable.

FMA Regulation 9 provides that an approver must not approve a proposal to spend public money unless the approver is satisfied, after making such inquiries as are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of the public money. FMA Regulation 9 applies to all situations where an approver is approving a proposal to spend public money regardless of whether the money is to be spent through a contract, agreement or arrangement, or through a means not covered by Regulation 13.

It is also important to recognise that FMA Regulation 11 provides that an official must not approve a proposal to spend public money unless authorised by a Minister or Chief Executive, or by or under an Act, to approve the proposal. In this respect, FaCSIA officials have not been authorised by the Minister to approve a proposal to spend public money under the Local Answers and VSEG programmes. This is reflected in the Local Answers and VSEG Programme Guidelines which state that all grants will be approved by the Minister.

¹⁰⁶ The ANAO has received legal advice that FMA Regulation 9 applies to all circumstances where an approver is approving a proposal to spend public money. This includes approvals based on policy considerations where there is a spending proposal being considered for approval. However, FMA Regulation 9 would not apply to a policy consideration if the person with authority had not approved the spending proposal to proceed.

rated', 'suitable', and 'not suitable' for funding.¹⁰⁷ In the case of VSEG, the department attaches to the Ministerial Submission a list of 'recommended organisations' and 'not recommended organisations'.

6.6 Where the Minister, in approving a grant to an applicant, agrees with the advice provided to him/her by the department in the relevant Ministerial Submission, this advice based on the outcome of the department's appraisal process is able to be relied upon by the Minister to satisfy the requirements of FMA Regulation 9. FMA Regulation 9 requires an approver to satisfy himself/herself that the particular spending proposal:

- is in accordance with the policies of the Commonwealth; and
- will make efficient and effective use of the public money.¹⁰⁸

6.7 From time to time, the Minister will reach a different decision on an individual organisation's application to that recommended by the department. The Minister may decide not to fund a recommended organisation and/or decide to fund an organisation whose application has not been recommended for funding by the department. In those cases where the Minister decides to fund an organisation whose application has not been recommended for funding by the department, based on the outcome of the appraisal process, FMA Regulation 9 requires the Minister to undertake his/her own reasonable inquiries that the particular spending proposal will make efficient and effective use of the public money.

6.8 In addition to these legal obligations under the FMA Regulations, it is sound practice for the Minister to document the reasons why he/she reached a different decision to that recommended by the department.¹⁰⁹ This aids programme transparency and public accountability.

¹⁰⁷ Over the three rounds, FaCSIA has used slightly different wording to describe these three categories but the basic meaning has remained consistent.

¹⁰⁸ FMA Regulation 12 further requires that, if the approval of a proposal to spend public money is not given in writing, the approver must record the terms of the approval in a document as soon as practical after giving the approval.

¹⁰⁹ In this regard, the ANAO's *Administration of Grants Better Practice Guide* op. cit., notes the following:

'Individual Ministers or groups of Ministers may make decisions as to the selection of applicants. Where individual Ministers or groups of Ministers make administrative decisions or judgements involving the meritorious selection of one application over another, documentation, recording the appraisal process and the reasons for selecting particular applications would aid program transparency and public accountability'. (p .23)

6.9 The House of Representatives Standing Committee on Environment, Recreation and the Arts' (HORERA) 1994 report into the Community, Cultural, Recreational and Sporting Facilities Program emphasised the importance of the Minister involved in the selection of grants under that program documenting the processes that lead to decisions and recording reasons for decisions so that the Minister could be accountable to the Parliament. One of the HORERA report's recommendations was that where additional information is obtained and departmental officials' ratings are amended by the Minister, or if for any other reasons the ratings are amended, that additional information and its impact should be documented. Decision-makers, including Ministers, are not obliged to accept the recommendations of officials but the reasons that they disagree with the assessment should be documented.^{110 111}

6.10 As explained in Chapter 1, there was considerable change in Ministerial responsibility for VSEG and Local Answers funding decisions during the period of the relevant funding rounds examined in this audit (see paragraph 1.10 and Figure 1.1).

6.11 This chapter examines the selection of grants under recent funding rounds of the VSEG and Local Answers programmes, namely the 2003, both 2004 and the 2005 rounds of VSEG and the August 2004, June 2005 and March 2006 rounds of Local Answers in terms of:

- the extent to which FaCSIA's recommendations for funding (namely 'most highly rated' for Local Answers and 'recommended organisations' for VSEG) were accepted or varied by the relevant Minister;
- the reasons given by the Minister for any variations, and whether these reasons were consistent with programme guidelines; and

'Public accountability is largely dependent on transparency, which is dependent on proper maintenance and availability of relevant documentation. This means that the entire appraisal process should be documented in adequate detail. In particular, the reasons for departures from agreed appraisal procedures or decisions that are contrary to recommendations of officials or other expert panels and advisers should also be properly documented. Ideally decision-makers and their staff should retain working papers and notes taken at the time decisions were made. The retention and availability of these records protect all those involved in the selection process against any suggestion that projects have not been selected on their merits. This provides greater public confidence in the selection process and could assist officials in assessing similar applications in future.' (p. 47).

¹¹⁰ House of Representatives Standing Committee on Environment, Recreation and the Arts (1994) *The Community, Cultural, Recreational and Sporting Facilities Programme: a review of a report on an efficient audit by the Auditor-General*, pp. ix, 36.

¹¹¹ The need for adequate documentation of reasons for decisions on grants, is further noted in the ASPC's good practice guide, *Supporting Ministers, Upholding the Values*. p. 53.

- the nature, extent and impact of communication between FaCSIA and the relevant Minister’s office during the final selection phase.

Portfolio Ministers’ acceptance of FaCSIA’s funding advice – VSEG

6.12 Table 6.1 shows that FaCSIA’s relevant portfolio Minister approved funding for over 99 per cent of those organisations that FaCSIA recommended for funding in its relevant Ministerial Submissions for three of the four VSEG rounds examined.

Table 6.1

Ministers’ acceptance^A of FaCSIA’s recommendations for VSEG funding

Characteristic	2003	2004–R1	2004–R2	2005
Number of FaCSIA recommendations	5324	6818	8376	10283
Number of these recommendations accepted by Ministers	5323	6698	8367	10264
Total number of changes by Ministers				
Number of recommended organisations not funded	1	38	1	5
Number of alternative organisations funded	0	82	8	14
Total changes as a percentage of final funding decisions	0.0%	1.8%	0.1%	0.2%

Note: (A) This table examined FaCSIA’s recommendations that were accepted or not accepted by the portfolio Minister. It does not include those instances where the Minister accepted FaCSIA’s recommendation to fund an organisation but varied the amount funded.

Source: ANAO analysis of data provided by FaCSIA.

6.13 However, in VSEG Round One 2004 the then Minister for Children and Youth Affairs made a different decision to that recommended by the department in a larger number of cases, affecting 1.8 per cent of FaCSIA’s recommendations for that round.¹¹² The ANAO reviewed relevant FaCSIA files seeking to identify the reasons for Minister’s decisions.

¹¹² Both the then Minister for Family and Community Services and the then Minister for Children and Youth Affairs signed the Ministerial Submission approving funding for VSEG Round One 2004. However, only the then Minister for Children and Youth Affairs sought changes to the organisations to be funded in this round. The then Minister’s decisions were communicated to FaCSIA through his office. Administrative issues relating to how the then Minister’s changes were handled by FaCSIA are discussed further in the section commencing at paragraph 6.22.

Documenting the reasons why the relevant Minister's decisions varied from FaCSIA's advice

6.14 There is no requirement under the FMA Regulations for Ministers (or other approvers) to document: the nature and extent of the inquiries they undertake to satisfy themselves that a proposal to spend public money will make efficient and effective use of public money, as required under FMA Regulation 9; or the reasons for taking a different position on applications than that recommended. However, as indicated in paragraphs 6.8 and 6.9, it is sound practice to do so.

