

The Auditor-General
Audit Report No.7 2009–10
Performance Audit

Administration of Grants by the National Health and Medical Research Council

Australian National Audit Office

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Canberra ACT
20 October 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the National Health and Medical Research Council. In accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure. The report is titled *Administration of Grants by the National Health and Medical Research Council*.

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

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

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 (ANAO). 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 Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

AI	Administering Institution
ANAO	Australian National Audit Office
ARC	Australian Research Council
CEO	Chief Executive Officer
DoHA	Department of Health and Ageing
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GAG	Grant Advisory Group
GRP	Grant Review Panels
HREC	Human Research Ethics Committee
IHRP	Indigenous Health Research Panel
Minister	Minister for Health and Ageing
MREA	Medical Research Endowment Account
NHMRC	National Health and Medical Research Council
NHMRC Act	<i>National Health and Medical Research Council Act 1992</i>
RGMS	Research Grant Management System
RMIS	Research Management Information System
Secretary	Secretary, Department of Health and Ageing.

Glossary

Acquittal	Reconciliation of the final financial report (including statement of receipts and expenditure) submitted by the Administering Institution at the conclusion of a grant.
Administering Institution	Universities and other research organisations approved to administer grants on behalf of the NHMRC.
Chief Investigator	The researcher designated in the Schedule to the Deed of Agreement as having primary responsibility for the scientific oversight and management of a grant.
Deed of Agreement	A legal contract between the NHMRC and Administering Institution setting out terms and conditions for the administration of grants.
Grant	A sum of money given to an Administering Institution and administered for a specified purpose under a Deed of Agreement.
Grant Payment Schedule	For each budget year, a grant has a Payment Schedule showing a total sum and a break down of payments to be made by the NHMRC.
Medical Research Endowment Account	A 'Special Account' established under section 49 of the <i>NHMRC Act</i> , through which Government appropriated funds are used to pay NHMRC grants.
Schedule	An attachment to the Deed of Agreement containing administrative details of the grant, funding, and the Institution's reporting obligations. It is signed by the Institution and initialled by the Chief Investigator.
Verification	The process of NHMRC approving a change that has been made to: a grant; grant budget; payment schedule; claim; or a payment entity.

Summary and Recommendations

Summary

The National Health and Medical Research Council

1. The National Health and Medical Research Council (NHMRC) is a statutory agency within the Health and Ageing portfolio, with a total annual budget of around \$1 billion. The agency, which has existed in various forms since 1936, is widely regarded as one of Australia's peak bodies in the area of evidence-based health advice, and is a significant provider of grants to support health and medical research in Australia.

2. Over the years, NHMRC grants have contributed to progress in many areas of health and medical science, from advancing knowledge and treatment of cancer to preventing cardiovascular disease and improving the health of Aboriginal and Torres Strait Islander Australians.¹ NHMRC investment in health and medical research, on behalf of the Australian Government, is estimated at 16 per cent of the total national investment by both public and private sectors.² In 2008, the NHMRC administered 3843 new and continuing grants, accounting for \$595 million in expenditure.

3. The grants are a vital source of income for many health and medical researchers. Individual researchers can apply to the NHMRC via their universities or research organisations for grants to cover research projects or multi-component research programs, salaries and infrastructure support. The grant process is highly competitive, with less than 30 per cent of applications receiving funding each year.

4. Grant applications are assessed on the basis of scientific merit through a process of peer review and expert panels—the objective being to select the highest calibre research for funding. This selection process relies heavily on the participation of accomplished researchers, who themselves may be contenders or recipients of NHMRC grants. The integrity of the selection process is therefore fundamentally important, as it underpins the advice that the NHMRC provides to the Minister for Health and Ageing for approval of the grants with the highest potential to deliver beneficial outcomes for Australia.

¹ NHMRC, *Annual Report, 2007–08*.

² Department of Health and Ageing, *Portfolio Budget Statements 2009–10*, p. 673.

Changes to the NHMRC since 2006

5. In July 2006, the NHMRC became a statutory agency with responsibilities specified under the 2006 amended *National Health and Medical Research Act 1992* (NHMRC Act). The NHMRC Act defines the NHMRC as the Chief Executive Officer (CEO), the Council and its committees and the staff of the NHMRC. The NHMRC is also a prescribed agency under the *Financial Management and Accountability Act 1997* and the *Public Service Act 1999*.

6. Since 2006, the NHMRC has experienced a period of transition, facing several challenges as it separates its administrative functions from the Department of Health and Ageing (DoHA) and adjusts its governance and administrative arrangements to support its legislative responsibilities and core business—particularly grant administration. The agency has also had a substantial change agenda, particularly in developing new IT systems to improve its data capacity and grant management functions.

Increased funding for NHMRC grant programs 2000–08

7. Funding for NHMRC grants is administered through a special account, the Medical Research Endowment Account (MREA), established under section 49 of the NHMRC Act. From 2000 to 2008, a series of government initiatives to bolster Australia's research capacity resulted in more than a three-fold rise in the NHMRC's grant budget and a corresponding two-fold increase in active (new and continuing) grants. Over this period, the NHMRC awarded more than eight thousand grants, an investment in research exceeding \$3.2 billion.³

The NHMRC grant process

8. Each year, the NHMRC invites researchers in eligible Australian universities and research organisations to apply for funding through its range of scholarships and research programs. Grant programs generally fall into three groups based on the intended use (or type) of the grant: Research Support; Infrastructure Support; and People Support. In 2007–08 funding for Research Support was \$440 million, with the largest scheme, Project Grants, accounting for \$283 million of this amount (Table 1).

³ <<http://www.nhmrc.gov.au/grants/dataset/files/grantdata.xls>> [accessed 16 February 2009].

Table 1**NHMRC grants programs and funding 2006 to 2008***

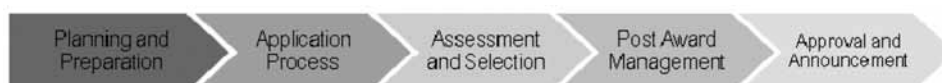
Main Funding Group	Grant Type	(\$ million)		
		2006	2007	2008
Infrastructure Support	Enabling Grants Infrastructure Grants	30.5	45.3	21.9
People Support	Career Development Awards NHMRC Career Awards NHMRC Scholarships Training Fellowships (Australia) Training Fellowships (Overseas)	94.6	112.1	132.8
Research Support	Block Funded (not funded in 2007 and 2008) NHMRC Project Grants NHMRC Strategic Awards Program Grants Strategic Research Development Committee	326.1	381.7	440.4
Total Expenditure		451.2	539.1	595.1

Source: Data sourced from <<http://www.nhmrc.gov.au/grants/dataset/files/grantdata.xls>> [accessed 16 February 2009].

Note: * 2006 and 2007 are actual expenditure incurred in the funded year; 2008 is expected commitments. A more comprehensive table is provided in Chapter 2 of the report.

9. NHMRC grant programs are based on a competitive selection process. Grant applications are reviewed and ranked by a process of peer review, using external assessors and expert Grant Review Panels (GRPs), with a view to selecting research of the highest calibre for funding.

10. The key steps in the grant process are shown in Figure 1.

Figure 1**Key steps in the NHMRC's grants process**

Source: Compiled by the ANAO from NHMRC information on the 2008 Project Grant round. (AIs = Administering Institutions; GRPs=Grant Review Panels; CEO = Chief Executive Officer).

11. The NHMRC also calls each year for academics to participate as assessors and members of the GRPs. To comply with the NHMRC's policies and guidelines, and prior to accepting grants for review, these individuals are required to declare any conflicts of interest that could affect their impartiality in assessing and selecting grants.

12. In 2008, the NHMRC received over 2586 applications for Project Grants—the largest NHMRC grant scheme. For this scheme, over 449 assessors, 42 GRPs and 499 GRP members were involved in the grant selection process. Based on the selection process, advice is provided to the Minister for Health and Ageing, who has responsibility for the final approval of grants for funding. Success rates vary between the different schemes.

Deed of Agreement with Administering Institutions

13. Administering Institutions (mainly universities) play an important role in the NHMRC's grant process, by acting as a conduit for grant enquiries, submission of applications and post-award management of grants.

14. Under NHMRC policy, only approved Administering Institutions may receive NHMRC grants. Each Administering Institution must sign a Deed of Agreement (the Deed) with the NHMRC, which establishes the parameters and expectations for the management of grant funds, accountability and reporting requirements. Under this arrangement, each Administering Institution has responsibility for the effective management of the NHMRC research projects and associated grant funds provided by the Commonwealth. An important role for the NHMRC is in managing the relationship with the Administering Institutions to achieve effective and accountable administration of grants.

Previous audit coverage

15. A previous ANAO audit, Audit Report No. 29 2003–04, *Governance of the National Health and Medical Research Council*, examined the governance of the NHMRC and made six recommendations.⁴ Subsequent to that audit report, the accountability and governance arrangements of the NHMRC were amended (post Uhrig Review) to reflect a whole of government shift to improved governance and accountability.⁵ The NHMRC's revised governance arrangements are examined in the current audit, in the context of grant administration.

⁴ ANAO Audit Report No.29 2003–04, *Governance of the National Health and Medical Research Council*.

⁵ J. Uhrig, *Review of the corporate governance of statutory authorities and office holders*, June 2003.

The audit objective

16. The audit objective was to form an opinion on the effectiveness of the NHMRC's grant administration. To meet this objective the NHMRC was assessed against four criteria:

- the NHMRC's governance arrangements provide appropriate accountability that it is meeting its objectives and obligations to Government (Chapter 2);
- there are strategic and systematic processes for developing and implementing grant programs (Chapter 3);
- the NHMRC manages grants post-award effectively, and complies with legislative requirements and program directives (Chapters 4 and 5); and
- the NHMRC monitors and evaluates its business to demonstrate that outcomes are being met (Chapter 6).

Overall conclusion

17. The National Health and Medical Research Council (NHMRC) has a key role in providing grants to support health and medical research in Australia. NHMRC grants are an important source of income for many health and medical researchers, and constitute a substantial Government investment in research and innovation in Australia. Over the period 2000 to 2008, Government initiatives to strengthen Australia's research capability resulted in more than a three-fold increase in NHMRC grant funding, with a corresponding two-fold rise in the number of grants. The NHMRC's investment in research during this time exceeded \$3 billion.

18. Against this background, since 2006 the NHMRC has been adjusting to its new responsibilities and expectations as a statutory agency. Consistent with the revised *National Health and Medical Research Council Act 1992* (NHMRC Act), high level governance arrangements are in place: a Chief Executive Officer (CEO); established governance structures which include the Council and its committees; and defined responsibilities for each of these governing entities. These arrangements constitute a sound basis for the agency's governance and a platform from which to address challenges and expectations arising from broader Government initiatives to enhance investment in Australia's health research sector.

19. However, the NHMRC is an agency in transition, with a substantial change agenda. Particularly evident is the gradual transfer of key

administrative functions from the Department of Health and Ageing (DoHA), culminating in the NHMRC's growing administrative independence. In recognising weaknesses in its own management of grants, the NHMRC has also reviewed its grant processes and compliance framework, and commenced a \$3 million project to develop a new grant management system.

20. Notwithstanding the agency's progress to date, there are several shortcomings in the NHMRC's administration of this substantial grant program, which combined impact significantly on the effectiveness of NHMRC's grant administration. In particular, there is a lack of consistency in applying guidelines and procedures for specific aspects of the NHMRC's selection process, including conflict of interest provisions, which leaves the agency exposed in terms of the transparency and defensibility of grant selection. In addition, poor compliance in managing grants post-award diminishes the agency's ability to provide sufficient assurance that grant funds are used for their intended purpose. Furthermore, the grant management systems do not adequately support the agency's administration of grants or allow sufficient collection of information to report against program outcomes.

21. A sustained effort will be required by the NHMRC to improve the overall effectiveness of its grant administration. To this end, benefits would be gained by focusing on: enhancing management of key aspects of the grant selection process, including peer review; improving assurance of the appropriate management and use of grant funds; and implementing an appropriate grant management system. These matters are expounded below.

Enhancing management of key aspects of the grant selection process

22. Selection of grants for funding involves a process of peer review, with appraisal of applications by external assessors and a Grant Review Panel (GRP) comprised of relevant experts. This process carries inherent risks for the NHMRC, as it relies on the commitment of experts from within the research community, who, at times, are members of the NHMRC Council and its committees, assessors and members of GRPs, or are themselves recipients of NHMRC grants. As NHMRC grants are highly competitive, the selection of the highest calibre grants is largely reliant on the NHMRC's ability to maintain a fair and defensible peer review process.

23. The NHMRC provides guidelines and procedures to assist reviewers in conducting peer review and grant selection, and expects them to adhere to conflict of interest provisions. However, the NHMRC was not consistent in its application of key elements of the grant selection process, including grant

eligibility requirements, recording of grant scores and key actions of the GRPs, and implementation of conflict of interest provisions.

24. Closer monitoring and scrutiny of the selection process is required to provide the NHMRC with the confidence that its policies and guidelines are being consistently and appropriately implemented. Clear recording of the GRP's key actions and recommendations, and the reasons underpinning these, will promote a more defensible grant selection process and better position the NHMRC in responding to unsuccessful applicants or contested grant decisions. Overall, these improvements will allow the NHMRC to achieve greater transparency and probity in its grant selection process.

Improving assurance of the appropriate management and use of grant funds

25. To provide confidence that Commonwealth funds will be used appropriately and for the purpose they are intended, grants are awarded only to approved Administering Institutions, and administered under a Deed of Agreement (the Deed) that sets out the terms and conditions for the management of grants.

26. Owing to several shortcomings in the certification of Administering Institutions, and the monitoring and management of grants, the NHMRC is not well placed to provide adequate assurance about the use of grant funds. There is a general lack of compliance monitoring around reconciliation and reporting of grants, with NHMRC's main grant management systems having no monitoring capability. This has diminished the NHMRC's ability to account for grant funds, reducing its efficiency in managing grants post-award. Compounding this, the NHMRC had not implemented its own policy for approval of Administering Institutions or a compliance framework for post-award management of grants.

27. It will also be necessary for the NHMRC to implement a workable risk-based certification process for Administering Institutions and a systematic and sustainable approach to monitoring compliance with the Deeds, reconciliation of grants and recovery of debts.

Implementing an appropriate grant management system

28. A suitable automated grant management system can assist in monitoring the progress and outcomes of grants. This is particularly the case for the NHMRC given its considerable investment in research and the large volume of applications processed each year.

29. The NHMRC's information systems do not adequately support the NHMRC's core business—grant management. Its primary grant management

system contains substantial data anomalies. Furthermore, the system does not accommodate the monitoring of grants' financial and progress reporting requirements, or capture qualitative information from submitted grant reports. This diminishes the NHMRC's capacity to gather and evaluate valuable information for reporting against program outcomes.

30. The NHMRC was advancing development of a new grant management system, and a data repository designed to improve the NHMRC's data capacity. To obtain the most benefit from its new systems will require the NHMRC to focus on system interfaces, adopting a more rigorous but sustainable program of data maintenance and improving staff training in grant management. It is important that the grant system incorporates adequate controls to allow better management of eligibility issues and non-compliance against the Deed.

31. The ANAO has made five recommendations to assist the NHMRC in strengthening its administration of grants.

Key findings by chapter

Chapter 2 – Governance arrangements

32. In line with the NHMRC Act, the NHMRC has a CEO and established governance structures which include the Council and its committees. The roles and responsibilities of key groups and individuals are appropriately defined in key corporate documents. These arrangements constitute a sound basis for governance. However, aspects of the NHMRC's underpinning administrative framework, systems and procedures for administering grants were not as solid. Particular areas for improvement were the approval of Administering Institutions and the establishment of more effective compliance activities.

33. Universities and research organisations constitute an important part of the grant administration arrangements. NHMRC policy defines that grants are paid only to approved Administering Institutions. The obligations and conditions for the management of awarded grants are established through a Deed of Agreement (the Deed) between each approved Administering Institution and the NHMRC. In this context the Administering Institutions act as third party providers of services (research) to the Commonwealth. These arrangements are intended to provide assurance that Commonwealth funds are used appropriately.

34. While the NHMRC funds grants in over 90 Administering Institutions, it cannot demonstrate that the institutions are approved in accordance with NHMRC's own policy. Different versions of Deeds are in operation across the

various institutions and some institutions had not signed the most current version. Schedules to the Deeds listing grant details were often absent or unclear, and file records were incomplete, making it difficult to ascertain the grants covered by a particular Deed.

35. Administering Institutions are expected to comply with the Deeds, particularly the financial and quality reporting requirements. The NHMRC has a responsibility to pursue instances of non-compliance. However, compliance with the Deed was inconsistent, particularly reporting of individual grants, and monitoring of non-compliance issues by the NHMRC was irregular and often cumbersome due to a lack of automation. The NHMRC gave little indication of whether poor compliance with the Deed was taken into consideration in future grant applications.

36. The NHMRC commenced developing a new compliance framework in October 2008. This included revision of the Administering Institution approval policy and the Deeds, and a review of the approval status of all Administering Institutions planned for late 2009. To improve assurance and accountability to government, it will be necessary for the NHMRC to complete this work, and establish a workable certification process for Administering Institutions. Given the poor level of compliance, a more structured and consistent approach to implementing and monitoring compliance with the Deeds will be necessary.

Chapter 3 – Assessment and selection of grants

37. NHMRC research grants are highly competitive, so it is important that the selection process is conducted without favour or prejudice using processes that are transparent and defensible. To this end, the NHMRC produces comprehensive guidelines and procedures to assist applicants with the submission of their applications and to guide external assessors and GRP members in their assessment of grants.

38. Advice to applicants also includes eligibility requirements, selection criteria, and other essential requirements on which assessment of the application is based. Checking the eligibility of grant applications and applicants is initially performed by the NHMRC program area, with additional review of eligibility by the GRPs during the selection process. The NHMRC's initial checking process lacked consistency and rigour, with reasons for waiving eligibility requirements not always apparent. To assure the equity of the application process, closer monitoring and consistent application of initial eligibility checks by the NHMRC would be beneficial.

39. Assessors and GRP members are appointed by the NHMRC and allocated applications to assess largely on the basis of area of expertise. The NHMRC's use of external grant assessors is inconsistent, with some applications receiving the intended two external assessments and others less than this. To enhance the integrity and consistency of the assessment process, policies are needed to endorse the value and consistent use of external assessors. The NHMRC would also benefit from reinforcing its GRP-grant selection process. In particular, greater clarity is required in the scoring and ranking of applications against the selection criteria, and the recording of key actions and reasons underpinning GRP recommendations.

40. The NHMRC's conflict of interest guidelines and policies assist the CEO and GRP Chair in managing potential conflict of interest within the grant selection process. However, there are weaknesses and risks, including perceived conflicts of interest, in the NHMRC's current practice. In particular, a substantial number of GRP panel member applications are assessed by their own panel. Conflict of Interest declarations are limited in the range of conflicts declared. In light of this, to provide better protection to the NHMRC's selection processes and reputation, the NHMRC should more closely monitor its allocation of grants to reviewers. It should also strengthen conflict of interest guidelines and policies to include a more comprehensive listing of potential conflicts of interest and a register of private interests, together with protocols for its operation.

41. Strengthening of the NHMRC's conflict of interest provisions for GRPs and assessors would also assist in enhancing the probity and contestability of the grant process. There is the potential for conflict of interest in the NHMRC's peer review process in some specialist areas of medical science where the number of available experts is small. Guidance and vigilance are therefore required to minimise the impacts of perceived, potential or actual conflicts of interest and retain confidence in the selection process and outcomes. Reinforcing these areas of administration would greatly assist the NHMRC in enhancing the probity and contestability of grant selection and, thereby, improve confidence in the NHMRC grant process.

Chapter 4 – Post-award grant management

42. The Deeds of Agreements between the NHMRC and Administering Institutions establish the administrative arrangements and reporting requirements for post-award management of grants. Under the Deed, the NHMRC and the Administering Institutions have obligations to manage the grants according to sound financial practices, ensuring that grants are used as

intended and monitoring compliance with the terms and conditions for reporting. Most grants are paid quarterly. While payments are usually accurate, Administering Institutions do not regularly receive a payment schedule and payments are frequently delayed due to system processing issues. This can impact on Administering Institutions in terms of their planning, financial management and cash flow.

43. Individual grant reporting requirements include a yearly financial report and final acquittal, a yearly progress report and final project report detailing the achievements of each research project against project objectives and milestones. However, the NHMRC has a history of poor compliance in its collection and monitoring of grant reports and acquittals. The 2003–04 ANAO performance audit of the NHMRC reported a deficiency in accountability of government funds owing to a backlog of 11 000 award acquittal statements dating from between 1991 and 1997. In October 2005, the NHMRC again experienced a backlog, with an estimated 1275 statements outstanding. By March 2009, the NHMRC had reduced this to 502.

44. Over the same period, the NHMRC's monitoring of debt recovery had not been particularly systematic and there was no register to track the status of debt invoices. Overall, these weaknesses considerably reduce the NHMRC's level of assurance that the grants it funds are being used for their intended purpose, or that they are progressing against their specified objectives and outcomes.

45. The NHMRC's has begun to address these problems, including: introduction of a new financial system planned for 2009; progress in developing a new Research Grant Management System (RGMS); and moving the functions and responsibilities for debt recovery and generation of invoices from DoHA to the NHMRC. Providing the NHMRC can establish its new systems and processes for post-award grant management, it should be in a better position to improve key aspects of compliance and performance against the Deed of Agreement and the FMA Act.

Chapter 5 – Systems supporting grant management

46. Automated grant management system can be a valuable asset to agencies administering grants. The NHMRC's management of grants is made difficult and inefficient due to limitations in its current main grant management information system (RMIS), reliance on a large number of unconnected additional data bases, and deficiencies in system integration and data quality.

47. The RMIS does not provide end-to-end grant management and lacks many desirable system controls for detecting inconsistencies or non-compliance with the NHMRC's legislative and policy requirements. This inhibits the NHMRC's ability to monitor grants' compliance with eligibility and reporting requirements. RMIS also has many shortcomings as a grant management system which impact on sound financial management practices. In particular, the system has no capacity for debt recovery or to remove incorrect totals from grant schedules. There are also problems caused by duplicate and multiple entries in the RMIS. These can inflate RMIS statistics, increase the risk of duplicate grant payments, and cause uncertainty when updating grant records or processing variations.

48. The NHMRC is aware of the existing deficiencies, and recognises the need for a more robust and encompassing system, and during the audit was progressing the development of the new system—RGMS. This is being phased in, with final roll out to all grant schemes by 2010. The system aims to enable end-to-end management of grants, incorporating application and selection through to acquittal, and providing meaningful and consistent reporting at all required levels.

49. Notwithstanding progress to date in developing the new system, there are particular vulnerabilities and areas of high risk which the NHMRC will need to strengthen to achieve effective and efficient grant management. To prevent inadvertent or deliberate non-compliance of grantees with legislative and policy requirements, will require the inclusion of adequate systems controls into the RGMS. A suitable interface between RGMS and the NHMRC's financial system is also necessary to facilitate accurate information exchange and reconciliation of the two systems. Phasing in of RGMS should also be accompanied by early implementation of a regular program for the verification and cleansing of data, adequate staff training, and ceasing the use of ancillary data bases.

Chapter 6 – Monitoring performance

50. The NHMRC has an obligation to meet whole of government reporting as well as those specifically required under the NHMRC Act. For 2008–09, the NHMRC met the government's *Outcomes and Programs Framework* requirements. In its Portfolio Budget Statements, the NHMRC identified an Outcome which suitably reflected the agency's broader role in supporting health and medical research and providing health advice. This was supported by an appropriate output for its research function, and key strategic directions reflecting government health priorities. In the 2009–10 Portfolio Budget Statements, the

NHMRC has enhanced Outcomes and Programs Framework in line with the government's *Operation Sunlight* Outcome Statement Review, specifying an Outcome, Program, Key Strategic Directions, Key Performance Indicators (KPIs), strategies and major activities.

51. As required by the NHMRC Act, the NHMRC has included strategic directions in its Strategic Plan, and these align with those in the Output Programs framework. There is also a balance of performance measurement, utilising both qualitative and quantitative measures against identified performance indicators.

52. To measure performance against programs and outcomes it is important for agencies to have viable systems for the collection and analysis of suitable qualitative and quantitative data. The NHMRC's data capacity is limited by its IT systems. Despite this, the agency produces a range of useful statistics on the grant process, which it makes available through its website.

53. Final reports are important in providing information on individual grants, broader program Outcomes, and health and medical policy and practice. This is essential information for measuring the medium to long term impacts of the NHMRC's research programs. The NHMRC's future ability to meet the full ambit of reporting requirements will, to some degree, depend on its success in strengthening data collection and analysis through planned IT initiatives (RGMS and Datamart), and on improving compliance and quality of final grant reports.

NHMRC's response

54. The NHMRC provided the following summary comment and the responses to each of the recommendations in the body of the report comprised its formal response:

NHMRC welcomes the audit and agrees with its recommendations. Since establishment as an independent statutory agency on 1 July 2007, NHMRC has worked hard to ensure the efficiency and effectiveness of its administration and in particular its grant administration.

The ANAO's audit report affirms NHMRC's program of continuous improvement in grant administration, which includes the implementation of a new Research Grants Management System (RGMS), being piloted prior to full implementation from December 2009. This new technology will address many of the weaknesses identified by ANAO.

NHMRC will undertake further improvement of its peer review administration in the 2010 grant application round, in particular strengthening decision

support, documentation and the management of conflicts of interest in Grant Review Panels.

NHMRC is currently reviewing its policies and practices in relation to administering institutions, particularly independent medical research institutes. The audit provides a valuable framework for NHMRC in striving to achieve best practice in grant administration.

Recommendations

Recommendation No.1

Para. 2.41

To provide adequate assurance that the NHMRC grant funds are being managed appropriately by Administering Institutions, the ANAO recommends that the NHMRC:

- complete the development and implementation of a risk-based assessment for approval of Administering Institutions, and systematically maintain complete records of those approvals; and
- implement arrangements to improve monitoring of the Administering Institutions' compliance with the requirements of the Deed of Agreement, including conducting audit activity where a high risk is indicated or persistent non-compliance evident.

NHMRC response: *Agreed.*

Recommendation No.2

Para. 3.38

To improve the transparency and probity of its peer review process, the ANAO recommends that the NHMRC:

- monitor the incidence and reasons underpinning the allocation of Grant Review Panel (GRP) members' application to their own GRP for assessment; and
- enhance the documentation of key actions and recommendations of the GRPs, in order to provide a defensible record of the selection proceedings and strengthen feedback to applicants.

NHMRC response: *Agreed.*

Recommendation No.3

Para. 3.57

In order to improve the identification and management of conflict of interest, the ANAO recommends that the NHMRC:

- amend its conflict of interest guidelines to strengthen guidance on acceptable and unacceptable conflicts of interest; and
- develop a risk-based strategy for more systematic monitoring and review of conflict of interest compliance, including a register of private interests.

NHMRC response: *Agreed.*

**Recommendation
No.4**

Para. 4.37

To improve accountability of grant funds, the ANAO recommends that the NHMRC implement risk-based arrangements including enhanced systems to:

- manage overdue annual financial reports and final acquittal statements;
- recover debt due to overpayments and unspent funds; and
- achieve timely receipt, review and analysis of grants' progress and final reports.

NHMRC response: *Agreed.*

**Recommendation
No.5**

Para. 5.27

To strengthen the NHMRC's management of grants, the ANAO recommends that the NHMRC include as part of its new Research Grant Management System (RGMS):

- appropriate compliance controls to identify breaches of legislative, key policy and eligibility requirements for all grant applications;
- a suitable interface between RGMS and the NHMRC's financial system to allow accurate information exchange and regular reconciliation of the systems;
- a regular program of data verification and cleansing to prevent corruption of future NHMRC data; and
- a structured training program and complete documentation for all key processes.

NHMRC response: *Agreed.*

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the National Health and Medical Research Council and its role in administering health and medical research grants. It also outlines the objective, scope and methodology of the audit.

The National Health and Medical Research Council

1.1 Established in 1936, the National Health and Medical Research Council (NHMRC) has evolved as one of Australia's peak bodies in the area of evidence-based health advice and as a significant public funder of health and medical research.

1.2 On behalf of the Australian Government, the NHMRC has historically held a pivotal role in funding research in universities and research institutions across Australia. Individual researchers can apply, via their Administering Institutions, for NHMRC grants to cover: research projects or multi-component research programs; salaries, including fellowships; and infrastructure support.⁶

1.3 On 1 July 2006, the NHMRC became an statutory agency within the Health and Ageing portfolio, with responsibilities specified through the 2006 amended *National Health and Medical Research Act 1992* (NHMRC Act).⁷ Under these arrangements, the NHMRC's Chief Executive Officer (CEO) is directly responsible to the Minister for Health and Ageing. The NHMRC is also a prescribed agency under the *Public Service Act 1999* and the *Financial Management and Accountability Act 1997*.

1.4 Consistent with the NHMRC Act, the NHMRC describes its roles as:

- supporting health and medical research;
- developing health advice for the Australian community, health professionals and government; and

⁶ Administering Institutions include universities and other research organisations which administer grants on behalf of the NHMRC, under a Deed of Agreement.

⁷ For many years, the NHMRC operated as a Division of the Department of Health and Ageing (DoHA), with the Head of the NHMRC reporting to Secretary of DoHA. Additional information on the legislative status of the NHMRC prior to 2006 can be found in the ANAO's previous performance audit— ANAO Audit Report No.29 2003–04, *Governance of the National Health and Medical Research Council*.

- providing advice on ethical behaviour in health care and medical research.⁸

1.5 The audit's primary focus is the first of these roles 'supporting health and medical research', which reflects a substantial component of the NHMRC's core business—the administration of health and medical research grants.

NHMRC grant programs

1.6 Over the period 2000 to 2008, the NHMRC has awarded more than 8000 grants (Table 1.1), an investment in research exceeding \$3.2 billion.⁹ This funding has contributed to health and medical science in many important areas including: advancing cancer treatment; reducing smoking; improving diabetes care in Aboriginal and Torres Strait Islander people; preventing cardiovascular disease; and managing childhood obesity.¹⁰

Enhanced funding for NHMRC grants

1.7 The number of active NHMRC grants has increased two-fold between 2000 and 2008 (see Table 1.1). Over the same period, the NHMRC's annual grant expenditure rose by a factor of 3.5 (see Figure 1.1). This reflects several Australian Government initiatives since 1999, intended to increase government investment in health and medical research in Australia.¹¹ Such investment has helped to place Australia as a leader in health and medical research, with a per capita basis research output twice that of the Organisation for Economic Co-operation and Development (OECD) average.¹²

⁸ NHMRC Strategic Plan 2007–2009, p. 8.

⁹ <<http://www.nhmrc.gov.au/grants/dataset/files/grantdata.xls>> [accessed 16 February 2009].

¹⁰ NHMRC Annual Report, 2007–2008.

¹¹ *Backing Australia's Ability* 2001 and 2004; Wills Review 1999; *The Virtuous Cycle-Working together for health and medical research*; Cutler Review 2008.

¹² The NHMRC advised during the audit that it puts out double the OECD average for number of publications adjusted per million population. Further OECD information is available through <<http://titania.sourceoecd.org/vl=5352607/cl=14/nw=1/rpsv/sti2007/gd5-1.htm>> [accessed 7 October 2009].

1.8 The substantial rise in funding places, a particular responsibility on the agency, to have sound management in place to provide assurance of the appropriate use of funds.

Table 1.1

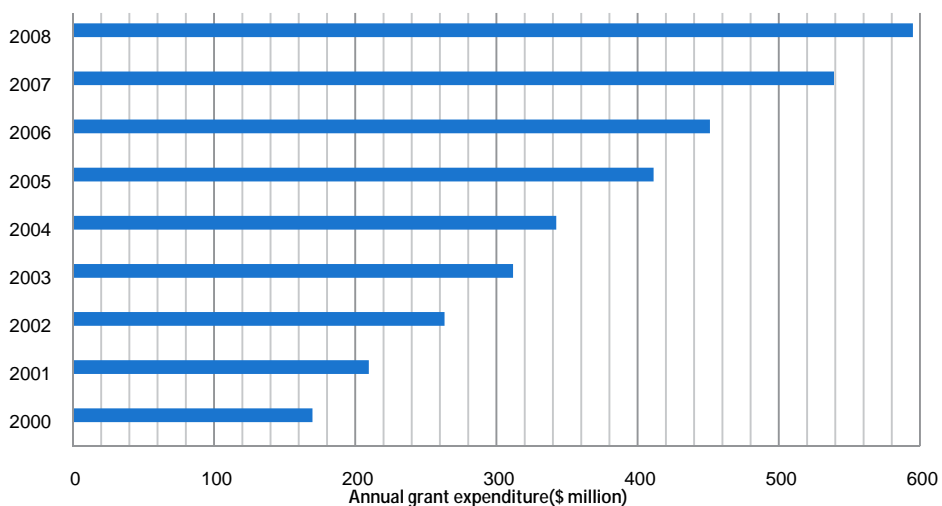
NHMRC number of new and continuing grants 2000–08

Year	Number of active grants—new and continuing	Number of new grants commencing each year
2000	1872	667
2001	2136	900
2002	2436	890
2003	2566	897
2004	2769	942
2005	2962	1017
2006	3089	983
2007	3539	1257
2008	3843	1299

Source: <<http://nhmrc.gov.au/grants/dataset/files/grantdata.xls>>, as at 12 June 2008.

Figure 1.1

NHMRC expenditure for awarded grants 2000 to 2008



Source: <<http://www.nhmrc.gov.au/grants/dataset/files/grantdata.xls>>, as at 16 February 2009.

Note: * 2000–07 is actual expenditure; 2008 is expected commitments.

1.9 Funding for NHMRC grants is administered through the Medical Research Endowment Account (MREA) under section 51 of the NHMRC Act. Several grant schemes are offered by the NHMRC each year under the MREA. In general, these fall into three main categories based on the intended use (or type) of the grant.

Research Support: grants which provide funding for research promoting the health of Australians.

Infrastructure Support: grants which provide funding for the infrastructure required to complete health and medical research in Australia.

People Support: grants and fellowships which provide funding for the people required to complete health and medical research in Australia.¹³

1.10 Of the three categories, the largest is Research Support, receiving \$440 million in 2007–08, with Project Grants accounting for \$283 million of this amount. Table 1.2 shows expenditure for each grant category from 2006 to 2008.

Table 1.2

NHMRC expenditure by grant type 2006 to 2008*

Main Funding Group	Grant Type	2006 (\$m)	2007 (\$m)	2008 (\$m)
Infrastructure Support	Enabling Grants	11.3	10.3	10.6
	Infrastructure Grants	19.2	34.9	11.2
Infrastructure Support Total		30.5	45.2	21.8
People Support	Career Development Awards	15.8	18.4	22.8
	NHMRC Career Awards	40.9	47.6	59.4
	NHMRC Scholarships	11.9	12.0	12.2
	Training Fellowships (Australia)	15.7	20.7	23.3
	Training Fellowships (Overseas)	10.3	13.5	14.9
People Support Total		94.6	112.2	132.6
Research Support	Block Funded	4.0		
	NHMRC Project Grants	186.3	236.0	283.3

¹³ <www.nhmrc.gov.au/grants/types/htm> [accessed 27 October 2008].

Main Funding Group	Grant Type	2006 (\$m)	2007 (\$m)	2008 (\$m)
	NHMRC Strategic Awards	36.4	40.7	52.1
	Program	95.1	100.4	103.3
	Strategic Research Development Committee	4.3	4.6	1.7
Research Support Total		326.1	381.7	440.4
Total Expenditure		451.2	539.1	595.0

Source: <<http://www.nhmrc.gov.au/grants/dataset/files/grantdata.xls>>, as at 16 February 2009.

Note: * 2000–07 is actual expenditure; 2008 is expected commitments.