6.15 Table 6.2 shows that there was generally very little documentation included in FaCSIA's records of reasons why the relevant portfolio Minister did not follow the department's advice in regard to whether or not a particular organisation should receive funding in a particular VSEG round.

Table 6.2

Evidence on FaCSIA's records of reasons why the Minister did not accept FaCSIA's VSEG funding advice

Characteristic	2003	2004 R1	2004 R2	2005
Total number of instances where the Minister did not accept FaCSIA's advice	1	120	9	19
Total number of these instances where relevant reasons were included in records on FaCSIA files	0	4	1	2
Percentage of instances where FaCSIA's files recorded reasons why the Minister did not accept FaCSIA's advice	0%	3%	11%	11%

Source: ANAO analysis of data provided by FaCSIA.

6.16 While there was limited information on relevant FaCSIA registry files in regard to some of these decisions by Ministers, there was no relevant documentation contained within FaCSIA's electronic records management system for VSEG applications. FaCSIA registry files contained reasons why the relevant Minister had not accepted VSEG recommendations in about three per cent of such instances in the first round in 2004 and 11 per cent of such instances in the 2005 VSEG funding round. FaCSIA officers advised the ANAO in March 2006 that the relevant Minister rarely told FaCSIA why he or she had not accepted FaCSIA's advice on VSEG funding.

6.17 In those cases where the reasons why the relevant Minister did not accept FaCSIA's funding recommendations for certain applications in the VSEG rounds were documented on FaCSIA's registry files, these reasons included:

- adding four organisations that 'meet all the criteria for a VSEG grant' and were considered by the then Minister for Children and Youth Affairs to warrant funding in the first round of 2004;
- rejecting one organisation that was not eligible for funding in the second round of 2004; and
- swapping one organisation that had a letter of support from an MP with one that did not in 2005.¹¹³

6.18 Documentation on FaCSIA files indicated that discussions had often taken place between FaCSIA and the Minister's office during the final selection process for each VSEG round about the merits of various alternative organisations that the Minister was considering funding, but which were not on FaCSIA's list of recommended organisations as provided to the Minister in the relevant Ministerial Submission. However, FaCSIA's files generally did not record the key elements of such discussions, such as the name of those individuals conducting the discussions, the identity of the applications discussed, and the main reasons why the Minister was considering funding these alternative organisations.

6.19 The ANAO notes that the Ministerial Submissions that advised the relevant Minister(s) of the outcome of FaCSIA's appraisal process for the recent VSEG funding rounds did not invite the Minister(s) to annotate that document with his/her/their reasons for cases where the Minister(s) made a different decision on which applications to approve for funding to those recommended by FaCSIA as a result of the appraisal process. The ANAO also notes that Ministers did not otherwise do this.

6.20 However, regardless of whether the then Minister for Children and Youth Affairs was specifically requested to do so by the department, it was open to the Minister to record his reasons for making different decisions regarding 120 applications in VSEG Round One 2004 to that recommended by FaCSIA as a result of the department's appraisal process. As outlined in

¹¹³ For more information on the treatment of letters of support from MPs in the VSEG programme, see section commencing at paragraph 6.37.

paragraph 6.17, FaCSIA's records contained reasons why the then Minister for Children and Youth Affairs had funded projects at variance with the department's advice for only four of these 120 cases. The ANAO found that the Minister did not record, nor subsequently explain, his reasons for funding, or not funding, the remaining 116 projects.

6.21 During the course of this audit, FaCSIA advised the ANAO that in future it will request the Minister and his/her office to provide reasons for any discretionary changes to the funding recommendations provided by the department. This information, when provided, will be retained on FaCSIA files.

Administration of VSEG Round One 2004 approval process

6.22 Both the then Minister for Family and Community Services and the then Minister for Children and Youth Affairs were involved in the approval process for VSEG Round One 2004. The then Ministers were provided with a submission¹¹⁴ setting out the department's funding recommendations for the funding round on 5 April 2004. Subsequently, the then Minister for Children and Youth Affairs' office advised FaCSIA of the 120 changes that the Minister wished to make. FaCSIA then amended the entries regarding the 120 affected applications in its database such that the department's funding recommendations in the database agreed with the then Minister for Children and Youth Affairs' changes.

6.23 The then Minister for Family and Community Services and the then Minister for Children and Youth Affairs each subsequently approved the applicants to receive funding VSEG Round One 2004, on 22 and 24 April 2004 respectively. However, the Ministers signed the original 5 April 2004 Ministerial Submission provided by the department and the 120 changes which had been made by the then Minister for Children and Youth Affairs were not annotated on, or attached, to this document. Accordingly, the document signed by the Ministers did not specify that 38 organisations originally recommended for funding by the department were not to be funded in this round or that 82 organisations not originally recommended for funding by the department were to be funded.

¹¹⁴ Ministerial Submission No. 5711 dated 5 April 2004.

6.24 The department did not subsequently provide a further submission to the Ministers requesting approval of the revised list of organisations to be funded in line with the variations advised by the then Minister for Children and Youth Affairs. Rather the department advised the ANAO that it proceeded on the basis of the advice received from the then Minister for Children and Youth Affairs' office of the then Minister's decisions on the 120 applications affected¹¹⁵. This advice was received prior to the Ministers signing the 5 April 2004 Ministerial Submission.

6.25 In this circumstance, there is no evidence that the requirements of the FMA Regulations were complied with in terms of approving the spending proposals relating to the funding of the 82 organisations added by the then Minister Children and Youth Affairs. Further, the ANAO notes that the then Ministers, in approving the unannotated 5 April 2004 Ministerial Submission, approved the applications of 38 organisations which did not subsequently receive funding.

6.26 The ANAO concluded that FaCSIA's administration of the approval process for VSEG Round One 2004 fell below the standard expected of Australian Government agencies in administering grant programmes as it did not maintain a clear trail of the department's recommendations and the Ministers' approval of organisations to be funded.

ANAO analysis of the impact of the Minister's variations in Round One of 2004 and the 2005 funding round on electorates held by the major political parties

6.27 The ANAO examined the pattern of Minister's variations, where relevant Ministers did not accept FaCSIA's VSEG funding recommendations, on electorates held by the major political parties. The ANAO conducted this analysis for the first funding round of 2004 and the 2005 funding round (as over 90 per cent of Ministerial variations from FaCSIA VSEG funding recommendations related to these two funding rounds – see Table 6.1).

VSEG Round One 2004

6.28 Table 6.3 shows the overall impact of the then Minister for Children and Youth Affairs' variations from FaCSIA's recommendations for VSEG funding in the first round of 2004 on electorates held by the major political parties. The then Minister for Family and Community Services was a member of the Liberal

¹¹⁵ And as entered in FaCSIA's database on the basis of this advice.

Party and the then Minister for Children and Youth was a National Party member.

6.29 Table 6.3 illustrates that a consequence of the then Ministers' variations from FaCSIA's funding recommendations was an increase in the allocations to Coalition, particularly National Party, electorates. Although National Party electorates accounted for around 20 per cent of VSEG applications, around 70 per cent of the Ministers' variations from FaCSIA's funding recommendations related to organisations in National Party electorates, with 15 per cent of variations relating to organisations in the then Minister for Children and Youth Affairs' own electorate. The net impact of these variations was to increase the number of VSEG grants provided to the then Minister's electorate by six (from 27 to 33). This was the second highest net increase in VSEG grants to an individual electorate due to the then Minister's variations from FaCSIA funding recommendations in Round One 2004.¹¹⁶

¹¹⁶ The highest net increase of grants approved due to the Minister's changes to FaCSIA's recommendations was in relation to the electorate of Gippsland, which received an additional nine grants on this basis, for a total of 47 grants approved. The seat was and is held by the Hon Peter McGauran MP, who is a member of the National Party.