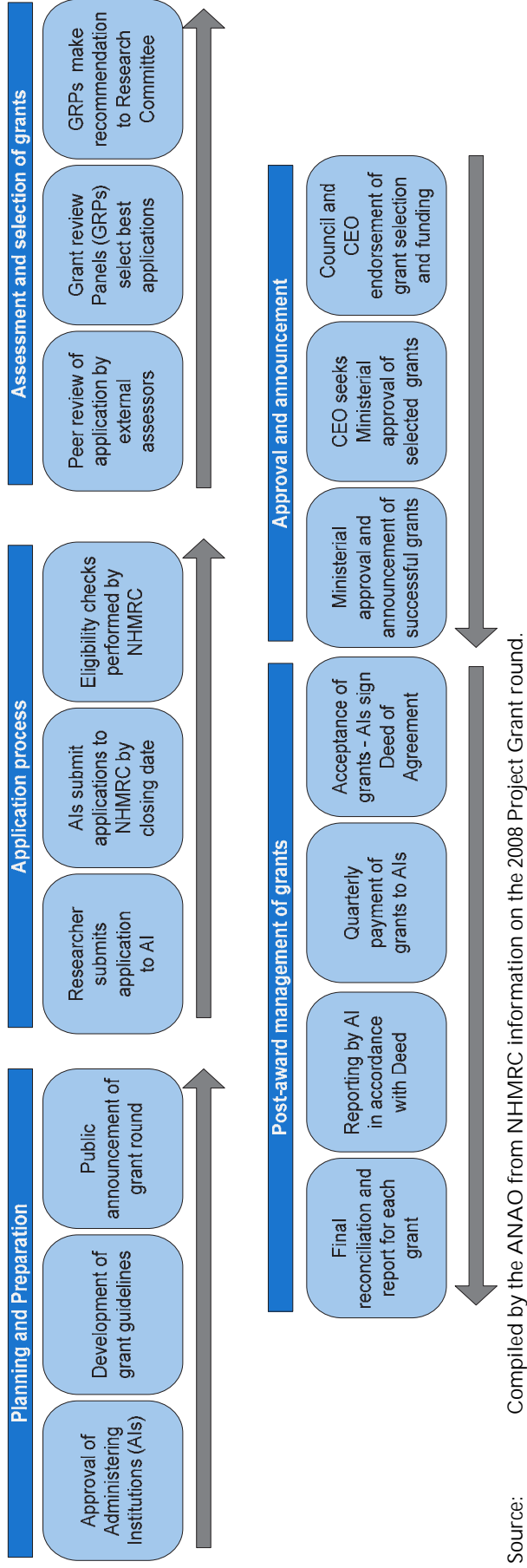
1.11 Additional information on the distribution of Project Grants, including, the number of applications, the percentages awarded, and grant expenditure across States and Territories can be found in Appendix 1.

The grant process

1.12 NHMRC grant programs are based on a competitive selection process. Each year, the NHMRC invites researchers in eligible Australian universities and research organisations to apply for funding through its range of scholarships and research programs. The key steps in the grant process are shown in Figure 1.2.

1.13 Grant applications are assessed through a process of peer review by external assessors and Grant Review Panels (GRPs), with a view to selecting research of the highest calibre for funding. The NHMRC also ‘calls’ each year for academics to participate as assessors and members of GRPs. Final approval of successful grants for funding resides with the Minister for Health and Ageing.

Figure 1.2
Key steps in the NHMRC's grants process



1.14 In 2008 the NHMRC received 4262 applications across all grant programs, of which 2586 were for Project Grants—the NHMRC’s largest grant scheme. For this scheme, 42 GRPs consisting of 499 panel members were involved in the selection process. Success rates for grant applications vary between the different schemes. For Project Grants, about 27 per cent received funding in 2009 (Table 1.3).¹⁴

Table 1.3

Success rate for main funding groups and grant types commencing 2009

Main funding group	Main grant type	Number of applications	Funded	Not Funded	Success rate (%)
People Support	NHMRC Career Awards	255	106	149	42
	Career Development Awards	407	59	348	14
	Training Fellowships (Australia)	277	81	196	29
	Training Fellowships (overseas)	155	49	106	32
	Scholarships	317	141	176	44
People Support Total		1411	436	975	31
Research Support	NHMRC Project Grant	2650	709	1941	27
	Programs	58	27	31	47
	NHMRC Strategic	143	15	128	10
Research Support Total		2851	751	2100	26
Total		4262	1187	3075	28

Source: NHMRC Research Management Information System (RMIS)

1.15 More extensive assessments of the NHMRC’s grant selection process and post-grant management are contained in Chapters 3 and 4 respectively.

Role of the Administering Institutions

1.16 The Administering Institutions play an important role in facilitating the NHMRC’s grant process, by acting as a conduit for grant enquiries, submission of applications and post-award management of grants.

1.17 Under NHMRC policy, only approved Administering Institutions may be recipients of NHMRC grants. In 2008, the NHMRC administered \$595 million in grants across 91 Administering Institutions. University-based

¹⁴ Project Grants selected in the 2008 for funding commencing in 2009.

researchers received the largest portion, \$430 million, with the Group of Eight universities awarded around \$370 million representing 63 per cent of total NHMRC grant funding.¹⁵

Grants are managed under a Deed of Agreement with the NHMRC

1.18 Administering Institutions are required to sign a Deed of Agreement with the NHMRC, which establishes parameters and expectations for the management of grant funds, accountability and reporting requirements. The Deed of Agreement essentially provides a decentralised model of grant administration in which each Administering Institution has responsibility for the effective management of the research projects and associated grant funds—Commonwealth funding paid quarterly by the NHMRC. An important role for the NHMRC is in managing the relationship with the Administering Institutions to achieve effective and accountable administration of grants. This topic is covered in more detail in Chapter 2.

Previous audit coverage

Performance audit

1.19 A previous ANAO audit, Audit Report No.29 2003–04, *Governance of the National Health and Medical Research Council*, examined the governance of the NHMRC and made six recommendations.¹⁶

1.20 Subsequent to Audit Report No.29, the accountability and governance arrangements of the NHMRC were amended (post Uhrig Review) to reflect a whole of government shift to improved governance and accountability.¹⁷ An ANAO assessment of the NHMRC's progress against the six recommendations, provided in Appendix 2, is provided in this context. The NHMRC's new governance arrangements are included in Chapter 2.

¹⁵ The 'Group of Eight' consists of the University of Sydney, Melbourne University, Queensland University, University of Western Australia, Adelaide University, University of New South Wales, The Australian National University and Monash University.

¹⁶ ANAO Audit Report No. 29 2003–04, *Governance of the National Health and Medical Research Council*.

¹⁷ J. Uhrig, *Review of the corporate governance of statutory authorities and office holders*, June 2003.

ANAO financial statements audit findings

1.21 An ANAO financial statements audit of the National Health and Medical Research Council for financial years 2006–07 and 2007–08, included a B finding regarding ‘Duplicate and Incorrect Payments of Grant Funding’ and C findings relating to other grant administration matters.¹⁸

Audit objective, scope and methodology

1.22 The audit objective was to form an opinion on the effectiveness of the NHMRC grant administration. To achieve this, the ANAO assessed the NHMRC’s performance against four criteria:

- the NHMRC’s governance arrangements provide appropriate accountability that it is meeting its objectives and obligations to Government (refer to Chapter 2);
- there are strategic and systematic processes for developing and implementing grant programs (refer to Chapters 3);
- the NHMRC manages grants post-award effectively, and complies with legislative requirements and program directives (refer to Chapters 4 and 5); and
- the NHMRC monitors and evaluates its business to demonstrate that outcomes are being met (refer to Chapter 6).

Audit scope

1.23 The audit scope included examination of key aspects of the NHMRC’s governance and management of grant programs. Particular emphasis was given to Research Support, as this is the largest category of NHMRC grants and a well-established program consisting of several schemes. It also has the largest budget at 74 per cent of total grant expenditure.

1.24 The audit included examination and analysis of the NHMRC’s grant administration in terms of: compliance with legislation and internal guidelines; risk management; contract management (the Deed of Agreement with Administering Institutions); the relevance and consistency of process controls; documentation of key policies and procedures; transparency of decisions; and post-award accountability of grants.

¹⁸ ANAO, Financial Statement Audits, Final Management Letters to the NHMRC.

1.25 The audit did not include auditing of the Administering Institutions; examination of the NHMRC's advisory and clinical guidelines functions; detailed examination of the operations of the NHMRC Council and other committees; comprehensive appraisal of IT systems; or assessment for fraud.

Audit methodology

1.26 The audit was conducted in accordance with ANAO Auditing Standards and utilised the ANAO Better Practice Guides, particularly ANAO *Better Practice Guide—Administration of Grants*, in the audit design and analysis.¹⁹

1.27 Audit fieldwork was undertaken primarily in the NHMRC's Canberra office, and included: interviews with NHMRC staff; examination of operational documents, guidelines, procedures, individual grant files, electronic records; case studies; collection of data; and examination of IT support/grant management systems.

1.28 Stakeholder consultation meetings were held at six Administering Institutions across two states. A survey of 97 Administering Institution Research Officers was also conducted to inform the ANAO's assessment of administrative arrangements between the NHMRC and its key stakeholders. This elicited 66 responses.

1.29 Following audit fieldwork, the Department of Finance and Deregulation (Finance) released the *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration* in July 2009.²⁰ The ANAO considered these guidelines when making its final assessment and recommendations on the NHMRC's administration of research grants.

1.30 The audit was completed at a cost of \$396 000.

Structure of the report

1.31 The remainder of the report is organised into the following chapters:

- Governance arrangements (Chapter 2);
- Assessment and selection of Grants (Chapter 3);

¹⁹ ANAO, *Better Practice Guide—Administration of Grants*, May 2002.

²⁰ The Finance document, in conjunction with the *Financial Management and Accountabilities Act 1997* is designed to establish the policy framework and articulate the Government's expectations when performing duties in relation to grants administration.

- Post-award grant management (Chapter 4);
- Systems supporting grant management (Chapter 5); and
- Monitoring performance (Chapter 6).

2. Governance Arrangements

This chapter considers key aspects of the NHMRC's governance, including its organisational structure and the roles and responsibilities of those parties involved in administering NHMRC grant programs.

The governance environment

2.1 With expenditure reaching \$595 million on new and continuing grants in 2008, administration of research grants constitutes core business and a substantial commitment for the NHMRC. It is, therefore, expected that the NHMRC establish and maintain a sound system of governance that will enable effective and accountable administration of grants within the specifications of its own legislation and policies, as well as broader government legislation such as the *Financial and Management Accountability Act 1997*.

2.2 Notwithstanding this, in examining the NHMRC's governance arrangements, the ANAO was mindful of the challenges facing the NHMRC in recent years, and the transitional nature of the many agency systems and structures. Particular factors impacting on the NHMRC's governance and business operations included:

- the substantial increase in the NHMRC's grant budget since 2000 (see Figure 1.1)—a result of broader government initiatives to enhance investment in Australia's research;
- changes to the NHMRC's legislation and agency status from July 2006, including the increased responsibilities and independence of the Chief Executive Officer (CEO);
- organisational restructure and systems re-development within the NHMRC post 2006;
- coordination of administrative services provided by the Department of Health and Ageing (DoHA) under a Service Level Agreement (SLA) and the gradual transition of these services to the NHMRC;
- the Government's current focus on improving the transparency and accountability of programs; and
- the continuing interdependent relationship between the NHMRC and Administering Institutions (universities and research organisations) with regard to administration of NHMRC research grants.

2.3 Such factors have prompted significant governance and operational change within the NHMRC to date, with many improvements completed, underway or planned. Taking this environment into consideration, the ANAO reviewed the following key aspects of the NHMRC's governance and their effect on the agency's administration of grant programs:

- recent changes to NHMRC's governance;
- current organisational structure, roles and responsibilities;
- funding arrangements;
- arrangements with the Administering Institutions; and
- risks to grant management.

Recent changes to NHMRC governance arrangements

2.4 The NHMRC has been a funder of health and medical research since its establishment in 1936. In 1992, empowered by the *National Health and Medical Research Council Act 1992* (NHMRC Act), the NHMRC became a statutory agency within the (now) Department of Health and Ageing portfolio. Under this arrangement the NHMRC's CEO reported to the Secretary of the Department. Figure 2.1 summarises events leading up to the NHMRC's current governance arrangements as a statutory agency.²¹

²¹ The Act defines the NHMRC as the Chief Executive Officer (CEO), the Council and committees, and the staff of the NHMRC. <https://intranet.nhmrc.gov.au/our_organisation/about/structures.htm> [accessed 30 January 2009].

Figure 2.1

Timeline—background to changes in the NHMRC’s governance

Until June 2000	The provision of staff, facilities and funding for the NHMRC was coordinated by the DoHA through its Office of the National Health and Medical Research Council (ONHMRC), while the NHMRC was responsible for the advisory and recommendatory functions.
July 2000	The day-to-day administrative functions for the NHMRC were separated from the DoHA divisional structure to accommodate the creation of a CEO as recommended in the 1999 Wills Report. ²²
November 2002	The Uhrig Review found that the governance structure limited influence over administration and the enabling legislation did not specify governance arrangements and clear lines of accountability. ²³
September 2005	Implementing the recommendations of the Uhrig Review, the then Government announced on 7 September that the NHMRC would move to executive management in which the CEO manages the funded budget. ²⁴
July 2006	The NHMRC became a statutory agency within the Health and Ageing portfolio on the 1 st of July, 2006. This change brought with it an amended <i>National Health and Medical Research Act 1992</i> , which defines the NHMRC as the CEO, the Council and Committees, and the staff of the NHMRC.

Source: Compiled by the ANAO.

2.5 A major challenge for the NHMRC since July 2006 has been in making the transition to a statutory agency, while maintaining a strong focus on its key business, particularly grant administration. The progress NHMRC has made in this respect is examined below.

Current organisational structure, roles and responsibilities

2.6 The NHMRC’s organisational structure is shown in Figure 2.2. Consistent with the NHMRC Act, the NHMRC is defined as the CEO, the Council and its committees, and the staff of the NHMRC.²⁵

2.7 The roles and responsibilities of each key entity are clearly stated. The NHMRC’s CEO is directly accountable to the Minister for Health and Ageing regarding the primary functions of the agency. The CEO is responsible for the day-to-day operations of the NHMRC as well as: setting the major objectives for the NHMRC; identifying new and emerging health issues; and developing strategies to address these issues as they arise.

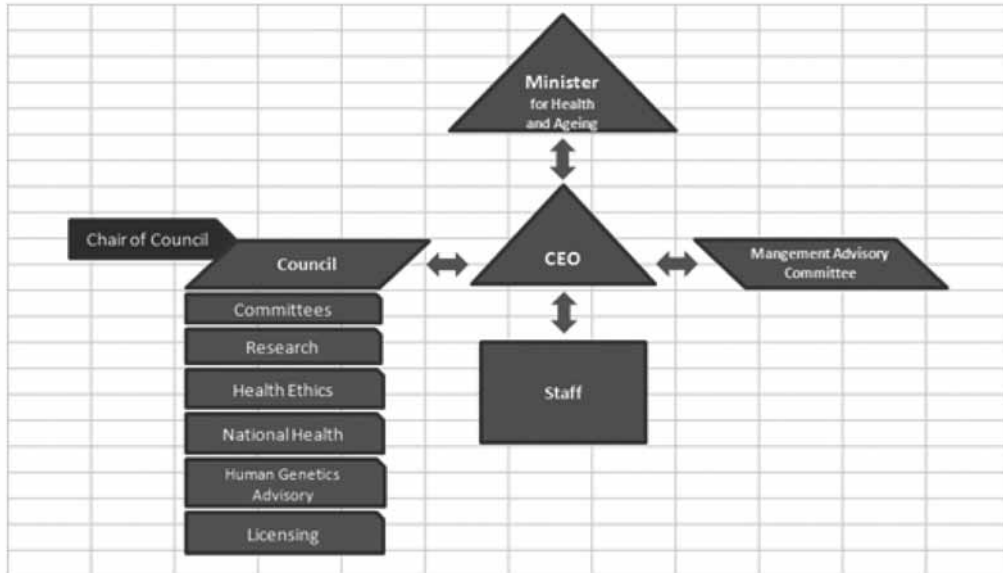
²² Peter Wills AM et al, *The Virtuous Cycle—Working Together for health and medical research, 1999*.

²³ Op. cit. J. Uhrig, June 2003.

²⁴ Ibid., p. 18.

²⁵ NHMRC Strategic Plan 2007–09: Our Structure.

Figure 2.2
Organisational structure of the NHMRC



Source: Reproduced from the NHMRC intranet. NHMRC, *Overview of the structure of the NHMRC*, <<http://intranet.nhmrc.au>> [accessed 30 January 2009].

2.8 The Council’s role is to advise and provide guidelines and recommendations to the CEO.²⁶ Terms of reference for Council and its committees are available on the NHMRC’s website. With the support of Council, the CEO has the task of developing a Strategic Plan and responding to the Ministers Statement of Expectation through a Statement of Intent.²⁷

2.9 The ANAO assessed the NHMRC’s compliance with key governance requirements, with particular focus on those most relevant to the administration of research grant programs. The results of this analysis are shown in Table 2.1.

²⁶ *ibid.*

²⁷ The Uhrig Review introduced Governance Principles that included the Minister developing Statements of Expectations (SOE) for the Statutory Agency. The agency then responds to the Minister by developing the Statement of Intent (SOI) highlighting how the agency will achieve the Minister’s directives outlined in the SOE. The SOE and SOI are public documents for improved transparency.

Table 2.1

ANAO analysis: NHMRC compliance with key governance requirements

Criteria/requirement	ANAO comment
<p>Defined structure: The NHMRC has established organisational structure that facilitates the agency in carrying out its legislative requirements.</p>	<p>The NHMRC's structure is in line with the requirements of the NHMRC Act. An up-to-date structure is published on the NHMRC website.</p>
<p>Roles and responsibilities: Roles and responsibilities of the NHMRC are described and are consistent with the NHMRC Act.</p>	<p>The NHMRC has a strong focus on its legislative responsibilities. Its structure reflects key areas of legislation (for example, Ethics and Grant Administration) and the roles and responsibilities of the CEO, Council and key committees are defined.</p> <p>An appropriate hierarchy of delegations for the approval of grants is in place and Council and its committees operate within specified terms of reference.</p>
<p>Statement of Intent is in place</p>	<p>The NHMRC has provided a Statement of Intent to the Minister and reports progress against this.</p>
<p>Annual Report is published</p>	<p>The NHMRC produces an Annual Report each year.</p>
<p>Grant timetable: Each financial year the CEO publishes a timetable and procedures to assist them in making recommendations to the Minister on the application of the Account under paragraph 7(1)(c) (NHMRC Act section 8).</p>	<p>The NHMRC publishes a timetable, although it does not provide exact dates for each grant schemes offered in a given year.</p> <p>Procedures are produced for each scheme and posted on the NHMRC website prior to each grant scheme opening for applications.</p>
<p>Strategic Planning: The NHMRC has a Strategic Plan (NHMRC Act section 16) which:</p> <ul style="list-style-type: none"> • contains a national strategy for medical research and public health research; • the Minister and Council were consulted on content; and • incorporates national research priorities into grant programs. 	<p>The NHMRC has an appropriately endorsed 2007–09 Strategic Plan, which sets out the NHMRC's strategic directions, addresses key government priorities, and contains a national strategy for medical research and public health research. The National Health Priorities are also incorporated into the plan.</p> <p>A new Strategic Plan was under development during the audit.</p>
<p>Report against the Strategic Plan:</p> <ul style="list-style-type: none"> • CEO prepares a written review to the Minister, evaluating the success in implementing the Strategic Plan six months before the end of the plan (NHMRC Act section 17); and • Each review must be laid before each House of the Parliament within 15 sitting days of that House after its receipt by the Minister. 	<p>Report tabled out of session 30 June 2009.²⁸</p>

²⁸ <<http://www.nhmrc.gov.au/publications/synopses/nh117syn.htm>> [accessed 7 October 2009].

Criteria/requirement	ANAO comment
Risk management plan/strategy	The NHMRC has an agency level and Branch risk management plans. Risks are considered when planning grant programs and as part of the grant selection processes. However, there was room for the NHMRC to improve its strategies for mitigation of risks.
Internal audit committee established	The NHMRC has established an Audit Committee in line with section 46 of the <i>Financial Management and Accountability Act 1997</i> (FMA Act). The Audit Committee manages the internal audit functions and requirements, as listed in the <i>Financial Management and Accountability Orders 2005</i> .
Documentation of key procedures, actions and decisions	While many areas of the NHMRC's grant administration were well documented, there were also key elements which lacked sufficient transparency and accountability. To address this, improvements in records and documentation were necessary in the following areas: Certification of Administering Institutions; pre-award processes including allocation of external grant assessors; proceedings and recommendations from grant assessments and grant review panels; and some financial aspects of grant administration.
Business plans	The NHMRC has agency and Branch level business plans. These correlate with the NHMRC's strategic priorities.
<p>Communication</p> <ul style="list-style-type: none"> • Internal communication strategies are in place. • External communication strategies are in place. 	<p>Internally, various communication activities are in place. There is a need to strengthen the documentation of procedures across the organisation, to improve understanding of key grant administration tasks.</p> <p>For external communication, a range of discrete communication activities were operating, for example:</p> <ul style="list-style-type: none"> • Tracker (newsletter for stakeholders); • Consultation forums; and • CEO seminars. <p>However, a more consolidated communication plan or strategy would assist the NHMRC in appropriate timing and targeting of its communication efforts with stakeholders, particular universities.</p>

Source: ANAO analysis of NHMRC information and documentation. Criteria based on NHMRC Act 1992; and ANAO *Better Practice Guide—Public Sector Governance*, July 2003, Canberra, pp. 13–27.

2.10 As the above table illustrates, many of the NHMRC's processes meet the key governance requirements of its own legislation and policies, and are consistent with acceptable governance practices.²⁹ There are, however, areas of NHMRC governance that require strengthening in order to provide adequate assurance for key business operations and to enhance program transparency. Specific areas for improvement are discussed below.

²⁹ As specified in government legislation and policy, and ANAO better Practice Guides.

Information to support key administrative functions

2.11 The ANAO examined the availability, quality and completeness of NHMRC documentation to support key grant management functions.

2.12 The NHMRC website contains up-to-date information on the organisation of functional components of the agency. A list of internal delegations, CEO instructions, and general administrative procedures are accessible to staff through the NHMRC's Intranet. At the operational level, individual roles and responsibilities are defined through duty statements.

2.13 Notwithstanding the availability of a wide range of corporate information, in some areas of grant management the ANAO noted inconsistency in the availability and quality of documentation explaining Branch-specific functions. For example, an extensive, although draft, procedures manual had been developed for post-grant administration but a similar standard of documentation for pre-award grant administration, a core area of business, was lacking.

2.14 While the NHMRC has an Induction Manual for new staff, for grant management related functions there was limited structured training and no end-to-end grant management training or procedures manual. The ANAO noted several instances during the audit where NHMRC staff were uncertain of specific operational responsibilities, the whereabouts of records, or details of key procedures. A more consistent approach to the development of supporting documentation for key grant administration functions would assist the NHMRC in strengthening its workforce knowledge base.

Functional and structural realignment

2.15 The NHMRC has undergone five internal reorganisations since 2006, each seeking to improve alignment of the organisation with its legislative responsibilities, staff capabilities, and work load.³⁰ These changes often placed staff in unfamiliar area, with insufficient documentation or local knowledge of tasks, thus increasing NHMRC's business continuity risks.

2.16 The transitional nature of the NHMRC and the often demanding change agenda was visibly challenging the agency's administrative capability.

³⁰ The NHMRC sought the advice of a consultant before re-aligning the agency functions in April 2009—the fifth restructure.

A greater focus on the development of clear and complete documentation of processes would aid staff in this transition.

Transfer of administrative support services from DoHA

2.17 Since 2006, the NHMRC has been progressively transferring administrative services performed by DoHA under a SLA, to the NHMRC (see Table 2.2). Consequently, the NHMRC is implementing new processes and systems for many of newly acquired corporate functions.

Table 2.2

Services performed by DoHA under the Service Level Agreement

The DoHA-NHMRC Service Level Agreement as at 1 July 2006

The services required by the NHMRC to be provided by the Department of Health and Ageing are:

- Human Resource Services;
- Key Corporate Support Services;
- Information Technology Infrastructure and Support;
- Voice Services infrastructure and Support;
- Key Legal Services;
- Key Financial Services; and
- Key Parliamentary Services.

The services required by the Department to be provided by the NHMRC are:

- Certain relevant activities.

Total cost of services = \$4 866 724 (SLA payment schedule).

Progress by the NHMRC as at 30 June 2009

During the audit, the NHMRC continued to establish independent control of its services. In June 2009, the NHMRC reported that:

Function	Moved to the NHMRC	Remaining in DoHA
Human Resources	Taken over by NHMRC June 2009 (except for services shown in right column)	Occupational and Health and Safety, and Rehabilitation Case management indefinitely
Parliamentary Services	Taken over by NHMRC June 2009 (except for services shown in right column)	Cabinet Liaison and Parliamentary Liaison indefinitely
Corporate/Property Services	Taken over by NHMRC June 2009 (except for services shown in right column)	Library Services indefinitely Records management and Voice Services until end of June 2010
IT Infrastructure and Support	Taken over by NHMRC June 2009 (except for services shown in right column)	Software maintenance and development of RMIS until 30 December 2009 Access to various databases such as MIRICLS, Online Library Access, and Committee Centre

Source: Service Level Agreement between DoHA and NHMRC, 1 July 2006.

2.18 For the most part, the SLA had provided a satisfactory transitional arrangement. Notwithstanding this, there were areas where arrangements through the SLA had not resulted in effective administrative practice. Some examples were: non-removal of duplicate and multiple records from the grant management system (RMIS); delays in debt recovery due to an ineffective split of functions and lack of invoice tracking between DoHA and the NHMRC;

increasing down-time of RMIS which disrupted grant-related functions and business continuity in the NHMRC.

2.19 Overall, in establishing its newly acquired administrative procedures, the NHMRC will find benefit in implementing the following aspects of change management:

- documenting key procedures and ensuring these are accessible to relevant staff;
- implementing a more structured approach to training of new staff and those who are transferred to different functional areas of the agency;
- updating individual duty statements and Branch plans within the Annual NHMRC Business Plan commensurate with organisation realignments; and
- ensuring that staff feedback on the operational feasibility of functional realignment or structural change is conveyed to management through a formal mechanism.

Funding arrangements

2.20 At the commencement of the audit fieldwork, in February 2009, the NHMRC had 230 staff and its total 2008–09 budget was an estimated \$1.07 billion (Table 2.3).³¹

³¹ In 2007–08 and 2008–09 NHMRC stated an Average Staffing Level (ASL) of 230.

Table 2.3**Breakdown of the NHMRC estimated budget for 2007–08 and 2008–09.**

Budget component	Total Estimate 2007–08 \$'000	Total Estimate 2008–09 \$'000
Departmental Outputs	33 353	58 408
Administered Expenses	530 331	621 719
Total net resourcing for NHMRC*	563 684	1 071 673
Special Accounts ³²	935 568	1 009 075
ASL staffing	226	230

Source: NHMRC–Agency Budget Statements.

Note: *Not including special accounts.

2.21 As mentioned in Chapter 1 (also see Figure 1.1) a steady increase in the NHMRC's appropriations for grant programs from 2000 to 2008 has resulted in an overall 350 per cent rise in funding. This is largely attributable to announcements over two successive budgets, which provided a total of \$905 million in 2006–07 towards health and medical research over the following five years, and an additional \$485 million in 2007–08 for capital works in 14 medical research institutions to support health and medical research facilities.³³

2.22 The NHMRC's increased grant expenditure presents additional risks for the NHMRC and additional responsibility for the CEO, particularly in providing assurance that funds are used effectively and for the purpose intended.³⁴ The ANAO examined the NHMRC's arrangements for managing grant funds, related to payments through the Medical Research Endowment Account (MREA) to Administering Institutions.

³² The Special Account refers to the Medical Research Endowment Account and as per the NHMRC Act includes amounts that are given or bequeathed for the purposes of the Account, in addition to Government appropriated funds.

³³ NHMRC Annual Report 2007, p. 15.

³⁴ ANAO, *Better Practice Guide—Administration of Grants*, May 2002, p. 6; and Commonwealth of Australia, *Financial Management and Accountability Act 1997, section 44*, which provides 'A Chief Executive must manage the affairs of the agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible'. Proper use means efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth.

The Medical Research Endowment Account

2.23 The purpose of the MREA is defined in section 51 of the NHMRC Act (Table 2.4).³⁵ Research funded by the NHMRC must be consistent with and conducted in accordance with, the objectives of the NHMRC Act.³⁶

Table 2.4

The purpose of the Medical Research Endowment Account

The MREA (subject to conditions such as the responsible Minister acting on advice provided by the CEO of the NHMRC) upon determination, is to provide assistance:

- to Departments of the Commonwealth or of a State or Territory engaged in medical research;
- to universities for the purposes of medical research;
- to institutions and persons engaged in medical research;
- in the training of persons in medical research; and
- any other purpose that is prescribed.

Source: *National Health and Medical Research Council Act 1992*, section 51, p. 37.

2.24 Section 51(1) (a) (iii) of the NHMRC Act provides for funding to individuals to conduct health and medical research. It is, however, NHMRC policy to provide funding to individual researchers only through approved Administering Institutions, under a Deed of Agreement.³⁷ This policy position is intended to provide confidence that funds will be provided to reputable institutions and managed appropriately.³⁸ The premise that Administering Institutions are reputable has its basis in the NHMRC 'approving' or 'certifying' the Administering Institution according to NHMRC's documented process.

2.25 The NHMRC was operating in accordance with its own policy by accepting applications only from Administering Institutions. Grant payments were also only made to Administering Institutions. However, the NHMRC's records provided little evidence that the Administering Institutions were

³⁵ Funding for NHMRC grant programs is appropriated into a special account, the MREA.

³⁶ *National Health and Medical Research Council Act 1992*, Section 3 and 51.

³⁷ The NHMRC advised that, to date, no individual has been able to meet the criteria to be granted Administering Institution status. NHMRC, *Administering Institution Policy: Conditions for registering as an NHMRC Administering Institution for the purposes of applying for, and subsequent administering NHMRC funds*, p. 4.

³⁸ Section 11(1) of the Act specifies that the NHMRC implement 'all things necessary or convenient to be done in relation to the performance of its functions'. Through the enabling legislation the NHMRC developed an Administering Institution Policy to define and clarify requirements and standards to ensure the responsible and transparent use of MREA funds.

actually approved against the existing NHMRC policy and procedures. This significantly reduced the level of assurance that the NHMRC could give about appropriate use of grant funds. These issues are further examined below.

Arrangements with Administering Institutions

2.26 The administration of NHMRC grant programs relies heavily on the involvement of Administering Institutions (universities and research organisations). The nature of NHMRC business requires the considerable commitment of experts from within the research community. Researchers are members of the NHMRC Council and its committees, and are involved in the grant selection process as assessors and members of Grant Review Panels (GRP).

2.27 Functions and conditions for post-award management of NHMRC grants are outlined in Deeds of Agreement between the NHMRC and Administering Institutions. The Research Administration Office within each Administering Institution coordinates the grant application process, manages grant payments to specific researchers, and monitors progress of projects and reporting against requirements in the Deeds of Agreement. The Research Administration Offices are also the first line of contact for researchers and communicate with the NHMRC to resolve problems or variations to grants on their behalf. In addition, they are usually involved in managing compliance with grant conditions specified under the Deed of Agreement, including compliance with ethics clearance requirements for individual grants.

2.28 The ANAO examined the NHMRC's policy, processes and controls for certifying (registering) organisations as Administering Institutions and for establishing Deeds of Agreement with these organisations. Compliance with the terms and conditions of the Deeds of Agreement is assessed further and in Chapter 4.

Certification of Administering Institutions

2.29 To receive NHMRC grant funding an institution must be certified (or registered) with the NHMRC as an Administering Institution. The NHMRC states:

The NHMRC intends that for certain institutions, for instance Universities, registration as an Administering Institution will be automatic. Other institutions will have the opportunity to 'self-certify' that they meet specific criteria before they will be accepted. The criteria largely relate to the administration and acquittal of Commonwealth money, and having documented procedures in place relating to such matters as ethics clearances, the proper conduct of research and being able to provide appropriate infrastructure support. It is expected most current Administering Institutions will either qualify for automatic registration or will have little difficulty meeting criteria.³⁹

2.30 The number of Administering Institutions funded between 2004 and 2008 is shown in Table 2.5.

Table 2.5

Number of Administering Institutions listed on RMIS 2004–2008

	2004	2005	2006	2007	2008
Number of funded Administering Institutions	96	90	95	97	88
Total (\$m) Expenditure	324.4	411.3	451.2	539.1	595.0

Source: Information provided by NHMRC from RMIS (Research Management Information System). These figures do not match other sources of information on the number of Administering Institutions.

2.31 The ANAO examined the NHMRC's management of its process for approving Administering Institutions. The analysis, shown in Table 2.6, concluded that the NHMRC had not, in recent years, undertaken a structured risk-based process for approving or certifying Administering Institutions. Given the key role that Administering Institutions play in administering NHMRC grants, and the substantial Commonwealth funds involved, this presents significant risk for the NHMRC. The absence of any auditing or review of Administering Institutions by the NHMRC further heightens this risk.

³⁹ <<http://www.nhmrc.gov.au/grants/policy/admininst.htm>> [accessed 7 October 2009].

2.32 The NHMRC is aware of its obligation to provide assurance that Administering Institutions are sound administrative entities with suitable capability to administer grants. To enable it to provide both financial and scientific assurance, the NHMRC advised that it was developing a new compliance framework, and revising its policy on certification of Administering Institutions. This is examined later in the chapter.

Table 2.6

Approval of Administering Institutions—compliance and control issues

- NHMRC could produce few historical records concerning the approval of individual Administering Institutions;
- no evidence was available to substantiate that the NHMRC's 2005 policy had been implemented. The NHMRC had drafted a new policy, although this was yet to be approved and implemented;
- while the RMIS records the names and other basic details of the Administering Institution, it does not contain dates of approval or review, or compliance information;
- NHMRC policy indicates that certification should be reviewed every six years. This time limitation had not been enforced or monitored;
- the RMIS contains a large number of Administering Institutions that are no longer active, and some duplicates;
- while the approval process involved a self-assessment by the prospective Administering Institution, the NHMRC had no audit or review mechanism in place to check the reliability of the self assessments; and
- NHMRC did not have a program for on-site auditing or inspecting of Administering Institutions.

Source: ANAO analysis.

2.33 There were indications that in the past Administering Institutions had been accepted without due assessment, a potential risk to the Commonwealth. The extent of compliance of the Administering Institution has also not been monitored or taken into consideration as part of grant selection. This leaves the NHMRC exposed in terms of approving grants to Administering Institutions which may not have suitable infrastructure to support NHMRC awardees, or that can not comply wholly with Deed of Agreement conditions (see paragraph 2.37 for action the NHMRC is taking to address these issues).

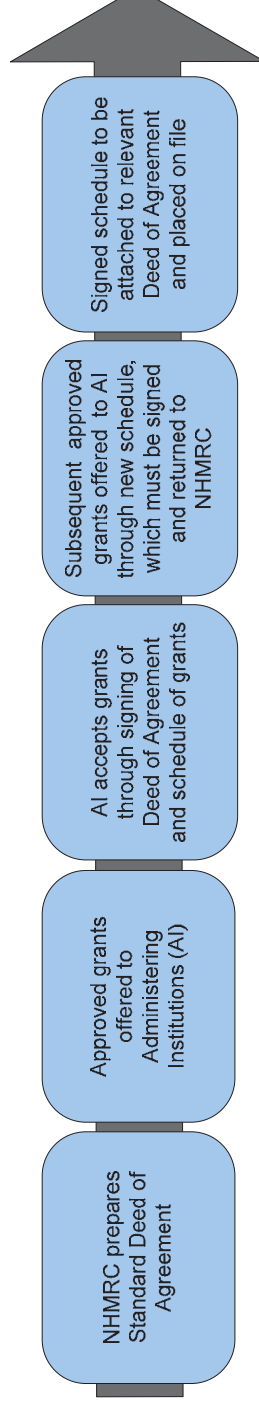
Deed of Agreement

2.34 Obligations relating to the expenditure and acquittal of Australian Government monies are detailed in the Deed of Agreement between the NHMRC on behalf of the Commonwealth and the registered Administering Institution. A new Deed of Agreement was under development at the time of the audit.⁴⁰

2.35 Once new grants are approved by the Minister, the NHMRC prepares a schedule to the relevant Deed/s, which individual Administering Institutions are required to sign before commencement of grant payments (Figure 2.3). Each grant that is awarded must be specified under a Deed of Agreement.

Figure 2.3

Process for specification of grants under a Deed of Agreement



Source: Compiled by the ANAO from NHMRC information.

⁴⁰ Further information of the obligations outlined in the Deed of Agreement is provided in Appendix 3. Prior to and during the audit two types of Deed of Agreement were in use – one for researchers and one for research grants. The NHMRC was working towards combining these into a single Deed of Agreement.

2.36 While the principles and intent of the above process (Figure 2.3) are basically sound, the NHMRC could not demonstrate reliable implementation of its procedures or adequate monitoring of compliance with the Deed of Agreement. Table 2.7 highlights the strengths and weaknesses in the management of Deeds of Agreement identified during the audit.