Table 6.3**Overall impact of Ministers'^A decisions for funding organisations in National, Liberal and Labor electorates in Round One 2004**

	National electorates	Liberal electorates	Labor electorates	All electorates
Number of Ministerial variations from FaCSIA funding recommendations	85 (71%)	30 (25%)	5 (4%)	120 (100%)
Number of electorates affected by Ministerial variations	13 (out of 13)	18 (out of 68)	5 (out of 65)	36 (out of 150)
Net addition of organisations funded compared to FaCSIA's recommendations	35	12	-3	44 ^B
Original success rate (based on original FaCSIA funding recommendations)	30.6%	31.0%	27.6%	29.9%
Final success rate (after Ministerial variations from FaCSIA recommendations)	33.3%	31.4%	27.5%	30.5%
Impact of Ministerial revisions on overall success rate (percentage point – pp)	2.7	0.4	-0.1	0.6

Notes: (A) The then Minister for Family and Community Services and the then Minister for Children and Youth Affairs jointly approved the applicants to receive funding in Round One of 2004. However, it was staff from the then Minister for Children and Youth Affairs' office who interacted with relevant FaCSIA staff in regard to the department's funding recommendations as communicated to the Ministers in Ministerial Submission No.5711 of 5 April 2004. Staff from that Minister's office also communicated to FaCSIA through this interaction the changes their Minister required to the list of organisations to be funded before he signed the Ministerial Submission No.5711 on 22 April 2004 to approve funding.

(B) The Ministers decided to provide grants to a higher total number of organisations compared to the total number of FaCSIA's recommendations. They were able to this because they had reduced funding to some organisations, the values involved were small and appropriation was available.

Source: ANAO analysis of data provided by FaCSIA.

6.30 The ANAO conducted regression analysis to assess the extent to which the net additional VSEG grants per electorate due to the Minister's changes could be explained by: the political party holding the electorate; the electorate's location (in terms of its State and whether it was in a metropolitan, regional or rural/remote area); and whether the electorate was a politically marginal or safe electorate. The only factor that had a statistically significant and independent influence on the Minister's decision to increase the number of

VSEG 2004 Round One grants provided to an electorate was whether the electorate was held by the National Party.

6.31 Many of the then Ministers' variations from FaCSIA's original recommendations involved replacing strongly ranked applications with those that were ranked significantly lower. The ANAO found that, on average, the organisations that FaCSIA had advised not to fund, but the then Ministers chose to fund, scored 54 on FaCSIA's original quantitative assessment during the appraisal process. This compared to an average score of 61 for those organisations that FaCSIA had recommended that Ministers fund but the then Ministers chose not to fund.

6.32 In accordance with the appraisal process for the VSEG programme, FaCSIA typically recommends those organisations that have scored highly according to its quantitative assessment criteria. The ANAO appreciates that Ministers can place greater weight than FaCSIA on particular attributes of individual projects that are related to the selection criteria. However, the ANAO also notes that there were a number of organisations that the then Minister for Children and Youth Affairs decided should be funded in Round One of 2004 whose applications FaCSIA had appraised as not consistent with the VSEG guidelines and, in terms of the department's appraisal, should not be funded.

6.33 The ANAO examined the relevant FaCSIA files seeking to identify whether any senior FaCSIA executives advised the then Minister for Children and Youth Affairs that some of the variations from FaCSIA's recommendations requested by the then Minister, through his office staff, resulted in the Minister selecting for funding some organisations whose applications had been appraised by the department as either not satisfying the VSEG programme guidelines, or as relatively weak applications compared to other projects, and requesting that the Minister reconsider these selections in light of this. However, there was no evidence of such action by senior FaCSIA executives.

6.34 In these circumstances, particularly in the absence of any documentation of reasons, it is not clear what inquiries Ministers may have undertaken in accordance with FMA Regulation 9 to satisfy themselves that the spending proposals relating to funding those applicants not originally recommended by FaCSIA would be an efficient and effective use of public money.

Recommendation No.2

6.35 The ANAO recommends that, to improve the transparency of decisions on FaCSIA grant programmes, and achieve compliance with the FMA Regulations:

- (a) in the Ministerial Submissions that advise the relevant Minister of the outcome of FaCSIA's appraisal process for a grant programme, and seek the Minister's decision on which applicants are to be funded, the department invite the Minister to annotate that document with:
 - o the details of any decisions the Minister makes on applications which are different to those recommended by FaCSIA and set out in the Ministerial Submission and/or its attachments; and
 - o his/her reason(s) for such decisions; and
- (b) the department maintains appropriate records of any relevant discussions with the Minister, and his or her Office, pertaining to such decisions by the Minister.

FaCSIA's response

6.36 FaCSIA **agrees** the recommendation. FaCSIA will enhance its guidance to staff that written submissions to the Minister on funding matters should advise the Minister that it would assist the department in its record keeping and in meeting its accountabilities if such decisions are fully documented, and the reasons for such decisions recorded.

VSEG round 2005

6.37 It is common for Australian Government grant programmes, including some administered by FaCSIA, to give weight to letters of support from an applicant's local Federal Member of Parliament when appraising the organisation's application for funding. This can involve the inclusion of selection criteria relating to the degree of support apparent for the organisation's proposal.

6.38 However, such letters were not part of the appraisal criteria applied by the department when assessing 2005 VSEG applications. This was because consideration of letters of support from MPs was not consistent with the advice given to applicants in the VSEG application form, which was based on the VSEG guidelines¹¹⁷ for selecting successful applicants. The cover page of

¹¹⁷ These guidelines were approved by the then Minister for Family and Community Services.

the VSEG application form for the 2005 round stated ‘please do not attach additional documents to your application forms. Attachments will not be considered’. Letters of support from parliamentarians and other individuals could be considered a type of attachment, as they are separate from the submitted application forms, and could be combined with or attached to the forms at some date.

6.39 As noted in Table 6.1, the then Minister for Family and Community Services made very few changes to FaCSIA’s ranking of which applicants should and should not receive funding in the 2005 round, only 19 changes out of 10 283 recommendations. However, 13 of the 14 organisations the then Minister decided should be funded, notwithstanding that they were not among FaCSIA’s ‘recommended’ applicants, had provided letters of support from parliamentarians. Twelve of these 13 organisations had letters of support from Government parliamentarians and only one had such a letter from an Australian Labor Party MP. None of the five applicants on FaCSIA’s ‘recommended’ applicants list that the then Minister decided not to fund had such letters of support.

6.40 The Minister acknowledged that she had considered letters of support when deciding to fund organisations not recommended by the department on the basis of the appraisal process. The Minister’s comments on the FaCSIA submission of its advice to the Minister for this funding round (Ministerial Submission No. 1195) were that ‘I approve the list with the minor amendments approx. 20 taking into account letters of support one or two eg. applications from club in [name withheld]’.

6.41 As noted in ANAO Audit Report No.30 1999–2000 *Examination of the Federation Cultural and Heritage Projects Program*, projects should be selected on merit in accordance with appropriate criteria as outlined in the programme decision making documentation.¹¹⁸ Using the existence of a letter of support from parliamentarians as an apparently highly influential factor when deciding whether an application should be funded potentially disadvantaged the large majority of applicants in the VSEG 2005 round who did not obtain and submit with their application such a letter.

6.42 To support the Minister to administer the VSEG 2005 funding round, having read her comments on Ministerial Submission No. 1195, the

¹¹⁸ ANAO Audit Report No.30 1999–2000, *Examination of the Federation Cultural and Heritage Projects Program*, p. 32.

department could have provided a reminder that the approved VSEG guidelines did not allow for attachments, and that letters of support from parliamentarians could be considered as an attachment to an application.

Portfolio Ministers' acceptance of FaCSIA's funding advice – Local Answers

6.43 Table 6.4 details the extent to which relevant Ministers have accepted FaCSIA's advice as to the most highly rated applicants, following the department's appraisal of the applications, in the three Local Answers funding rounds examined in this audit. It shows that the relevant Minister accepted virtually all of FaCSIA's advice for funding organisations in the first and third Local Answers rounds. However, in the second Local Answers funding round, in June 2005, the then Minister did not accept 32 of FaCSIA's funding recommendations, representing 3.9 per cent of FaCSIA funding recommendations. The ANAO examined relevant FaCSIA files, seeking to identify documentation that recorded the process involved and whether reasons were given as to why the relevant Minister's decisions varied from FaCSIA's advice.