Table 2.7

Deeds of Agreement held by NHMRC

Prior to the ANAO audit, the NHMRC conducted a file check to make certain that current Deeds of Agreement were in place and on file. A register showing the status of Deeds against each Administering Institution was provided to the ANAO. The ANAO examined the register and sampled files, and found:

- the register contained 142 Institutions. Not all were currently funded;
- signed Deeds were on file for the vast majority of Administering Institutions, although not all institutions had signed the most recent versions of the Deed/s. The latest versions of the Deeds of Agreement were version four for the Research Grant Deed, and version five for the Researcher Deed. This could make compliance tracking difficult where conditions in the Deed change over the years;
- Administering Institution file records were not always complete, for example: Schedules to Deeds missing; Deeds on file but did not clearly indicate which grant scheme they were for or which Deed they fell under; and
- the most recent Schedules were not contained on the Administering Institution files. The NHMRC advised that after October 2008, schedules were placed on grant files and not the Administering Institution's Deed of Agreement file. This made it difficult to locate and examine complete records for each institution. For transparency and availability purposes, each Institution's file should contain complete records—the current Deeds of Agreements and all signed schedules of grants pertaining to them.

Source: ANAO assessment from NHMRC records.

Addressing compliance issues

2.37 Overall, the NHMRC did not adhere to its own policy requirements, and had insufficient mechanisms in place to assess the Administering Institutions' grant management capabilities or monitor their compliance with the Deed of Agreement. The NHMRC did, however, provide evidence of developments in this area, through which it expected to improve assurance in the future. Action to date includes:

- in October 2008, the NHMRC's CEO notified Administering Institutions that new processes were being developed and that all Administering Institutions would be reviewed as of December 2009;
- development of new policies, including a self-assessment form for institutions applying to gain Administering Institution status,

assessment criteria, sanctions policy, and a compliance implementation plan;⁴¹ and

- development of a new Deed of Agreement, intended to incorporate both types of Deeds into a single document.

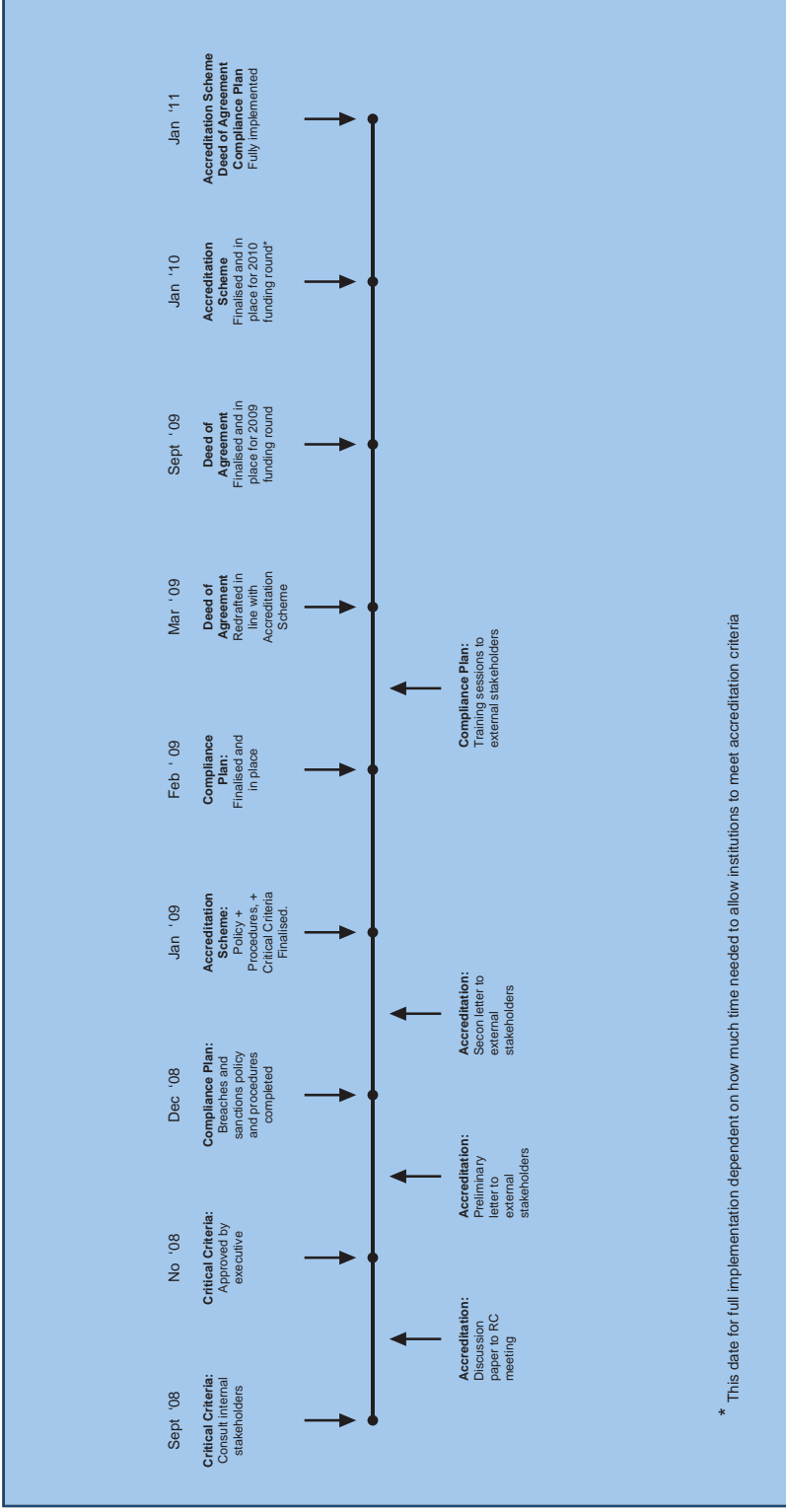
2.38 A timeline of the NHMRC's proposed accreditation scheme and related compliance activities are shown in Figure 2.4. The new accreditation policy and self-assessment document for institutions focuses appropriately on assessing the reliability of the institutions to manage grants. The proposed processes are, however, complex and may benefit from simplification based on a re-assessment of key risks, provision of essential evidence of the institutions administrative capability, and selective (but risk-based) monitoring of the performance of institutions by the NHMRC.

2.39 As part of its risk assessment, the NHMRC needs to fully consider the relative materiality of funds to individual Administering Institutions, the track record of the institution in administering grants on the NHMRC's behalf (for example the percentage of grants relinquished before completion), and past compliance with the Deed of Agreement (especially completion of final reports and financial acquittals).

⁴¹ Internal document: NHMRC, *Draft 2009 Compliance Plan for monitoring post-award compliance of NHMRC funded institutions*.

Figure 2.4

Timeline of NHMRC Accreditation Scheme, Deed of Agreement and Compliance implementation



Source: NHMRC Compliance Plan Timeline, 2008.

2.40 The ANAO noted that during the audit, slippage had already occurred against the above timeline. In finalising its policy and assessment documents, careful consideration of the resource implications in establishing the proposed system of accreditation from December 2009, will be necessary.⁴² The success of the NHMRC's initiatives will, to a large degree, depend on its ability to sustain the compliance system once it is implemented.

Recommendation No.1

2.41 To provide adequate assurance that the NHMRC grant funds are being managed appropriately by Administering Institutions, the ANAO recommends that the NHMRC:

- complete the development and implementation of a risk-based assessment for approval of Administering Institutions, and systematically maintain complete records of those approvals; and
- implement arrangements to improve monitoring of the Administering Institutions' compliance with the requirements of the Deed of Agreement, including conducting audit activity where a high risk is indicated or persistent non-compliance evident.

NHMRC response: *Agreed.* Action is being taken as recommended.

⁴² NHMRC has designated December 2009 as the point at which existing registration of Administering Institutions will be reviewed.

3. Assessment and Selection of Grants

This chapter examines the NHMRC's management of the grant selection process. In particular, it focuses on the largest grant program, Project Grants. Given the NHMRC's reliance on peer review, it also considers conflict of interest provisions.

The pre-award grant environment

3.1 Each year, the NHMRC receives thousands of applications from health and medical researchers seeking funding through NHMRC grant programs such as Project Grants, Research Fellowships, and Development Grants.⁴³ NHMRC grant programs are highly competitive, often with less than one third of applications awarded grants.

3.2 For each grant round, applications are accepted only via Administering Institutions, and must comply with NHMRC's grant guidelines, including eligibility requirements, in order to be assessed. The NHMRC employs a process of peer review, utilising external assessors and expert panels to select the highest quality research for funding. Selected grants are subject to endorsement through NHMRC's Research Committee and Council, and requires Ministerial approval prior to being awarded.

3.3 In 2008, the NHMRC received 2586 applications for Project Grants—the largest grant scheme under the NHMRC's Medical Research Endowment Account (MREA). Of these, 27 per cent were selected and consequently funded. The selection process was lengthy and complex, utilising over 449 assessors, 499 Grant Review Panel (GRP) members and 50 GRPs. The cost of conducting the Project Grant round was in excess of \$3 million, an indication of the magnitude of the task. The total sum awarded to Project Grants was \$357 million, a significant Government investment in research.

3.4 Given the sizable expenditure and the highly competitive nature of NHMRC grant programs, selection of grants needs to be made in an accountable and transparent manner. In particular, impartial processes are required to ensure that the highest priority and quality research is supported and that applicants receive fair treatment at all stages of the selection process.

⁴³ See Chapter 1 Table 1.2 for grant schemes offered in 2008.

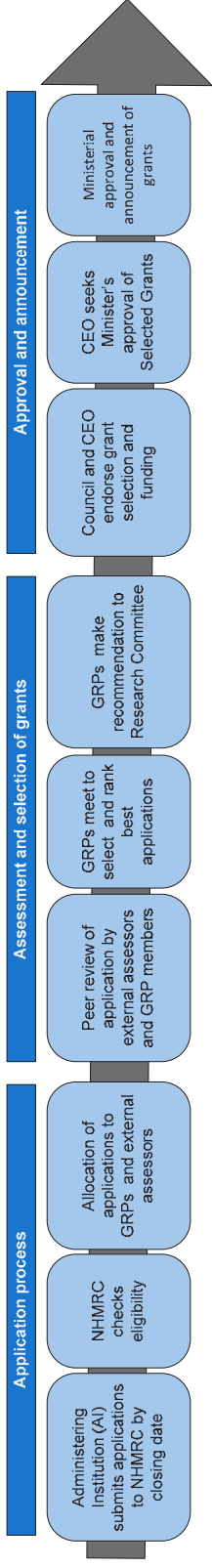
3.5 This chapter examines the effectiveness of key aspects of the NHMRC’s pre-award grant management, including:⁴⁴

- processing of applications and eligibility checks;
- assessing and selecting grants; and
- identifying and managing conflict of interest.

3.6 While the chapter concentrates on Project Grants, many of the processes described are typical of other NHMRC grant programs. Key steps in the selection of Program Grants are illustrated in Figure 3.1 and throughout the chapter.

Figure 3.1

Assessment and selection of grants



Source: ANAO

⁴⁴ ANAO, *Better Practice Guide—Administration of Grants*, 2002; and ANAO, *Better Practice Guide—Fairness and Transparency in Purchasing Decisions—Probity in Australian Government Procurement*, August 2007.

Processing of applications and eligibility checks

Submitting grant applications

3.7 To create an impartial application grant process it is important to provide potential grant applicants with equal access to consistent, correct and timely information.⁴⁵

3.8 Through its website, the NHMRC provides a comprehensive range of information including application forms, various guidelines and policies to assist grant applicants in preparing their application. Forms, funding policy and grant guidelines applicable to each grant type are updated yearly for release prior to the commencement of each grant round. Information about impending grant rounds is also available through the NHMRC website and newsletters to Administering Institutions.

3.9 It is the responsibility of individual applicants to use the correct application form and to comply with the relevant guidelines and funding rules, including eligibility requirements. The ANAO conducted a survey of Administering Institutions and the feedback provided indicated that stakeholders were reasonably satisfied with the application process and the level of information provided. Appendix 4 provides additional information on the survey results.

Initial eligibility checks

3.10 On receipt of the application the NHMRC is responsible for conducting preliminary checks to ensure that specific eligibility requirements are met. Eligibility of applications includes: a size limit for the application; completion of all sections of the application; number of NHMRC projects already held; and Australian Citizenship for Chief Investigators. Non-compliance with the eligibility requirements may result in an application being removed from the selection process.⁴⁶

⁴⁵ ANAO, *Better Practice Guide—Fairness and Transparency in Purchasing Decisions—Probity in Australian Government Procurement*, August 2007, p. 15.

⁴⁶ The NHMRC *Project Grant Funding Policy for funding commencing in 2009*, p. 11 states: 'The NHMRC researches have the right to remove from further consideration in the peer review process any applications that are ineligible or which are clearly of a standard that will not gain support in the competitive Project Grants system'.

3.11 The ANAO reviewed the NHMRC's management and monitoring of eligibility requirements for 2008 Project Grant applications. The NHMRC had not clearly defined its methodology for conducting eligibility checks of applications, however, it had performed some screening against a range of eligibility requirements upon initial receipt of applications and during the grant review process. Applications deemed ineligible are referred to an NHMRC Executive Panel for deliberation and, depending on the particular criteria and outcome, referred to the Chief Executive Officer (CEO) for approval or recommendation.

3.12 Consistency and adherence to well defined policy is important to the integrity and fairness of the selection process. While relatively few applications were removed from the grant process as a result of the eligibility criteria, the potential impact of removing a grant from the round can have quite substantial impact on individual researchers and, potentially, the NHMRC's reputation.

3.13 The NHMRC's procedure did not provide consistent screening of applications, and in some instances lacked recording of clear reasons for waiving an eligibility requirement or changing an application's status. The NHMRC recognised deficiencies in its process:

On balance, it appears NHMRC, in having a less than robust eligibility 'system' in place, does not have sufficient grounds to exclude applications....

Ordinarily, NHMRC should not make determinations based on the 'likelihood' of applicant success if appealing the decision to higher authority. However, these cases demonstrate NHMRC does not have a resilient compliance model.⁴⁷

3.14 The result of NHMRC's inconsistent management of the eligibility criteria could be perceived as biased or unfair practice. To ensure the integrity of the grant application process requires the NHMRC to clearly document its implementation, monitoring, and management of non-compliance for application eligibility.

⁴⁷ For the 2008 Project Grant round, the NHMRC set a range of eligibility requirements for grant applications, including a PDF size limit. Initial screening identified twenty-three applications exceeding the limit of which seven were allowed to proceed and sixteen were excluded from the peer review process. The four application, originally excluded, recommended for funding were ranked as category six (must fund) which increased the MREA expenditure by \$1.6 million over three years.

Assessing and selecting grants

3.15 Usual practice in the selection of grants is the establishment of a selection panel composed of appropriately qualified individuals. For 2008 Project Grants the NHMRC established a number of Grant Advisory Groups (GAGs), to ensure an appropriate range of expertise for the review of each application. The GAGs were responsible for the initial review of all Project Grant applications, determining the membership of the GRPs and allocating applications to appropriate assessors and GRPs (see Figure 3.1).⁴⁸

3.16 Each application is allocated two appropriate spokespersons from within the GRP, and two independent external assessors who review and report to the GRP on the scientific content of the application against predetermined selection criteria.⁴⁹

Use of external assessors

3.17 The NHMRC uses external assessors to provide expertise not covered within the GRP and to provide an added level of objectivity.⁵⁰ Ideally, NHMRC intends each application to have two external assessor reports. In practice, however, this was not always the case, particularly when assessors were unable to undertake the assessment or failed to return the reports. Grants may end up with two, one or no external assessments. The NHMRC was unable to provide information to demonstrate how many applications fell into each group.

3.18 No external assessors were used for the 2006 Project Grant round; assessment of applications was done solely by the GRP. The NHMRC did not conduct an analysis or consider the implications of this action.

3.19 The ANAO acknowledges the agency's recent effort to strengthen the external assessment processes. Early in 2009 the NHMRC commenced a review of its assessors list and was working towards establishing a more reliable and extensive register of external assessors.

⁴⁸ The NHMRC appointed an Academy, which replaced the GAGs, for the 2009 Project Grant round.

⁴⁹ The selection criteria are available to applicants and form part of the application form. External assessors and the GRP appraise grants according to the grant selection criteria.

⁵⁰ NHMRC, *Project Grants Peer Review Guidelines for funding commencing in 2009*, p. 2. Other committees and groups are also used to assess specific types of applications. For example, the Project Grants Working Group (PGWG) is an additional review committee sub divided into: the Indigenous Health Review Panel (IHRP); and the Large-scale Clinical Trials Committee (LSCTC).

Grant Review Panels

Composition and role

3.20 The GRPs are responsible for reviewing and ranking the grant applications. The general composition of a GRP is shown in Table 3.1. GRP members are appointed by the NHMRC’s CEO on the basis of advice provided by GRP selectors (in 2008 this was the Grant Advisory Groups—GAGs).⁵¹

Table 3.1

Composition of the Grant Review Panel

Chair	The primary responsibilities are to: assist the GAG coordinator; approve the allocation of members to GRPs; approve the allocation of applications to GRPs; identify and advise the NHMRC of real or potential conflicts of interest; nominate the primary and secondary spokesperson for each application; endorse assessor nominations; and confirm applications considered to be non competitive.
Deputy Chair	The primary responsibilities are to: assist the GAG coordinator and GRP Chair; identify and advise the NHMRC of real or perceived conflicts of interest; act as GRP Chair when GRP Chair is unavailable or declared a conflict of interest; and fulfil the duties and responsibilities of GRP member.
Six members	The primary responsibilities are to: read all applications to be reviewed by the GRP; identify and advise the NHMRC of real or perceived conflicts of interest; inform the Chair and Secretariat of any issues arising during meetings; act as a primary spokesperson for up to 10 applications and secondary spokesperson for up to a further 10 applications; where possible, check that the proposed research is not being funded by any other source; and prepare final report for each allocated application as primary spokesperson. ⁵²

Source: NHMRC, *Project Grant Peer Review Guidelines for funding in 2009*.

3.21 Project Grant applications for commencement in 2009 opened on 14 December 2007 and closed on 15 March 2008. For three weeks during August 2008, the NHMRC conducted GRPs for Project Grants in which 499 panel members assessed 2586 applications.⁵³ The funding available from the MREA for Project Grants commencing in 2009, as endorsed by Research Committee, was \$346.2 million.⁵⁴ Appendix 5 shows the number of fundable versus funded Project Grants.