Table 6.4

Minister's acceptance of FaCSIA's recommendations of 'most highly rated' applicants for Local Answers funding

Characteristic	Round One Aug 2004	Round Two Jun 2005	Round Three Mar 2006
Number of FaCSIA recommendations	994	812	568
Number of these recommendations accepted by Ministers	991	780	568
Total number of changes by Minister	3	32	0
Number of recommended organisations not funded	1	10	0
Number of alternative organisations funded	2	22	0
Total changes as a percentage of FaCSIA recommendations	0.3%	3.9%	0.0%

Source: ANAO analysis of data provided by FaCSIA.

Documenting the process involved and the reasons why the relevant Minister's decisions varied from FaCSIA's advice

6.44 The Minister's response to FaCSIA's Ministerial Submission No. 1177 of 21 April 2005 provided reasons why she did not fund six projects

recommended by FaCSIA for funding in Local Answers Round Two. However, there was no other documentation available on FaCSIA files that provided adequate explanation of the reasons for not funding another four such projects.

6.45 FaCSIA's registry files included an email from the then Minister for Family and Community Services' office to departmental officers that discussed reasons for funding 22 organisations she selected from FaCSIA's list of 428 suitable applicants¹¹⁹ that had not been assessed by the department as among the 144 'most highly rated'.¹²⁰ The email from the Minister's staff stated that 'the ones that I have proposed to add all have good scores and in the majority of cases were the next cab off the rank for selection. They also allow a bigger geographic spread.' However, the email, or any other document, did not explain how these 'added projects' were the 'next cab off the rank'. These projects typically received amongst the lower numerical scores and rankings of the suitable applicants as rated by FaCSIA through its comprehensive appraisal process.

6.46 Overall, there was little transparency in the documentation included in FaCSIA's records about the basis for these 26 decisions where the Minister did not accept FaCSIA's funding advice.

6.47 Consistent with Recommendation No.2, the ANAO considers that for future rounds of the Local Answers programme, FaCSIA should in the Ministerial Submissions that advise the relevant Minister of the outcome of FaCSIA's appraisal process for a grant programme, and seek the Minister's decision on which applicants are to be funded, invite the Minister to annotate that document with his/her reasons for cases where the Minister makes a different decision on which applications to approve for funding to those recommended by FaCSIA as a result of the appraisal process.

6.48 In any event, FaCSIA should maintain appropriate (fit for purpose) records of discussions with the Minister, and his or her Office, pertaining to grant funding decisions by the Minister. This could include entering this information into the document history of the relevant organisation in FaCSIA's electronic Local Answers application management system, as well as relevant registry files.

¹¹⁹ FaCSIA labelled this list as 'Projects which meet the selection criteria and could be funded'.

¹²⁰ The Minister did not fund any organisations from FaCSIA's list of 'projects which are not recommended for funding.'

Distribution of organisations whereby the Minister did not accept FaCSIA's funding advice—Local Answers Round Two

6.49 The ANAO analysed the distribution across electorates held by the major parties of those organisations that the then Minister funded that were not amongst FaCSIA's 'most highly rated' in Local Answers Round Two, and those that were not funded that were amongst FaCSIA's 'most highly rated'.

6.50 This analysis found that the net impact of the Minister's variations from FaCSIA's recommendations for funding applicants in Local Answers Round Two was to add nine grants to organisations in Liberal Party electorates, four grants to organisations in National Party electorates and one grant to an organisation in an electorate held by the Country Liberal Party, while organisations in Labor Party electorates received two fewer grants in total.

6.51 The ANAO was unable to conduct regression analysis to assess the extent to which the net additional grants per electorate due to the Minister's changes could be explained by the political party holding the electorate for Local Answers Round Two because the sample size was too small to allow this analysis.

Communication between FaCSIA and the relevant Minister's office during the appraisal and final selection phases

6.52 To effectively manage the appraisal and selection of applications for grant funding, it is important to clearly define the roles and responsibilities for all parties involved in the program, including Ministers and their staff, where relevant.¹²¹

6.53 The document setting out the VSEG Application Assessment Process for 2005 included no formal statement of the role of the Minister, and the nature of communication expected between the department and the Minister during the appraisal period. However, the document does state that:

In accordance with the Minister's instructions, compiled lists of recommended applications and not-recommended applications will be forwarded to the Minister's office for approval.

¹²¹ ANAO *Administration of Grants Better Practice Guide*, May 2002, p. 15.

6.54 This guidance does not cover communications between FaCSIA and the relevant Minister's office about the merits of individual applications, either before or after FaCSIA's recommendations are provided to the Minister.

Interaction between FaCSIA and the Minister's office before the department's recommendations for funding are submitted to the Minister

6.55 FaCSIA advised the ANAO that it does not discuss the merits of individual cases with the relevant Minister's office prior to submitting its recommendations to the Minister.

6.56 However, the ANAO notes that FaCSIA's records indicate that there has sometimes been some interaction between the department and the Minister's office about VSEG applications prior to the department submitting its recommendations.

6.57 FaCSIA advised that for the 2005 VSEG funding round, an early copy of the lists of recommended and not recommended applications were emailed to the Minister's office to help familiarise new staff with the VSEG reports. This list was provided at the request of the Minister's office.

6.58 The ANAO considers it important that FaCSIA avoid any communication with the Minister's office that may impinge on the application of objective, merit-based assessment of grant applications. This would generally preclude discussions with the Minister's office on the merits of individual applications prior to the completion of the department's appraisal processes.

6.59 Should, in exceptional circumstances, there be a reason for the department to discuss the merits of a proposal with the Minister's office prior to the completion of FaCSIA's appraisal processes, it would be prudent for this to only proceed with the agreement of a senior member of the department's executive, in view of the risks to the integrity of the appraisal process. Any such discussion should be appropriately documented. On the other hand, it is clearly important that communication with the Minister's office be appropriately informed about other aspects of the programme's administration such as the total number of applications received, expected timing of the appraisal process, and other scheduling considerations. The opportunity for discussion with the Minister's office is, of course, available following the submission of the department's brief.

6.60 In response to possible requests from the Minister's office for lists of recommendations to help familiarise new staff with programme reports, such as occurred for VSEG 2005, FaCSIA could offer to provide reports from the previous round, if those reports are similar to those in the current round.

Interaction between FaCSIA and the Minister's office after the department's recommendations for funding are submitted to the Minister

6.61 The ANAO's review of relevant FaCSIA file records identified an instance where staff from the Minister's office sought assistance from FaCSIA staff to replace an application that had been recommended for funding by FaCSIA, but which did not have the support of an MP, with an application from an organisation that had such support.

6.62 Figure 6.1 sets out the process whereby FaCSIA assisted the Minister's office to select for funding an organisation that had a letter of support from a parliamentarian in place of one whose application had been recommended for funding by FaCSIA, as a result of the appraisal process conducted by the department, but for which a letter of support from an MP had not been provided. FaCSIA had originally recommended the first organisation because its application had scored more highly in the department's appraisal process against the published grant criteria.

Figure 6.1

Example of email interaction between FaCSIA and staff in the then Minister’s office on applications with MP support

Date	Direction	Comment
12 May 05, 5.47pm	Department to Minister’s office	As requested, please find further analysis of the three applicants from [electorate] who had MP support. The first two organisations listed (with a score of 58) could probably be funded, the third (with a score of 54) is probably too low.
12 May 05, 6.04pm	Department to Minister’s office	I just checked to see what organisations are currently recommended for funding in [electorate name withheld]. The lowest is 61. If you wanted to put the two 58s in and keep the same number of organisations in that electorate, we would need to reject two of the 61s.
12 May 05, 6.11pm	Minister’s office to Department	If we can get one in at the expense of the [organisation name withheld] that would be good. I do not have a preference which one.
12 May 05, 6.34pm	Department to Minister’s office	OK, I’ll replace the [organisation name withheld] with the [alternative organisation name withheld] (as it is for a similar amount of money) ^A

Note: (A) The ANAO notes that this discussion occurred after the Ministerial Submission providing the department’s recommendations on the organisations to receive funding had been sent to the Minister. It led to the Minister funding the organisation with the letter of support from the MP (which had not been recommended by FaCSIA via the Ministerial Submission), at the expense of the organisation that did not have a letter of support from an MP (which had been recommended for funding by FaCSIA on the basis of the appraisal process).

Source: FaCSIA file records, 2006.

6.63 Another issue ANAO identified relating to FaCSIA’s funding recommendations in the VSEG programme was that often where the Minister decided not to fund an applicant recommended for funding by FaCSIA in the relevant Ministerial Submission, the department then documented in its electronic database that the department had changed its recommendation to align with the Minister’s final decision. For example, this occurred in 2005 funding round, for the 14 organisations that the then Minister for Family and Community Service’s office asked to be added to the list of recommended organisations provided in FaCSIA’s 6 May 2005 Ministerial Submission. The document history in the electronic VSEG database for each of these fourteen applications now record that FaCSIA recommended funding prior to submitting to the Minister. This is not correct. It also contravenes the

department's obligations to maintain records that provide evidence of business conducted and decisions made.^{122 123}

6.64 FaCSIA should ensure the document history on its electronic VSEG records management system accurately and separately report FaCSIA's funding advice, and the Minister's funding decisions (also see paragraphs 6.22 to 6.26).

Recommendation No.3

6.65 The ANAO recommends that to support the effectiveness and efficiency of the administration of the VSEG programme, documentation setting out the application assessment process should describe the nature of the relationship and communication between FaCSIA and the Minister's office during the appraisal and selection processes.

FaCSIA's response

6.66 FaCSIA **agrees** with this recommendation. Guidelines for engaging with the Minister's office during appraisal and selection processes will be promulgated to staff.

¹²² See ANAO Audit Report No.6 2006–07, *Recordkeeping including the Management of Electronic Records*, p. 33 and Australian Public Service Commission, *State of the Service Report 2004–2005*, November 2005, p. 46.

¹²³ FaCSIA also amended the entries regarding 120 applications that the then Minister for Children and Youth Affairs funded contrary to the department's advice, such that the recommendations in FaCSIA's database agreed with the then Minister's changes.

7. Notifying Organisations of the Outcome of their Application

This chapter examines the timeliness and effectiveness of FaCSIA's processes to notify organisations of the outcome of their grant applications.

Introduction

7.1 In relation to grant announcements, it is important that:

- grant applicants should be notified of the outcome of their applications as soon as possible;
- both successful and unsuccessful applicants should be notified at the same time, or within a relatively short period of time; and
- if requested, reasons for not selecting unsuccessful applications should be made available to the relevant applicants to assist them in preparing any future applications.¹²⁴

7.2 The ANAO sought to determine whether FaCSIA had satisfied these better practice principles for the most recent completed funding round of the four grant programmes examined in the audit.

Timeliness of FaCSIA notification processes

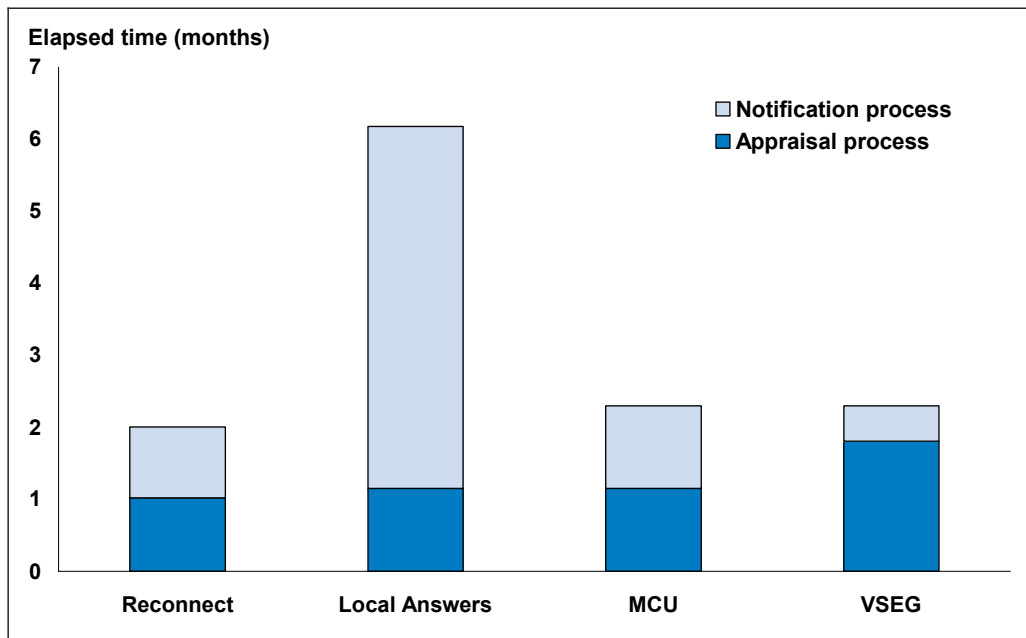
7.3 For the recent Reconnect, Local Answers, Minor Capital Upgrade Funding and VSEG funding rounds, Figure 7.1 shows:

- the time taken by FaCSIA to appraise applications in order to make funding recommendations to the Minister (the 'appraisal process'); and
- the time taken to notify applicants of the final outcome of their application (the 'notification process').

¹²⁴ ANAO, *Administration of Grants Better Practice Guide*, op. cit., pp. 47–48.

Figure 7.1

Time taken to appraise and notify applicants of selection process outcomes



Note: The ANAO did not expect all four programmes to take the same amount of time to appraise applications and notify organisations, as this timing is influenced by many factors, such as the value of the grant, the complexity of the application, and the number of applications.

Source: ANAO analysis of FaCSIA file records, 2006.

7.4 The timeliness of the notification process impacts upon grant applicants via its impact on the timeliness of the overall selection process (that is, the total time taken for the appraisal and notification processes).

7.5 Figure 7.1 shows that FaCSIA took around two months to complete the selection processes for the Reconnect, Minor Capital Upgrade Funding and VSEG funding rounds. The ANAO considers that this represents timely administrative performance by FaCSIA.

7.6 In contrast, it took over six months to complete the selection process for Local Answers Round Three. This greatly exceeded the two-month process anticipated by FaCSIA.¹²⁵ The delay largely reflected the five months taken to notify applicants of the outcome of the appraisal process. FaCSIA delivered the initial submission containing funding advice to the Minister in a timely

¹²⁵ The *Local Answers Guidelines* stated that 'a large number of applications are expected, so it is likely to take around two months until the outcome is announced'.

manner, however slippage occurred due to the Christmas period and subsequent change of portfolio Minister.

7.7 These delays contributed to extensive dissatisfaction amongst applicants with the Local Answers selection process, with many citing the notification delays and a lack of communication from FaCSIA as the reason for their dissatisfaction (see Box 7.1).¹²⁶

Box 7.1

Examples of comments (related to timeliness) by Local Answers grant applicants about why they were dissatisfied with FaCSIA feedback on their application

I wasn't happy that there wasn't notification on the website to let me know that finalisation of decisions had been delayed.

After working really hard on the application, we had to wait six months to find out whether we had the tender or not.

It's indecent to advertise a programme and not provide answers or results (or anything at all!) until six months later!

We were told originally that we would hear whether we were successful within three months, but it ended up taking six months.

There was an incredible delay and we were not kept in contact and updated with where they were at in terms of deciding who was successful.

[I was dissatisfied because] of the length of time that it took and the lack of communication... We understand that it can take a long time, but it was months before we heard anything. We actually had to make calls to try and find out where it was up to.