⁵¹ GRP selectors are accomplished researchers with previous experience and knowledge of the NHMRC peer review process. In 2009, the GAGs were replaced by the NHMRC Academy.

⁵² NHMRC Project Grants Peer Review Guidelines for funding commencing in 2009, p. 2.

⁵³ The NHMRC advised that the discrepancy in the application numbers is due to some referring to standard Project Grants, New Investigator Grants, other funding providers and Development Grants, whereas the 2 586 refers only to standard Project Grants.

⁵⁴ NHMRC Research Committee, Agenda item number 13, p. 1.

Consistency of the selection process

3.22 A critical feature of the grant selection process is consistency in the appraisal of grant applications against clearly defined selection criteria. Assessment criteria should capture all the elements that the NHMRC intends to consider when evaluating the grant applications, to enable selection of grants of highest scientific merit.

3.23 The ANAO assessed whether the NHMRC's review of grants followed sound administrative principles and facilitated effective, merit-based assessment and selection of Project Grants.

3.24 The NHMRC's peer review of Project Grants utilises qualitative assessment criteria with weightings indicating the importance of the criteria (Table 3.2). These criteria provide the framework for the grant application as well as the basis of the grant assessment.

Table 3.2

Selection criteria for Project Grants

Scientific Quality (50 per cent weighting)—this includes the clarity of hypothesis and objectives, the strengths and weaknesses of the experimental design and feasibility.

Significance and/or Innovation (25 per cent weighting)—this includes the potential to increase knowledge about human health, disease diagnosis, or biology of agents that affect human health, or the application of new ideas, procedures or technologies to important topics that will impact human health.

Track Record in Relation to Opportunity (25 per cent weighting)—this includes national and international standing of the applicant(s) based upon their research output (publication record, invitations to speak at international meetings, altered clinical or research practice and grant success) and contribution to their discipline.

Source: NHMRC, *Project Grant Funding Policy for funding commencing in 2009*, p. 12.

3.25 Each grant is reviewed by a primary and secondary spokesperson from the appointed GRP and given a score out of seven for each of the three criteria. All GRP members (excluding the Chair and those declared as having a conflict of interest) consider the application, including the independent assessment (external assessor) and applicant's response, and nominate it a score category by secret ballot. Each grant's qualitative assessment is translated into a quantitative scoring category (see Table 3.3) and a rating is determined by the mean, correct to two decimal places. This ranking then determines the cut off for funding.

Table 3.3

Numerical category and description used by NHMRC

Category	Descriptions
6 – 7	Must Fund
4 – 5	Worthy of funding
1, 2 and 3	Not fundable

Source: NHMRC Research Committee Papers, Item 13 Attachment A–Funding Recommendations for Project Grants Commencing 2009.

3.26 All applications falling within categories 4 to 5 are consolidated into a ranked list. The primary spokesperson provides the Chair with a final report for each application and the Chair must supply this endorsed final report to the NHMRC.

3.27 For the purpose of accountability and transparency, the NHMRC would be expected to adequately document, for each grant application, the key actions taken by external assessors and GRPs, including the reasons for particular scores, selection and funding recommendations.

3.28 However, in examining NHMRC’s records for Project Grants, the ANAO noted significant inconsistency in the detail and extent of reporting by the assessors and GRPs. In particular, assessor scores, translation into final scores and ranking of grants by the GRPs often lacked a clear trail, and adequate explanation of key actions of the GRPs, including reasons for altering scores and reducing budgets, were often absent from reports. Information from GRP meetings, including final scores and budgets, were transferred manually into grant management databases, increasing the risk of translation errors.

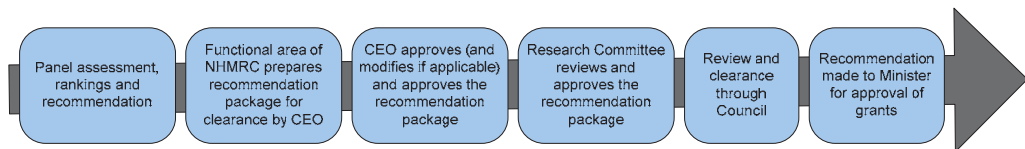
3.29 Given the importance of this area of the NHMRC’s grant administration, the ANAO has made a recommendation that the NHMRC improve the transparency and accountability of its selection process by adequately recording key actions and decisions made by the GRPs. Enhancing the rigour of the selection process will provide the NHMRC with additional confidence that panel decisions are defensible and the process fair and equitable.

Approval of grants

3.30 The NHMRC follows a set process for approval of grants (Figure 3.2). Once the GRPs have allocated final rankings they recommend which applications are fundable to the CEO. NHMRC policy states that Research Committee and Council do not challenge the category or the ranking of individual grants once signed off by the GRP Chairs.⁵⁵

Figure 3.2

Approval of grants



Source: ANAO compiled.

3.31 The CEO can, however, authorise adjustments to the final selection list to take into account the NHMRC's responsibility to fund strategic and priority research areas (for example, Indigenous Health; see Table 3.4). In this regard, the NHMRC may prepare two or more funding scenarios incorporating the GRP selection and NHMRC priorities, for advice and endorsement through Research Committee and Council.

3.32 The CEO is required under the NHMRC Act to make recommendations to the Minister for Health and Ageing for approval of MREA expenditure.⁵⁶ The ANAO examination of the documentation provided to the Minister seeking approval of recommended grants indicated that the specified process was followed. This included the Regulation 10 approval for the forward commitment of funds from the Minister of Finance and Deregulation.⁵⁷

⁵⁵ NMHRC, *Project Grants Funding Policy for funding commencing in 2009*, p. 13.

⁵⁶ *National Health and Medical Research Council Act 1992*, Section 7.

⁵⁷ *Financial Management and Accountability Regulations 1997*.

Table 3.4**Priority areas and cut-off scores: Project Grants for 2009 funding**

Grant Type	Cut-off Score ⁵⁸	No. Apps	No. Funded	Per cent Funded	Total Budget (\$m)	Av Budget (\$m)
Standard Project Grant	5.53	2414	637	26.4	330.1	0.52
New Investigator	4.88	283	70	24.7	27.1	0.39
Indigenous health	4	57	30	52.6	18.9	0.65
Asbestos	5.55	13	3	23.1	1.3	0.43
Complementary & Alternative Medicine	4.07	35	12	34.3	4.5	0.37
Effective Health Care	5.29	213	42	19.7	25.3	0.60
Electro-magnetic energy	4	5	3	60.0	1.1	0.36
Water quality	4.76	8	2	25.0	289.6	0.14

Source: NHMRC Research Committee Papers, Funding Recommendations for Project Grants Commencing 2009.

3.33 In fulfilling the Government's requirements to fund strategic areas, at times, the NHMRC funds grants with scores below the appointed cut-off. For example, GRP cut off scores and recommendations for funding showed that a small number of Project Grants in the 'New Investigator' and 'Indigenous Health' research panels were chosen above higher ranked projects. In such instances, the NHMRC must be particularly careful to document the reasons for funding these grants, and to monitor the grants' performance.

Feedback to unsuccessful applications

3.34 Accountability is enhanced by transparent process and the availability of properly documented information. There are two main opportunities for feedback on the grant process. The first is at the assessment stage, with provision of an assessors report and opportunity for applicant response. The second is at the completion of the grant round.

3.35 Assessor feedback was a critical process for many grant applicants, providing them the opportunity to respond to assessor comments and clarify aspects of their application. Final feedback to NHMRC applicants, however, contained little information to assist the applicant in understanding their performance in the selection process, or how to improve future applications. Researchers commented to the ANAO that the NHMRC's feedback to

⁵⁸ The cut-off was determined on the basis of normalised scores.

applicants in the past had not been particularly useful, as it did not concentrate on informing the applicant of strengths and weaknesses in the application.⁵⁹

3.36 Providing feedback to applicants is an important part of the grant process and when done well, should benefit both researchers and the NHMRC. There would be greater benefit if the feedback provided to successful and unsuccessful applicants more specifically addressed the selection criteria, and with adequate detail to be more informative to the applicant. Reasons for not selecting applications should be made available to the relevant applicants if requested. This will assist applicants in preparing future applications.⁶⁰

3.37 The NHMRC affirmed that it had revised its template for final GRP reporting in 2008 and again in 2009 and issued revised instructions to GRP members and Chairs regarding requisite obligations and the NHMRC's expectations of final reports.

Recommendation No.2

3.38 To improve the transparency and probity of its peer review process, the ANAO recommends that the NHMRC:

- monitor the incidence and reasons underpinning the allocation of Grant Review Panel (GRP) members' application to their own GRP for assessment; and
- enhance the documentation of key actions and recommendations of the GRPs, in order to provide a defensible record of the selection proceedings and strengthen feedback to applicants.

NHMRC response: *Agreed.* In 2009 NHMRC established an independent Academy of Assessors responsible for allocating applications to panels and independent external assessors. Independent observers also continue to monitor NHMRC's peer review activities—including management of conflict of interest. Further action is underway through administrative preparation for the 2010 application round and the implementation of NHMRC's new Research Grant Management System.

⁵⁹ ANAO consultation with Administering Institutions, April 2009; and ANAO survey May 2009.

⁶⁰ ANAO, *Better Practice Guide—Administration of Grants*, May 2002.

Identifying and managing conflict of interest

3.39 Actual, perceived or potential conflicts of interest can be damaging to an organisation. It is, therefore, important for agencies to manage instances of conflict of interest by implementing appropriate guidelines that clearly state what constitutes a conflict of interest and procedures to mitigate risks. Recent guidance on this includes:

There can be different degrees of conflict of interest, both personal and role-related. They can range from the trivial to the material, either by nature or perceived impact. Some should, and can, be avoided; others cannot. However, they must be identified and managed appropriately.

The perception of a conflict of interest or of improper behaviour can be as damaging as the reality if not quickly corrected. The critical factor is that officials must not only behave ethically, they must also be seen to behave ethically.⁶¹

3.40 An agency's approach to managing conflict of interest needs to take into consideration the different aspects of the conflict and their associated level of risk, within the context of the agency's business and situation. In this context, the ANAO examined how the NHMRC was identifying and managing actual, perceived and potential conflicts of interest. The assessment was largely confined to the grant selection process, and considered the NHMRC's implementation of its own policies and guidelines, current practice, and the NHMRC's ability to monitor any impacts of conflict of interest on peer review and grant selection.⁶²

NHMRC's management of conflict of interest

Inherent limitations of the peer review process

3.41 During the audit, views were expressed by the NHMRC and university stakeholders that conflicts of interest were an unavoidable consequence of the peer review process, and that this is particularly the case in Australia owing to

⁶¹ The New South Wales Independent Commission Against Corruption (ICAC), and the Queensland Crime and Misconduct Commission (CMC), *Managing Conflicts of Interest in the Public Sector*, November 2004.

⁶² ANAO, *Better Practice Guide—Administration of Grants*, May 2002.

the relatively small pool of researchers available to assess applications in specialist areas.⁶³

3.42 The NHMRC guidelines highlight this dilemma:

Membership of these working committees is usually drawn from the senior health and medical research community to ensure the advice provided has the weight of currency, expertise and deliberation. While this selection criteria ensures the strength of these working committees, there is a recognised weakness in that members will have intrinsic relationships with the research community and a familiarity with the industry that at times compromise their impartiality in discussion and objectivity on issues.⁶⁴

Guidance on conflict of interest

3.43 Given this inherent weakness, there is an expectation that peer review will entail the best possible approach to minimise the effects of conflicts of interest on the grant selection process. In addressing this, the NHMRC has developed policies and guidelines to help manage conflict of interest situations that might arise in the course of its various activities. These include: *Conflict of Interest Policy* for working committees; funding policies for the NHMRC's various grant schemes; and *Peer Review Guidelines for Conflict of Interest*.

3.44 Consistent with ANAO guidelines, the NHMRC's Conflict of Interest Policy (2008) defines conflict of interest as:

where personal, financial or other interest has the potential to compromise, or have the appearance of compromising, professional judgement and the ability to make unbiased decisions.⁶⁵

3.45 The policy also describes the types of conflict of interest that are relevant to grants selection processes, and includes examples (see Appendix 6). Under the NHMRC's policies and guidelines, all persons involved in the review of grant applications are required to disclose any actual, perceived or potential conflict of interest to the NHMRC. The NHMRC provides Peer Review Guidelines to assist members of the GRPs in their review of applications and are intended to be read in conjunction with the NHMRC's

⁶³ Similar views were expressed in a previous audit of the Australian Research Council; ANAO, *The Australian Research Council's Management of Research Grants*, Audit Report No. 38, 2005–06.

⁶⁴ NHMRC *Conflict of Interest Policy*, July 2008, p. 1.

⁶⁵ NHMRC *Conflict of Interest Policy*, July 2008, p. 1; ANAO *Better Practice Guide—Public Sector Governance*, August 2003.

Funding Policy.⁶⁶ Information is also available to applicants to assist them in preparing and submitting their applications.⁶⁷

Responsibilities and waivers

3.46 Throughout the grant selection process, it is the responsibility of the Chair of each GRP and the CEO to ensure that all conflicts of interest are dealt with appropriately.⁶⁸ The NHMRC process is based on the premise that:

assessing conflict of interest involves making a judgment about the level of conflict. The judgment is based on the likelihood of the conflict occurring and the consequence if it does occur.⁶⁹

3.47 The NHMRC's *Conflict of Interest Guidelines* refer to unique situations which enable the CEO to re-consider the degree of action taken for a GRP member's conflict. The CEO may, in extenuating circumstances, allow the presence, participation and voting of a member who has extreme conflicts of interest. This approach represents a high risk for the NHMRC, especially where the member stands to gain from the outcome. Other options such as alternative panels, external assessors, or reviewers, could be used instead of relegating the conflict of interest standards.

Conflict of interest declarations

3.48 The ANAO examined the GRP Conflict of Interest declarations for the 2007 and 2008 Project Grants rounds (grants commencing in 2008 and 2009 respectively). The declarations were quite limited, usually concerning non-pecuniary interests such as direct personal and professional associations. Other potential conflicts of interests, as listed in Table 3.5, were rarely acknowledged.

⁶⁶ NHMRC *Project Grants Peer Review Guidelines for funding commencing in 2009*.

⁶⁷ NHMRC *Project Grant Funding Policy for funding commencing in 2009*.

⁶⁸ NHMRC *Program Grant Funding Policy for Funding Commencing in 2010*, p. 6.

⁶⁹ Op. cit. NHMRC July 2008.

Table 3.5**List of potential conflict of interests**

- Financial and economic interests, such as debt, assets;
- Family or private businesses;
- Secondary employment commitments;
- Affiliations with for profit or non-profit organisations, and other personal interests;
- Obligations to professional, community, ethnic, family or religious groups in a personal or professional capacity;
- Enmity towards or competition with another individual or group;
- Significant family or other relationships with clients, contractors or other staff working in the same (or related) organisation;
- Highly specialised skills in an area where demand for the skills frequently exceeds supply; and
- Specific future employment prospects or plans.

Source: The Hon. Jerrod Cripps, *Leadership and Managing Conflict of Interest*, Public Administration Today, Issue 3: March–June 2005.⁷⁰

3.49 In terms of managing GRPs and the selection process, the ANAO concluded that the NHMRC would benefit from enhancing its conflict of interest guidelines to provide greater clarity on the types of conflict of interest and situations in which these are relevant. There would also be advantage in the NHMRC systematically monitoring conflict of interest declarations for compliance with its guidelines. Such action would improve assurance of the integrity of the GRP operations and the overall contestability of the grant selection process.

The contestability of peer review

3.50 As mentioned above, the NHMRC's grant review process necessarily uses accomplished researchers who themselves may qualify for NHMRC grants. The grant selection model thus requires the NHMRC to implement adequate provisions to manage actual, perceived and potential conflict of interest and to verify the integrity of the selection process.⁷¹ This becomes a particularly pertinent issue when the proportion of all panel members receiving grants is considered.

⁷⁰ ANAO, *Better Practice Guide—Fairness and Transparency in Purchasing Decision—Probity in Australian Government Procurement*, August 2007, p. 24.

⁷¹ Conflict of interest occurs when individuals are influenced by personal interest while doing a public duty. Such a conflict can arise during a grant review process where a panel member, through their particular association circumstances, has an affiliation or conflict that might prejudice or be seen to prejudice their partiality.

3.51 The NHMRC endeavours to allocate grants in such a way as to minimise conflict of interest. Documentation to individual GRP members excludes them from assessing an application for which a conflict of interest has been declared. Members are directed to leave the GRP meeting when grants for which they have declared a conflict of interest are being discussed. NHMRC staff also monitor the GRPs and are expected to report any unusual or non-compliant occurrences.

3.52 Despite these measures, evidence sourced during the audit and concern expressed by some NHMRC stakeholders, indicated that the NHMRC's management of allocating grants to assessors and GRPs would benefit from additional monitoring, supervision and system controls. For grants commencing in 2009, 247 Project Grants were funded to GRP members (listed on the grant as Chief Investigators), accounting for \$132 million of the \$357 million total funded for grants commencing in 2009.

3.53 Irrespective of the number of GRPs in each specialist area, a GRP member's grant application may be assessed and recommended for funding by their own panel. Out of the 499 GRP members involved in the Project Grant selection, 72 members were on the same panel as their application. Of the 42 GRP Chairs, 17 (41 per cent) were listed as Chief Investigators (CIs) on Project Grants awarded funding. This was slightly higher for the 42 Deputy Chairs, with 22 (53 per cent) listed as CIs on Project Grants awarded funding.

3.54 There would be benefit in the NHMRC monitoring and documenting its allocation of grants to assessors and GRP more astutely. Monitoring activities should include:

- for each grant round, examine the incidence of the allocation of GRP member's grants to their own GRPs, and the reasons behind these occurrences. Monitor these over time to ensure the NHMRC's continuous improvement in the transparency and integrity of the selection process;
- monitor the selection process for any unusual trends or outcomes; and
- clarify the role of assessors and implement consistency in incorporating external assessments into the final grant scores and selection.

3.55 It would also be prudent for the NHMRC to revise its current selection process and consider alternative selection procedures where panel expertise is scarce, to reduce the incidence of GRPs sitting on panels where their own grants may be assessed. Options might include:

- the NHMRC implementing greater scrutiny in allocating grants to GRPs and assessors;⁷²
- more extensive use of external assessors, rather than review panels, for fields where expertise in highly specialised fields are difficult to engage for GRPs; and
- greater use of multi-disciplinary committees to reduce the number of GRPs required and the risk of possible partiality.