Source: ANAO surveys of the Local Answers applicants (March 2006 funding announcements).

7.8 Some applicants noted that selection process delays had adverse impacts on their organisation. For example, one Local Answers applicant surveyed by the ANAO stated that:

We had to let a staff member go because we didn't have any money. After we let the staff member go, we found out we got the grant, which was good but it was a shame that we had to let someone go before we found out we got the grant.

7.9 The ANAO considers that where FaCSIA is unable to notify grant applicants of the outcome of its appraisal process for a funding round in accordance with the timeframe previously communicated to applicants, or the process is in any case delayed beyond a reasonable period, it should inform

¹²⁶ The ANAO conducted a survey of organisations that applied for funding in the third Local Answers round, completed in March 2006. The key reason for dissatisfaction with FaCSIA feedback cited by these organisations was the lack of specific reasons as to why applications were unsuccessful. Applicant satisfaction with the quality of FaCSIA feedback is discussed at paragraphs 7.15 through 7.18.

applicants of the delay and revise any published timelines. FaCSIA advised the ANAO that it would consider strategies for communicating with applicants about delays in selection processes for its various grant programmes.

Notifying successful and unsuccessful applicants at the same time

7.10 The announcement of grants can be a very sensitive issue at any time but especially in the lead up to an election. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities.¹²⁷ Nevertheless, from a programme administration perspective and, as a matter of good practice, it would generally be considered preferable for all decisions on approved or unsuccessful projects to be announced together, or within a relatively short period of time. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative sources of funding. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes.¹²⁸

7.11 For each of the four grant programmes examined by the ANAO, the notification process is meant to involve all applicants (both successful and unsuccessful) receiving a letter from FaCSIA advising them of the outcome of their grant application. However, the ANAO notes that it was also common for portfolio Ministers or local MPs¹²⁹ to personally contact successful applicants and advise them of their success.

7.12 FaCSIA officers interviewed by the ANAO indicated that Ministers had sometimes requested that the formal announcement of successful organisations be delayed (that is, the media release and posting of successful organisations to the department's website), to enable Ministers and MPs to first contact successful applicants. FaCSIA had agreed to such requests and this meant that unsuccessful applicants were often notified after successful

¹²⁷ APSC, *Supporting Ministers, Upholding the Values*, p. 47.

¹²⁸ Ibid p.47 and ANAO, *Administration of Grants Better Practice Guide* op. cit., p. 47.

¹²⁹ While undertaking fieldwork for this audit, the ANAO found that FaCSIA supported its Ministers to canvass Coalition MPs only, to notify applicants of their success in attaining grants in the four VSEG rounds from 2003 to 2005. The Minister's office issues this information, and it is not within the department's control as to whether the information is distributed to some or all MPs at the same time. FaCSIA advised the ANAO that for the 2006 round of VSEG funding, the Minister for Families, Communities and Indigenous Affairs notified all MPs about successful organisations in their electorate. This was consistent with the approach he adopted for the March 2006 Local Answers funding round.

applicants. A number of unsuccessful Local Answers and VSEG applicants surveyed by the ANAO commented that they were aware that they had been notified after successful applicants. For example, one applicant commented that:

We heard through the media that other organisations had received funding, and it wasn't for a number of weeks after that that we were informed that we were unsuccessful.

7.13 In addition, around five per cent of Local Answers applicants and four per cent of VSEG applicants surveyed by the ANAO reported that they were not notified at all by FaCSIA of the failure of their applications for funding. This was despite FaCSIA's efforts to contact all such applicants, using the contact details submitted on the organisations' application forms.

7.14 The ANAO notes that delaying FaCSIA notification letters to enable Ministers and MPs to first contact successful applicants adversely impacts on the timeliness of the selection process and may create a perception that grants are being influenced by party-political factors. The ANAO suggests that FaCSIA, to the extent possible, implement processes to ensure that all grant applicants, both successful and unsuccessful, are informed of the outcome of their application at same time or within a relatively short period of time.

Usefulness of feedback to unsuccessful applicants

7.15 It is good practice for agencies to provide unsuccessful applicants with the opportunity to understand the reasons why they were not successful. Together with the publication of reasons for selection of successful projects, this assists applicants to prepare any future applications.¹³⁰

7.16 As noted above, as part of its notification processes, FaCSIA mails a letter to all grant applicants advising them whether or not they were successful in obtaining funding. Typically, this letter also advises applicants of the availability of general debriefing information on the FaCSIA website and that they can contact the department to further discuss the funding decision, including to request detailed written feedback.

7.17 However, in its surveys of Local Answers and VSEG applicants, the ANAO found that 57 per cent of all Local Answers applicants and 30 per cent of VSEG applicants were dissatisfied with the feedback provided by FaCSIA.

¹³⁰ ANAO, *op. cit.*, p. 48.

Many applicants cited a lack of detailed, clear and/or useful advice as the reason for their dissatisfaction (see Box 7.2). Many applicants also advised that they were unaware that more detailed information and individual feedback was available on request.

Box 7.2

Examples of comments by Local Answers and VSEG grant applicants about why they were dissatisfied with FaCSIA feedback on their application

The feedback we received was very generic and several businesses in our area got the same feedback as we did, even though we applied for different types of funding. The feedback needs to be given case by case, as without quality feedback we didn't know how to fix our application or what we did wrong.

We didn't get any feedback. I asked for it and even then I didn't get any.

I wanted to get a bit more feedback on the application, so I tried to make contact. No-one has actually rung me back so I am still waiting.

Although some general feedback was sent to us via an email, no specific feedback was given. Our local MP had to chase it up for us.

I was dissatisfied because they referred us to a website and they did not tell us enough about our individual application. The website was not easy to navigate and did not give reasons for our application being unsuccessful.

There just wasn't enough information to as to why we were unsuccessful.

The next phase (of acquiring feedback) was (the department) asking for a whole range of detail about the organisation that was mirroring what was already asked in the application form. It was an unnecessary duplication.

Source: ANAO surveys of applicants for the Local Answers and VSEG programmes.

7.18 The ANAO survey results indicate that there is significant scope for FaCSIA to improve the feedback it provides to unsuccessful grant applicants.

Recommendation No.4

7.19 The ANAO recommends that FaCSIA review its notification processes for community grants programmes to:

- (a) increase applicants' awareness of the opportunity to receive detailed feedback;
- (b) ensure that applicants can readily access feedback services; and
- (c) provide sufficient clarity of advice to organisations to allow an understanding of the main reason(s) why they were not successful.

FaCSIA's response

7.20 The department **agrees** with this recommendation and will enhance the Program Funding Manual to provide more explicit guidance on providing feedback to funding applicants.

8. Community Organisations One-off Grants

This chapter examines FaCSIA's administration of one-off grants to community organisations that resulted from commitments made by the Government when campaigning for the 2004 Federal Election.

Introduction

8.1 During the 2004 Federal Election¹³¹ campaign the Government made commitments to fund, among other things, eight community projects to a value of \$565 000. Table 8.1 provides descriptions of these eight projects.

Table 8.1

Description of the eight community organisations one-off grants, as funded

Project	Value \$	Purpose
Kilburn Community and Sports Club	250 000	Developing a youth centre at Blair Athol Reserve.
Eastern Access Community Health Group	165 000	\$99 000 for the 'Risk it Recharge' programme for youth and \$65 000 to purchase two vehicles for the Community Mental Health Services.
Ringwood Skate Park	50 000	Contribution towards constructing the Ringwood Skate Park.
Ovingham Sports and Social Club	30 000	Upgrading the oval and public facilities, including building a public toilet for people with disabilities.
Toongabbie Scout Hall	20 000	Replace the 40 year old wooden floor of the Scout Hall.
Blackburn Scout Hall	20 000	Upgrade and improve the Lake Road Scout Hall in Blackburn.
Ringwood Scouts	15 000	Maintenance and building improvements for the Hubbards Reserve Scout Hall in Ringwood North.
Swan Italian Sporting Club	15 000	Purchase of sporting equipment and towards a seniors recreation area.

Source: Information on FaCSIA registry files.

8.2 The projects involved a range of organisations, especially community or sports clubs and scout groups. The projects were to organisations in marginal electorates, involving the electorates of Deakin (four), Adelaide (two), Parramatta (one), and Hasluck (one). Following the 2004 Federal Election,

¹³¹ The election was held on 9 October 2004.

FaCSIA became responsible for administering Australian Government funding for these projects.

8.3 FaCSIA advised the ANAO that it was the department's understanding that the announcements of these election commitments were generally made as part of visits to the relevant communities by local Government MPs during the election campaign. In one instance, however, the announcement was made by the then Minister for Family and Community Services.¹³²

8.4 In Audit Report No.47 2005–2006, *Funding for Communities and Community Organisations*, the ANAO advised that the grants provided to these organisations as a result of government commitments in the 2004 Federal Election were not included in the scope of that audit but would be considered in this audit.¹³³ The ANAO's focus was on whether FaCSIA administered these grants according to their objectives, and in line with relevant legislation and guidelines.

8.5 The ANAO therefore examined: the background to the projects including their basis; appropriation and funding arrangements for the projects; the development and execution of contracts; monitoring of performance; and the payments to the organisations.

Evolution of administration of the eight projects

8.6 Six of the eight community organisations one-off grants which have been administered by FaCSIA were new, in that the organisations had not previously applied for government funding for them under current Australian Government programmes. However, in respect of two of the projects, the relevant organisations had approached the Department of Transport and Regional Services (DOTARS) about funding them under the Regional Partnerships programme prior to the 2004 Federal Election.

8.7 None of the eight organisations that received funding via the community organisations one-off grants applied for funding for these projects under relevant FaCSIA programmes, such as the Local Answers programme.

¹³² This was the Eastern Access Community Health Group project.

¹³³ See footnote 18 on p. 33 and footnote 19 on p. 34 of ANAO Audit Report No.47 2005–06, *Funding for Communities and Community Organisations*.

8.8 Table 8.2 outlines the timeline of administration of the projects.

Table 8.2

Timeline of administration of the community organisations one-off grants

Date	Activity
Mid-Sept 2004	Government Ministers and/or Members of Parliament make election commitments.
9 Oct 2004	Government re-elected.
Nov 2004	DOTARS' Regional Partnerships election commitments spreadsheet includes seven of the projects (all but the Eastern Access Community Health Group project).
22 Dec 2004	DOTARS advises the seven relevant organisations that it will contact them shortly regarding the commitments to fund their regional project.
3 Feb 2005	The then Minister for Family and Community Services advised FaCSIA that the department would be responsible for funding six election commitment projects to be transferred from DOTARS. The Swan Italian Sporting Club was added separately by the Prime Minister's office later.
4 Feb 2005	Letter from the then Minister for Family and Community Services to the Prime Minister seeking additional appropriation in the 2004–05 financial year for seven election commitments (the six transferred from DOTARS and the Eastern Access Community Health Group project, which had been announced by the then Minister during the Election).
7 March 2005	Letter from the Prime Minister to the then Minister for Family and Community Services agreeing to the seven election commitments receiving additional funding of \$550 000 in 2004–05, asking the Minister to take appropriate steps to implement these commitments as soon as possible and settle the funding profile and mechanism for the new funding with the Minister for Finance and Administration.
30 March 2005	Letter from Election Commitments Coordinator Regional Services in DOTARS transferring the relevant information to FaCSIA for six election commitment projects.
7 April 2005	Letter sent to the six organisations advising them that their project that might originally have been assisted using the Regional Partnerships programme as the funding vehicle would now be handled by FaCSIA and that an officer of the department will contact them shortly.
9 April 2005	Ministerial Minute to the then Minister for Family and Community Services from FaCSIA seeking permission to implement and fund the seven election commitment projects.
12 April 2005	Letter from the then Minister for Family and Community Services to the Minister for Finance and Administration, seeking agreement to provide funding of \$550 000 for election commitments.
17 May 2005	Letter from the Minister for Finance and Administration replying to then Minister for Family and Community Services' letter of 12 April 2005. It also added the Swan Italian Sporting Club, so that the relevant budget measure, Community Organisations One-off Grants, in Budget Paper 2 for 2005–06 provided funding totalling \$565 000 for the eight projects.
May 2005 to April 2006	Funding agreement(s) signed - one in May 2005, six in June 2005 and one in April 2006. One organisation required considerable community consultation before they could enter into a funding agreement with the department

Source: Information on FaCSIA registry files.

8.9 Table 8.2 indicates that DOTARS was initially expected to administer seven of the eight commitments. FaCSIA was not aware of, or responsible for,

six of the one-off grants prior to February 2005, when responsibility for them was transferred from DOTARS. One project, involving the Eastern Access Community Health Group, came from the office of the then Minister for Family and Community Services. Responsibility for the administration of the eighth project, involving the Swan Italian Sporting Club, was transferred to FaCSIA in May 2005.

8.10 FaCSIA administered the community organisations one-off grants on the basis of advice from the then Minister for Family and Community Services of 3 February 2005, and a letter from the Prime Minister to the then Minister for Family and Community Services of 7 March 2005 agreeing to FaCSIA administering the election commitments.

Coordination between FaCSIA and DOTARS to transfer the seven projects

8.11 Table 8.2 shows that many actions were taken at the ministerial and departmental level to transfer the responsibility for funding and administering seven of the eight community organisations one-off grant projects from DOTARS to FaCSIA. This transfer of responsibility involved the two departments coordinating with each other to transfer information, and also to maintain good relations with the organisations receiving the grants.

8.12 FaCSIA liaised with DOTARS on a number of occasions to collect relevant information about the genesis and nature of the projects. This information was needed to provide FaCSIA with a basis for developing funding agreements for the projects. Most notably, DOTARS provided FaCSIA with a set of relevant papers on 31 March 2005.

Liaising with community organisations

8.13 The transfer of responsibility from DOTARS to FaCSIA resulted in delays to the initiation of the projects. Table 8.2 shows that DOTARS wrote to the seven organisations whose projects were subsequently transferred to FaCSIA on 22 December 2004 advising that it would 'contact them shortly regarding the commitments to fund their regional project'. However, it was not until 7 April 2005, around three and a half months later, that FaCSIA wrote to them explaining that:

The Government has decided that a number of projects that might have been assisted using the Regional Partnerships Programme as the funding vehicle would now be handled by a different portfolio. Your project will now be handled by the Department of Family and Community Services.

8.14 The ANAO considers that there were few actions that FaCSIA could have taken to expedite this process because it had only received relevant information about the projects from DOTARS on 30 March 2005.

Financial appropriations for the projects

8.15 To enable FaCSIA to enter into funding agreements with the relevant organisations, the department required the approval of the then Minister for Family and Community Services.

8.16 Table 8.2 shows that the key actions involved in achieving the Minister's approval included:

- the then Minister's letter of 4 February 2005 to the Prime Minister seeking additional appropriation in the 2004–05 financial year for seven election commitments;¹³⁴
- the Prime Minister's letter of 7 March 2005 to then Minister agreeing to additional funding for the election commitments;
- the Ministerial Minute of 9 April 2005 from the department to then Minister for Family and Community Services seeking permission to implement and fund seven projects;¹³⁵
- the 12 April 2005 letter from then Minister for Family and Community Services to the Minister for Finance and Administration seeking agreement to provide funding of \$550 000 for seven community organisations one-off grant projects; and
- the reply by the Minister for Finance and Administration of 17 May 2005 agreeing to provide funding originally requested for the seven projects and also funding for the Swan Italian Sporting Club project, so that the relevant budget measure *Community Organisations One-off Grants* was reported as funded to a total of \$565 000 in Budget Paper 2 for 2005–06.