3.56 By implementing such measures, the NHMRC would improve the transparency of the grant selection process, conserve the probity of the peer review/GRP model and protect the NHMRC's reputation.

Recommendation No.3

3.57 In order to improve the identification and management of conflict of interest, the ANAO recommends that the NHMRC:

- amend its conflict of interest guidelines to strengthen guidance on acceptable and unacceptable conflicts of interest; and
- develop a risk-based strategy for more systematic monitoring and review of conflict of interest compliance. This should include implementing a register of private interests and protocols for its operation and review.

NHMRC response: *Agreed.* Action is underway to amend NHMRC conflict of interest guidelines and implement these for the 2010 funding round. This will include developing monitoring and review systems.

⁷² The NHMRC advised that allocation of grants to assessors and GRPs should be aided by the new Grant Management System, which was under development at the time of the audit, and through a revised assessors list, which was also under review at in 2009.

4. Post–Award Grant Management

This chapter examines the effectiveness of NHMRC’s post-award management of grants under the Deed of Agreement with Administering Institutions.

Accountability in grants administration

4.1 Once grants are awarded to successful applicants, it is the responsibility of the NHMRC and the Administering Institutions to manage the grants according to agreed principles and processes, as set out in the relevant Deed of Agreement.⁷³ The expected standard of accountability through agreements includes:

regardless of the form, formal agreements should protect the Commonwealth’s interests in ensuring that public money is used for the intended purpose, define project deliverables, schedule payments (according to progress), and specify progress reporting requirements and acquittal procedures.⁷⁴

4.2 To this end, effective post-award management of grants depends on the integration of appropriate terms and conditions (derived from an analysis of identified risks and needs), defined processes, and a systematic monitoring regime.

4.3 Important elements for accountability in the NHMRC’s management of grants include: making the correct payments; monitoring progress of grants according to agreed milestones; processing variations to the conditions of grants; ensuring that financial statements and acquittals are submitted; and making sure that progress and final reports on project outcomes are of suitable quality and completed on time. Of particular importance in post-award management is compliance with sections 44 and 47 of the *Financial Management and Accountability Act 1997* (the FMA Act).⁷⁵

4.4 The ANAO examined the NHMRC’s post-award management of grants, including compliance activities, with particular consideration of:

⁷³ Refer to Chapter 2 for further information about the Deeds of Agreement.

⁷⁴ ANAO *Better Practice Guide—Administration of Grants*, May 2002, p. 51.

⁷⁵ *Financial Management and Accountability Act 1997*, Section 44 and 47. Section 44 states ‘A Chief Executive must manage the affairs of the agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible’, and Section 47 provides the mechanism for the recovery of debts owing to the Commonwealth.

- the post-award environment;
- NHMRC’s financial management of grants; and
- compliance with reporting requirements for individual grants.

4.5 The ANAO’s assessment was undertaken with the knowledge that the NHMRC was aware of significant shortcomings in its post-grant administration of grants, and that it had recently commenced a range of measures to address these. The NHMRC was making progress in several areas during the audit.

The post-award environment

4.6 Figure 4.1 illustrates the key steps in the NHMRC’s post-award management of grants, as specified in the Deed of Agreement. The Administering Institutions and the NHMRC each have obligations in implementing post-award conditions and in actively pursuing instances of non-compliance. The ANAO’s assessment of NHMRC activity against expected areas of compliance for post-award functions is shown in Table 4.1.

Figure 4.1

Key steps in the post-award management of grants



Source: ANAO from NHMRC information. The process is based on Project Grants, but is generally applicable to other NHMRC grant programs.

Table 4.1

Summary of ANAO analysis: compliance with key requirements of the Deed of Agreement

Requirement	ANAO findings/comments
Deed of Agreement (Deed) signed by both parties	While most of the Deeds on file are signed, multiple versions of the Deed are in use across the Administering Institutions (AIs). Schedules and other key attachments to the Deeds are incomplete. This makes determining the entirety of the Deed and any monitoring of compliance with the Deeds difficult. The NHMRC needs to develop reliable provisions to allow updating of the Deed for ongoing grants, and maintain complete documentation for each AI's Deed/s.
Deed contains schedule of the grants awarded	Verification of grants awarded to AIs under each Deed was problematic, as schedules were not always present, and when they were, did not consistently or clearly specify the grant scheme or awarded grants. Improvements to records management and completeness of documentation are required in order for the agency to fully comply with legislation (for example, the Archives Act and FMA Act) and guidelines pertaining to recording of decisions and key actions.
Variations to grant recipient's situation or use of grant to be notified to the NHMRC	Processes are in place to manage variations to grants through the Research Management Information System (RMIS). Web-based information and forms are available to AIs. RMIS has verification points for approval of variations according to delegation, and the NHMRC Chief Finance Officer has sign-off for variations that affect funding. However, in general, the process is reliant on researchers notifying the NHMRC of changes. As NHMRC does not audit the AIs, it is not in a sound position to detect fraudulent acts.
Administering Institution provides the NHMRC with annual financial statement for each grant in March	Persons other than AI Chief Finance Officer or finance officers have provided certifications for financial statement forms.* Frequent non-compliance. Policy regarding non-compliance and possible sanctions was being developed during the audit.
Progress report against milestones	The NHMRC is unable to accurately determine the compliance rate due to a lack of monitoring and records.
Final report at completion of project	The NHMRC did not have effective systems in place to monitor the receipt/non-receipt or quality of these reports. The NHMRC expects to address this shortcoming by centralised receipt and monitoring of reports through the new grant management system, once implemented.
Administering Institutions provide an acquittal statement to the NHMRC within six months of each grant's final payment	An unreliable process over several years has led to a backlog of non-acquitted grants. The NHMRC has implemented procedures to improve its collection of acquittal statements. In November 2008, the NHMRC contacted AIs to request copies of missing acquittal statements.** Currently, acquittals are completed manually, a very time consuming process with a high risk of error.

Source: ANAO analysis of compliance with conditions of the Deeds of Agreement.

Notes: *The Deed of Agreement requires that Chief Financial Officers (or their delegates) of funded Administering Institutions are to certify the annual financial statement forms and final acquittal forms that funds have been expended in accordance with the Deed.

***Missing acquittals' included those not received from Administering Institutions and those misplaced and/or not processed by the NHMRC.

4.7 The administrative requirements of the Deeds of Agreement are implemented to varying degrees of consistency, with overall monitoring and follow-up of many reporting requirements lacking in recent years. The NHMRC has no systematic monitoring in place to determine the degree of compliance or non-compliance of Administering Institutions and currently imposes no penalties for non-compliance with reporting requirements under the Deed of Agreement.

4.8 The NHMRC acknowledged that historically it had focussed on the selection and funding of research, and less so on the post-award management of grants. Previous ANAO and internal NHMRC audit reports have alerted the agency to shortcomings in its post-award grants administration.⁷⁶ In response to these findings, the NHMRC has, since October 2008, commenced several activities and projects to improve its administrative practices (Table 4.2).

Table 4.2

Action taken by NHMRC since 2008 to improve post-grant management

- Extensive follow-up of several years of outstanding financial and acquittal statements, and commencement of the acquittal and reconciliation of grants.
- Conducted a substantial file audit to establish outstanding reporting requirements under the Deed of Agreement. Documentation requested from Administering Institutions.
- Implemented a project to develop a new Research Grant Management System (RGMS) to replace the Research Management Information System (RMIS) (see Chapter 5).
- Realignment of agency functions, including establishment of a section with primary responsibility for post-award management.
- Implementing a new Financial Management Information System (FMIS) in 2009.
- Moving debt recovery from the Department of Health and Ageing to the NHMRC. Expected to commence in July 2009 with the implementation of the NHMRC's new FMIS.
- Development of an extensive Draft Procedures Manual (post award) was undertaken in 2008–09.
- Developing a compliance framework and policies for management of post-award compliance and possible sanctions for noncompliance (see Chapter 2).

Source: Compiled by the ANAO based on information from NHMRC documents and interviews.

4.9 Collectively, the above actions have led to visible changes in the NHMRC's post-award management procedures, and have generally strengthened the agency's focus on post-award management of grants. However, to achieve a suitable level of assurance will require the NHMRC to sustain this focus and continue to progress other measures to support key processes of financial management of grants (including debt recovery and reconciliation of grants). These are discussed below.

NHMRC's financial management of grants

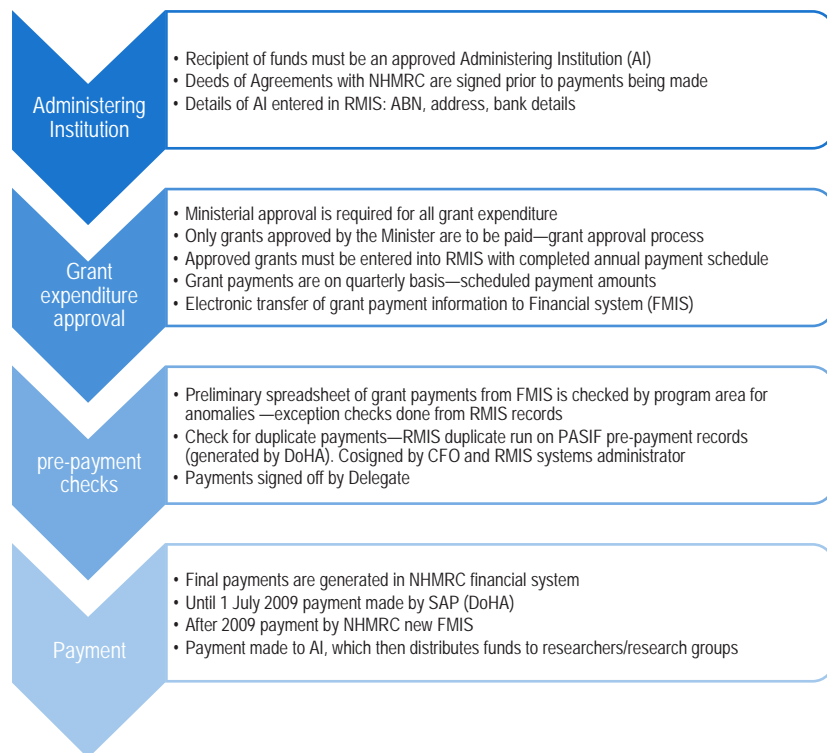
4.10 Processes for the NHMRC's financial management grants are outlined in Figure 4.2. Grant payments are made quarterly to Administering Institutions

⁷⁶ RSM Bird Cameron, *Initial Review of Grant Management in National Health and Medical Research Council*, October 2007.

(in advance in respect of all Approved Budget components); the first payment made on the nearest quarter to the commencement date of the grant.

Figure 4.2

NHMRC’s financial management of grants



Source: Compiled by the ANAO from NHMRC documents and interviews.

4.11 Payments are generated in the NHMRC’s Finance system. This is populated with information (payment schedules) from RMIS. The two systems are not directly linked, so various downloads and manual checks are employed to ensure that RMIS payment information is correctly translated into the Financial system. For example, each month a manual check is made of ‘exceptions’ (such as transfer of a grant between universities, changes in grant conditions or a delay in start date) which impact on payment of the grant. An electronic check for duplicate payments is also performed prior to each payment run and reviewed against RMIS. This is signed off by the NHMRC’s Finance and IT area.

Quarterly payments

4.12 While the Deeds of Agreement specify quarterly payments to Administering Institutions, an examination of the NHMRC's processes found that:

- the NHMRC had not routinely provided a schedule of the quarterly payment date to Administering Institutions;
- quarterly payments were often delayed, without adequate explanation from the NHMRC; and
- the Administering Institutions were not regularly provided with a full list of their respective grants, which made tracking and checking of grants difficult. However, this did commence in March 2009, with institutions receiving spreadsheets listing their grants and payment breakdowns for the year ahead.

4.13 The ANAO noted that the January 2009 payment did not reach Administering Institutions until March 2009, and some Project Grant payments were still not made in early April. The NHMRC reported that this delay was related to an IT problem—an outage of the RMIS system that uploads to the FMIS for payments.

4.14 There would be benefit in the NHMRC keeping the Research Administration Offices better informed of delays in payments, and examining mechanisms for maintaining business continuity of payments in the event of IT problems. To assist in the management of funds, the ANAO suggests that each year the NHMRC provide Administering Institutions with a schedule indicating the dates for quarterly payments, and include this as an NHMRC obligation in the Deed of Agreement.

Duplicate payments

4.15 The ANAO has previously queried the NHMRC regarding duplicate payment of grants.⁷⁷ These occur for a range of reasons including limitations in system controls, user errors and irregular data cleansing. The RMIS contained a substantial number of duplicate records, and it was not clear that NHMRC processes had sufficient checks and controls to ensure that these could not translate into duplicate payment records.⁷⁸

4.16 Documentation of the payment process was minimal, and tracking possible duplicates was made difficult as there was no universal identifier between the RMIS and the FMIS. In addition, no reconciliation of the two systems was performed. An electronic check for duplicates was run prior to each payment run. However, the basis of the process was not adequately documented, and it was unclear whether the methodology was able to detect all incidences of multiple payments. A sample of reports examined during the audit showed the same duplicates listed from month to month. The NHMRC commented that duplicates were not removed from the system due to the cost involved.⁷⁹

4.17 Duplicate records and the risk of duplicate payments remain areas of high risk for the NHMRC. The NHMRC anticipates that its systems development initiatives will help to reduce these risks (see Chapter 5).

Recovery of funds

4.18 Section 47 of the FMA Act requires Chief Executives to pursue debt recovery, including the recovery of unused and misused grant funds.⁸⁰ The NHMRC may perform debt recovery where:

- unspent grant funds at completion of the grant—under the Deed of Agreement, the Administering Institution must pay to the Commonwealth any amount not committed or expended within six months after the end of the grant's period of funding;

⁷⁷ ANAO Assurance Audit Services Group, NHMRC Audit 2006–07.

⁷⁸ Data cleansing performed by NHMRC during the audit found a substantial number of duplicate records (refer also to Chapter 5).

⁷⁹ The Department of Health and Ageing (DoHA) is the system administrator and could be requested to remove the records under the Service Level Agreement (SLA) with NHMRC, but at a cost (detailed information not provided by the NHMRC during the audit).

⁸⁰ ANAO *Better Practice Guide—Administration of Grants*, May 2002.

- termination of grants post quarterly advance payment;
- transfer of grants between Administering Institutions;
- accidental overpayment of grants to Administering Institutions; and
- research misconduct.

4.19 The ANAO examined the NHMRC's process for recouping funds. Debt recovery services were provided by DoHA under the Service Level Agreement (SLA).⁸¹ Within these arrangements, the NHMRC was responsible for generating invoice requests to enable DoHA to recoup unspent funds or debts.

4.20 In order to generate an invoice, the NHMRC requires the Administering Institution to provide a final acquittal statement. These are normally required under the Deed of Agreement within six months of the completion of the grant. As at March 2009, the NHMRC had 502 missing or outstanding acquittal statements. The NHMRC stated that it cannot instigate corrective actions until these acquittal statements are received. As a result, the NHMRC cannot ascertain the amount of debt that has been accumulated.

4.21 The NHMRC did not maintain a register to track the status and progress of debt recovery. An examination of hard-copy records dated between August 2008 and January 2009 demonstrated weaknesses in debt recovery processes:

- a substantial number of debt recovery invoice request records had missing RMIS details and/or unconfirmed reconciliation;
- 17 debt invoice requests sent to DoHA between the NHMRC had no record of invoices generated by DoHA. The NHMRC had to re-request invoices for each of these; and
- NHMRC payments and invoicing records showed a series of payments made to the wrong Administering Institutions. This had led to prolonged or complicated recouping of funds by the NHMRC (see Table 4.3 example).

⁸¹ The process was expected to transfer to the NHMRC with the introduction of the new FMIS in 2009.

Table 4.3

Example: Payment error to Administering Institutions

On the 4 December 2006, University A submitted an invoice to the NHMRC. The NHMRC responded stating the invoice was paid, however it had missed the last payment run for 2006 and would therefore not be paid until 23 January 2007.

In May 2007, University A contacted the NHMRC again notifying of this outstanding invoice.

The error had occurred because the NHMRC was required to make a one off payment to University B for the transfer of a grant recipient. To do so, the Administering Institution on the grant management system (RMIS) was changed to University B. This was not changed on the RMIS when the payment to University A was generated. Therefore, the NHMRC had to pay the invoice for University A and recoup the funds provided incorrectly to University B.

Source: Compiled by ANAO from NHMRC records.

4.22 Debt recovery was generally an area that would benefit from a more structured approach. Poor compliance and monitoring in this area presents a significant risk that misspent or unspent grant funding is not identified, or that excess funding is not recovered in a timely manner from Administering Institutions.

4.23 The NHMRC had considered weaknesses in this area. Debt recovery is one of the services being assumed by NHMRC in 2009, as it moved away from the SLA with DoHA. Notwithstanding this, there are measures that the NHMRC should consider to strengthen its accountability and efficiency in debt recovery processes. In particular, the NHMRC needs to work as a whole internally to make sure that debt recovery principles and procedures are:

- appropriately documented and understood across the NHMRC;
- monitored electronically to ensure efficient and discernible tracking of the status of debts;
- supported by the new grant management and financial systems by accurate and timely exchange of information and reporting;
- incorporated into post-award monitoring activities and compliance activities; and
- communicated to stakeholders, particularly by integration of explicit requirements into the Deed of Agreement.

4.24 The nature and extent of system and process improvements will be informed by the significance of debt.

Reporting requirements for individual grants

4.25 Under the Deed(s) of Agreement, each Administering Institution is responsible for ensuring that the required reports for each grant are submitted on time and are of suitable quality. Reporting falls largely into two categories, financial and quality.

Financial reports and final acquittals

4.26 The Deed of Agreement require the Administering Institutions to provide two types of financial report for individual grants (Table 4.4). While it is the responsibility of the Administering Institution to comply with the Deed, effective post-award management of NHMRC grants requires both the Administering Institutions and the NHMRC to actively pursue fulfilment of the conditions specified in the Deeds of Agreement.

Table 4.4

Requirements for financial reports for individual grants

- **Annual Financial Reports**—by 31 March of each year (or upon written notice by the Commonwealth) a written Annual Financial Report on each grant relating to the previous calendar year is required. The reports are to be in a financial statement form specifying the total funds received and expended by the Institution and be certified by the Chief Financial Officer or their delegate that the funds were expended in accordance with the Deed of Agreement.* The financial statements must include information regarding the funds institutions have received and spent, and outline any surplus or deficit they are carrying forward to a future period.
- **Grant acquittal documents**—the NHMRC requires final grant acquittal documents to be prepared within six months of a grant's completion (or final payment). The acquittal document should detail all funding received and the spending during the grant period.