8.17 The result of these activities was that the Minister for Finance and Administration agreed a means for funding these eight projects, using available appropriation under Outcome 2 in 2004–05 as reimbursed under a

¹³⁴ The six projects transferred from DOTARS and the Eastern Access Community Health Group project, which had been announced by the then Minister during the Election.

¹³⁵ The Swan Italian Sporting Club project had yet to be added by the Prime Minister's office to the list of election commitment projects to be administered by FaCSIA.

new measure in Budget Paper 2 for 2005–06.¹³⁶ The then Minister for Family and Community Services was then in a position to approve the funding for these projects.

8.18 The then Minister's actions in securing funding for the eight Government election commitment projects through the 2005–06 Budget measure made clear the Government's intention that the individual spending proposals be approved. However, following confirmation from the Minister for Finance and Administration of the provision of funding for these projects, FaCSIA did not send a Ministerial Submission to the then Minister specifically seeking her approval of the details for funding of these projects. Instead, FaCSIA proceeded to enter into funding agreements with the relevant organisations to fund these projects relying upon the fact that the Minister had sought funding for seven of these projects from the Minister for Finance and Administration, the Minister for Finance and Administration had agreed to arrangements to fund all eight projects and that appropriation had subsequently been provided for the eight projects under the 2005–06 Budget measure.

Adherence to the Financial Framework

8.19 FaCSIA provided a Ministerial Minute to the then Minister for Family and Community Services on 9 April 2005 seeking permission to implement and fund seven of the eight election commitment projects. The single recommendation in the Minute was that the then Minister 'sign the attached letter to the Minister for Finance and Administration seeking his agreement to these arrangements to fund this election commitment'. The then Minister approved this recommendation and signed the letter, making no further comments on the Minute.

8.20 There is no documentation in FaCSIA's files indicating whether the Minister or departmental officers were acting as the approver of the proposals to spend public money on these community organisations one-off grant projects for the purposes of FMA Regulation 9. However, the ANAO notes that the Prime Minister requested the then Minister to administer these projects and the Minister did not authorise any departmental officer to approve these spending proposals.

¹³⁶ The ANAO notes that the name of each project to be funded under the Community Organisations One-Off Grants Budget measure, and the total value of each of these projects, were identified in the measure.

8.21 The ANAO has received legal advice that:

in the early stages of consideration of a spending proposal by a relevant decision maker, there may be an 'approval in principle', which is sufficient to allow the proposal to be developed further, but which does not amount to an approval which attracts the operations of Regulation 9.

8.22 The ANAO considers that the Ministerial Minute of 9 April 2005 was at the early stages of the spending proposal. The main considerations in this regard are that: the department had only received relevant information from DOTARS a week earlier about six projects; had just commenced the process to clarify the nature and terms of the funding that would eventually lead to the execution of funding agreements with these six organisations as well as with the seventh organisation, whose project had been announced by the then Minister for Family and Community Services during the election campaign; and the Ministerial Minute did not include reference to the eighth project, involving the Swan Italian Sporting Club, which was subsequently transferred to FaCSIA to administer.

8.23 However, FaCSIA did not send a further Minute to the then Minister specifically seeking approval of these spending proposals under FMA Regulation 9¹³⁷, once the project details were known. This was required given that two of the projects¹³⁸, as set out in the funding agreements signed with recipients, varied from the purposes for the funding as set out in the documentation relating to the Government's election commitment

¹³⁷ As discussed in Chapter 6, FMA Regulation 9 requires an approver of a proposal to spend public money to undertake such inquiries as are reasonable that the proposal is in accordance with the policies of the Commonwealth and will make effective and efficient use of public money. Accordingly, approval under FMA Regulation 9 for these election commitment projects would appropriately have been given at the time when the approver was provided with information about the detailed terms of the individual spending proposals. These terms include: the quantum of funding to be provided to the recipient; the project that the funding contributed to; the purposes of the funding; the precise nature of the outputs from the funding; the identity and amount of cash and in-kind co-funding being contributed by other parties; and any conditions under which the funding was received. For the seven projects referred to in the 9 April 2005 Ministerial Minute, the Minister was not aware of the last four of these terms when she signed the Ministerial Minute and the Minister could not, at this point, confirm that the final funding details for the individual projects were consistent with the Government's intentions, as two of these projects changed after this point.

¹³⁸ The two projects involved the Ovingham Sports and Social Club and Eastern Access Community Health Group.

announcements¹³⁹ and one of the projects was not included in the 9 April 2005 Ministerial Minute.¹⁴⁰

8.24 The process for many community grants programmes that FaCSIA administers is to provide the Minister with a submission containing advice about which projects the Minister should fund, and their terms. Compared to its typical procedures for administering grant programmes, it was unusual that the department did not provide a submission to the Minister requesting her approval for the election commitment projects when the precise terms of the projects had been established. FaCSIA agreed that a Submission should have been sent to the then Minister seeking approval of the details of funding for the eight projects once these were known.

8.25 The ANAO concluded that FaCSIA's administration of the approval process for the eight one-off grants to community organisations provided as a result of Government commitments during the 2004 Federal Election campaign fell below the standard expected of Australian Government agencies in administering grant programmes.

8.26 FaCSIA did not seek the Minister's approval of the details of funding for these projects, once these details were established. If FaCSIA had gone back to the Minister at this point seeking approval of the details of all eight one-off grants, the requirements of FMA Regulation 9 would have been satisfied and the then Minister could have confirmed that the final funding details were consistent with the Government's intentions.

Funding agreements

8.27 Current FaCSIA guidelines require funding agreements be put in place whenever the department funds an organisation to deliver services to the community. These guidelines state that the level of detail, obligation and accountability requirements included in funding agreements should be commensurate with the value of funding being provided.

8.28 FaCSIA has three standard types of funding agreements, which vary in this regard, according to the total financial value of the agreement. The standard long-form agreement provides the Commonwealth with high-level

¹³⁹ The key documents in the information provided by DOTARS on the nature of the election commitments transferred from that department were draft media releases from the relevant Government MPs. FaCSIA advised the ANAO that it was unable to obtain any evidence of final versions of these media releases.

¹⁴⁰ The eight project involving the Swan Italian Sporting Club was transferred to FaCSIA to administer after the 9 April 2005 Ministerial Minute was provided to the then Minister for Family and Community Services.

legal protection commensurate with higher levels of financial risk. The requirements of the short-form funding agreement, in the form of a letter and attached terms and conditions, and the minimalist agreement, 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.

8.29 Schedules underpin the clauses to the funding agreements and contain information relating to the timing of payments, budgets, deliverables, milestones, and reporting. Schedules requiring this information are normally attached to the long-form funding agreements but not to the short-form and minimalist agreements.

8.30 The ANAO examined whether FaCSIA entered into appropriate funding agreements with the eight community organisations receiving the grants, and made payments according to the terms and conditions of these agreements, including those specified in any schedules.

Executing funding agreements

8.31 FaCSIA entered into funding agreements with the eight community organisations which received the election commitment grants. Six of these were short-form agreements. FaCSIA entered into long-form agreements for the Blair Athol Reserve Community Facility and the Eastern Access Community Health Group.

8.32 The ANAO considers that FaCSIA used the appropriate format for all eight agreements. The objectives of six of the eight funding agreements were consistent with the objectives of the funding outlined in the election commitment announcements. However, the ANAO notes some variations between the initial announcement of the funding and the purposes stated in the funding agreements for the Eastern Access Community Health Group and Ovingham Sports and Social Club.

Paying organisations according to the terms of the funding agreements

8.33 FaCSIA's long-form funding agreements with the Kilburn Community and Sports Club and the Eastern Access Community Health Group required these grant recipients to provide progress reports and related documentation before receiving most of the funding through milestone payments. The short-form/minimalist funding agreements with the six other grant recipients involved FaCSIA providing most of the money upfront, but withholding a nominal amount until the completion of the project.

8.34 The ANAO found that FaCSIA made payments according to the terms of the funding agreements for all eight agreements.



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24 May 2007

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