Source: NHMRC Deeds of Agreement.

Notes: *As indicated in the Deed of Agreement Version 4, NHMRC Research Funding Schemes, p.12 and Deed of Agreement Version 5, NHMRC Researcher Support Schemes, p.12.

4.27 For the last several years, the NHMRC has performed little substantial follow-up on reporting requirements under the Deeds of Agreement (Table 4.5).

4.28 After a 2008 NHMRC Internal audit which identified over 1000 outstanding acquittal statements, the NHMRC conducted an examination of active grant files to establish the extent of missing documentation (Table 4.6). It has since sought the requisite documentation from Administering Institutions.⁸²

⁸² ANAO consultation with NHMRC employees and stakeholder consultation.

Table 4.5

History of backlogs of financial reports and acquittal statements

- **Backlog of acquittals recognised in 2003:** Acquittal of NHMRC grants has been of concern since 2003, as raised in the Department of Health and Ageing Internal Audit Committee.
- **Reporting of backlog by ANAO in 2004:** A 2004 ANAO Audit Report, *Governance of the National Health and Medical Research Council* reported a backlog of approximately 11 000 award acquittal statements between 1991 and 1997. This represented a serious deficiency in the accountability of Australian Government funds.⁸³
- **Progress in addressing backlog in 2004:** In June 2004, the NHMRC reported to the DoHA Audit Committee, stating it *continued to make strong progress in addressing acquittal backlog and strengthening the award management process.*
- **Backlog of financial reports and acquittals in 2008:** In 2008 an NHMRC internal audit report of the grants program reported *a large number of financial reports, progress reports and final acquittal statements due from Administering Institutions are currently outstanding. As at September 2007, there were in excess of 1,000 final acquittal statements outstanding for grants completed between 2004 and 2006.*
- **Status at March 2009:** The NHMRC conducted a file audit to determine the extent of outstanding reports. This identified that, as at March 2009, it had:
 - 1232 outstanding or missing annual financial statement for which it was unable to reconcile the grants with the information recorded in the RMIS; and
 - 502 outstanding or unaccounted grant acquittal statements (also see Table 4.6).⁸⁴

Source: DoHA internal audit report.

Table 4.6

Summary of the status of financial reconciliation of NHMRC grants

Date	Final grant acquittal statements outstanding	No. of final acquittal statements received	Annual Financial Statements outstanding	Total grants to be acquitted	No. that can be acquitted (all documents present)
Oct-08	1275		3182	1827	582
Dec-08	969	306	2490	1482	513
Feb-09	559	411	1468	871	313
Mar-09	502	56	1232	834	332

Source: NHMRC Research Administration Section, March 2009.

4.29 The backlog of acquittal statements is a reoccurring issue for the NHMRC and indicative of a systemic weakness in the management of post-award grant management. The NHMRC does not have a centralised or systematic process for monitoring overdue progress and final reports. In part, this can be attributed to limitations in the current RMIS grant management

⁸³ Performance Audit Report No.29, 2003–04, *Governance of the National Health and Medical Research Council*, p. 90.

⁸⁴ The NHMRC commenced the reconciliation of Annual Financial Reports with information contained in the RMIS in December 2008.

system. The new RGMS design is cognisant of this, and will include elements to assist in monitoring of grant reports and acquittals.⁸⁵

Progress and final project reports

4.30 The Deed of Agreement also requires the Administering Institution to provide yearly progress reports within three months of the conclusion for the year and a final report. These reports are a valuable source of information for the NHMRC, in determining:

- whether an individual grant has met its research (scientific, health or medical) objectives; and
- how grants have contributed to the NHMRC's strategic priorities and broader health and medical outcomes.

4.31 Until recently there was no standard format for progress reports, and the NHMRC recorded no assessment indicating if progress was satisfactory. A typical progress report contained little information on the actual progress of the research and the quality and thoroughness of the reports was variable, often just a short letter. Researchers also reported that it would be useful if the NHMRC provided confirmation of the receipt of progress reports, as there had been instances where 'reports have gone missing'.

4.32 Final reports require more extensive information from researchers, and take a considerable time to prepare. A template is available, however, researchers reported to the ANAO that they found the instructions on final reporting 'a little ambiguous' and that more guidance would be appreciated.

4.33 Overall, the NHMRC has no regular or systematic approach to monitor the timeliness or quality of project reports. It also has limited capacity to review the reports and consolidate informative data to assist in analysis against agency outcomes, or to determine if the grant programs are cost effective. The NHMRC recently strengthened its internal staffing arrangements to facilitate the review of final and progress reports. The NHMRC is also considering ways to improve data capture and analysis through the development of the new grant management system (also see Chapter 5).

4.34 Notwithstanding this, the non-receipt of final reports raises questions around future eligibility. For example:

⁸⁵ NHMRC advice and documentation.

- should Administering Institutions with an ongoing record of non-compliance with reporting requirements under the Deed of Agreement be excluded from receiving grants; and
- should individual researchers who consistently do not submit reports be excluded from applying for subsequent grants?

4.35 There are issues of equity that arise if the NHMRC continues to fund those Administering Institutions or researchers who do not comply with the Deed of Agreement. The NHMRC needs to develop a firmer policy for managing this area and ensure that Administering Institutions better inform researchers of their obligations under the Deed of Agreement.

4.36 Overall, the NHMRC is making progress in rectifying shortcomings in its processes and controls for post-award management. Providing the NHMRC can sustain its new systems, these should help to improve key aspects of compliance and performance.

Recommendation No.4

4.37 To improve accountability of grant funds, the ANAO recommends that the NHMRC implement risk-based arrangements including enhanced systems to:

- manage overdue annual financial reports and final acquittal statements;
- recover debt due to overpayments and unspent funds; and
- achieve timely receipt, review and analysis of grants' progress and final reports.

NHMRC response: *Agreed*. Action is underway through implementation of NHMRC's new Research Grant Management System (RGMS). By December 2009, this automated grant system will provide improved control over financial progress and final reporting. The RGMS will include automated blocks to overpayments and support more timely recovering of unspent funds.

5. Systems Supporting Grant Management

This chapter examines the Information Technology (IT) systems supporting the management of NHMRC grants.

5.1 The establishment and maintenance of an appropriate grant management system can deliver significant benefits to an agency handling a large volume of grants. Online application, appraisal and management of grants have the potential to streamline the application and selection process, reduce administrative costs, and increase the transparency of grant administration.⁸⁶

5.2 Electronic tracking of grants pre-award (applications, assessments and selection decisions) and post-award (grant variations, payments, reporting requirements and final acquittals), can assist agencies in monitoring the quality and consistency of their processes, and compliance with legislative and policy requirements. A well-designed system is also a means of generating data for performance and reporting purposes.

5.3 Table 5.1 specifies some attributes of sound grant management systems.

Table 5.1

Attributes of sound grant management systems

- potential applicants can test their eligibility;
- applications can be made, assessed and approved on-line;
- payments to be approved and linked to the financial management information systems;
- progress report milestones flagged electronically and linked to progress payments; and
- generation of management information for evaluation and accountability purposes.

Source: ANAO *Better Practice Guide—Administration of Grants*, May 2002.

5.4 The NHMRC was aware its IT systems did not adequately support its key business of grant administration. Overall, the grant management systems met few of the above criteria. However, at the time of the audit, the NHMRC was progressing a number of initiatives to overcome shortcomings of the existing system. In consideration of this, the ANAO examined the NHMRC's

⁸⁶ ANAO *Better Practice Guide—Administration of Grants*, May 2002, p. 15.

current IT arrangements for grant management, and the its progress in developing a new Research Grant Management System (RGMS) to better meet the agency's needs.

Current IT arrangements in the NHMRC

The Research Management Information System—RMIS

5.5 The NHMRC does not have a single or comprehensive grant management system. However, since its introduction in 2002, the main system for managing NHMRC grants has been the Research Management Information System (RMIS). This system is owned and administered by the Department of Health and Ageing (DoHA) with management terms and conditions incorporated in the DoHA—NHMRC Service Level Agreement (SLA).⁸⁷

5.6 The RMIS is an Oracle based system consisting of 201 data tables. It records information for each research grant, including: the Administering Institution; Chief Investigators; grant type, budgets and special conditions; and the status of the grant.

5.7 The RMIS does not have an Internet interface. In the case of Project Grants, completed application forms (referred to as the 'informed filler') from the NHMRC website are uploaded into the RMIS. Approved budgets are entered manually into RMIS from grant panel records, increasing the risk of processing errors. Other grant programs are managed through various stand-alone databases (Access, Excel and other; refer to paragraph 5.16).

5.8 The NHMRC is able to run queries and produce reports from RMIS, with the use of a search tool, 'Discoverer'. However, the accuracy of reports can be compromised by the amount of incomplete, duplicate or inaccurate data within the RMIS. Data extraction for monitoring and reporting purposes is usually accompanied by a regime of checking and cleansing of data, by electronic and/or manual means. This can be quite time consuming and a resource intensive exercise. In March 2009, the NHMRC found and removed

⁸⁷ The Department of Health and Ageing provided the following response to Chapter 5 of the Proposed Audit Report on the Research Management Information System (RMIS): *'the RMIS grants management system was developed in 2002 whilst the NHMRC was still a division of the department. Since 1 July 2006 NHMRC has been an independent statutory agency. Due to the complex nature of the integration between RMIS and the Department's financial systems, a decision was made to retain the RMIS within the Department's technical environment until such time as the NHMRC could develop an alternative system. The Department understands that the current schedule will result in the transition to a replacement grants management system by 30 June 2010'*.

1964 multiple records from RMIS, as part of an extensive data cleansing exercise.⁸⁸

5.9 Multiple entries can inflate RMIS statistics, increase the risk of making duplicate grant payments, and cause confusion when updating grant records or processing grant variations. It is therefore important that the NHMRC develops a strategy for data integrity of the RMIS database for as long as the system is used.

5.10 Accurate entry and management of grant information is also critical in maintaining an accurate data system. From a grant management user's point of view, the RMIS is not overly complex in principle, and the front-end (user interface) is reasonably logical and easy to follow given adequate instruction. However, limited documentation on the RMIS and a general lack of understanding of its operation by staff was evident. This may have contributed to the large amount of incorrect or obsolete data within the system.

5.11 In looking forward to implementation of a new RGMS, the NHMRC needs to overcome weaknesses in this area. This will mean developing an adequate training program, and a more integrated end-to-end processing manual incorporating key principles of pre-grant management and data maintenance.⁸⁹ The phased development of the RGMS affords the NHMRC an opportunity to re-examine its training needs and take appropriate steps to document all key procedures, to strengthen its performance in grant and data management.

Lack of compliance tools

5.12 Of particular concern with the RMIS was its inability to monitor or flag inconsistency or non-compliance with the NHMRC's legislative and policy requirements. For example:

- the RMIS had no capacity for monitoring progress or final project reports, so follow-up of late reports was not system prompted. This increases the risk of delays or oversights;

⁸⁸ This data cleansing was to remove multiple records based on identity. It did not encompass identification or removal of duplicate or multiple entries due to other causes.

⁸⁹ There was no grant processing manual per se. The NHMRC had developed a draft Post-award grant management procedures manual, but this did not cover pre-award processing of grants. Procedures were often more informal and locally managed, according to the grant program.

- while grant rules exclude researchers from holding more than six Project Grants, RMIS could not reliably be used to monitor or control this rule.⁹⁰ No blocking facility or flags were built into the system; and
- rules excluding Program Grant recipients from holding other NHMRC grants were also not built into the system.

5.13 Time consuming individual searches could be used to check such compliance, but this was not reliable given the deficiencies in RMIS data and the large number of data bases used for grants other than Project Grants.

5.14 The inclusion of system controls to assist the NHMRC in enforcing legislative and policy requirements would be of benefit in terms of accountability, equity and appropriate allocation of grant funds. The ANAO has made a recommendation that specifications for the new grant system include appropriate controls to discourage and detect non-compliance with legislative and policy requirements (as indicated above) and that the system design includes provision for blocking grant applications in breach of grant requirements.

5.15 The RMIS also has many shortcomings as a grant management system, which impact on sound financial management practices. In particular:

- payment of grants should not proceed in instances where ethics approval is outstanding. However, there was no mechanism in RMIS to impose a condition or a payment block to prevent payment in the absence of ethics approval. If paid, these grants are in breach of the *National Health and Medical Research Council Act 1992* (section 51(3)) and also could constitute an unauthorised payment of funds, non-compliant with the *Financial Management and Accountability Act 1997*;
- RMIS can not record debt recovery (see Chapter 4);
- RMIS contains incorrect totals for some grants (see Table 5.2); and
- only one financial year schedule (funding) is held in RMIS, although grants usually run over several years. This causes limitations with carry-over of funds between years. It also means that whole of grant life financial analysis is not possible within the RMIS.

⁹⁰ Researchers are only permitted to hold six Project Grants as a Chief Investigator. They may, however, be involved with other grants in another capacity, for example as non-CI researcher or collaborator.

Table 5.2**Examples of data weaknesses in RMIS**

Example 1: A researcher transfers from Institution A to Institution B. The sum of \$35 000 has already been paid to institution A. This is recovered and the same sum (\$35 000) is paid to Institution B. RMIS will show \$35 000 against both Institutions—A and B. The NHMRC reported that these instances are difficult to identify and correct in RMIS.

Example 2: A researcher is awarded a three year grant with a yearly budget of \$120 000, commencing in 2007. The NHMRC approve a delay of the start date of six months, resulting in expenditure of only half of the first year's budget. Unspent funds of \$60 000 are added to the next following year's budget, but the previous year's full budget still remains in RMIS. This causes an incorrect (additional \$60 000) total grant budget. The NHMRC reported it could not correct these amounts.

Example 3: A grant has \$50 remaining in its final year's budget. No reconciliation documents are received from the Administering Institution. The grant remains in RMIS with \$50.

Source: ANAO, based on RMIS information, with \$ amounts altered to make cases anonymous.

Use of other data bases

5.16 The RMIS was originally established for management of Project Grants, but has since been modified to accommodate other grant programs. However, there are many grant programs, as well as elements of Project Grant management, that are external to the RMIS environment. Thus, in addition to the RMIS, the NHMRC utilises a large number of local databases, often program or function specific, for managing different aspects of their grant management functions.

5.17 The NHMRC estimated the number of databases it used in grants management at around 30.⁹¹ Some examples are illustrated in Table 5.3. Most of these databases were created to supplement the RMIS, or to create simpler working environments for key grant tasks, such as managing the assessment of grants, setting up Grant Review Panels (GRPs), or monitoring reporting requirements.

⁹¹ This was an improvement on a past NHMRC figure, which estimated as many as 60 other databases in use.

Table 5.3**Examples of additional grant management databases**

Database	Use
MREA database	Financial and modelling data. Relies on data downloaded from RMIS. The MREA does not exactly reflect the funding amounts in the RMIS.
Deeds database	Records current Deeds of Agreement for each Administering Institution. Makes reference to Deed hard-copy file number.
Capacity Building Grants	Functionally similar to Program Grants database.
Program Grant database	An Excel spreadsheet. Not in use this year, but provides historical records.
Training Awards database (peer review/assessor)	Contains application details and assists in tracking applications under peer review.
Continuing grants database	Contains 5718 records, of which approximately 2500 are historical grants.
Project Grants Database (2008)	New database copied for each year. Contains details of applications, assessors and grant review panels. Information from Grant Review Panel meetings is manually entered into the database. ANAO noted that funding schedules are not populated.

Source: NHMRC interviews and Data Migration strategy.

5.18 The use of such supplementary databases is not desirable, as they introduce additional risks in terms of accountability, business continuity and confidentiality. In particular, such databases often lack an audit trail, and as they are not main-stream are at risk of non-compliance with delegation authorities, security requirements, and quality control of the data. Given that the NHMRC has had a relatively high level of staff turnover, an additional risk is that specific knowledge of the data and accessibility to the databases could be compromised, affecting business continuity. There would be less risk for the NHMRC if all grant management functions were encapsulated within an integrated grant management system. This is one of the aims of a major project underway in the NHMRC, to develop a new Research Grant Management System (RGMS).

Development of a new grant management system—RGMS

5.19 The information provided above indicates significant limitations of the NHMRC's grant management system. The NHMRC has been aware of these limitations for some time, and acknowledged the need for a more robust and encompassing system. While the NHMRC could foresee considerable benefits in replacing its RMIS and consolidating its grant management, until recently the agency had not found sufficient funds to develop a system to meet its required specifications.

5.20 In 2007, the NHMRC commenced a project to develop a new grant management system; essentially tailoring an off-the shelf product (CLARITY) to meet their specifications. Development and phasing in of the system is expected to take three years, with piloting of small grant schemes during 2009 and rollout to all grant schemes by 2010. The NHMRC describes the project benefits as:

Clarity is being implemented as the NHMRC's new Research Grants Management System (RGMS) and will replace the existing programme delivery support system with a robust, web-enabled solution. It will improve access to information about the outputs and impact of Australian Government health and medical research funding and also reduce administrative burdens for researchers, volunteer assessors and reviewers, and the NHMRC internal staff.

5.21 The initial budget allocation was \$1.7 million.⁹² The budget as at June 2009 is shown in Table 5.4. NHMRC advised that the RGMS budget to the end of 2011–12 is \$3.3 million.

Table 5.4

Budget Allocations for the Research Grants Management System*

Year	Budget (\$m)
2008–2009	1.4
2009–2010	0.8
2010–2011	0.5
2011–2012	7.1

Source: NHMRC Grant IT Projects.

Note: *This amount includes \$6 639 648 for capped liability

5.22 Extensive analysis and mapping of the grant process was undertaken to develop specifications for the new system.⁹³ In March 2009, the ANAO examined progress of the project and whether the proposed system would address the weaknesses in the NHMRC's grant management. The ANAO also noted the NHMRC's work toward a DATAMART data repository, a project

⁹² NHMRC funded the project from existing Departmental funds.

⁹³ An extensive analysis of grant management and payments systems was undertaken in 2006 as part of the 'RIMES' project. Specifications from the RIMES report were incorporated into the CLARITY/RGMS project.

complimentary to the RGMS project, designed to improve the NHMRC’s data collection. A summary of the ANAO’s assessment of the RGMS project is shown in Table 5.5 below.

Table 5.5

Assessment of the NHMRC’s approach to developing a new grant management system

Component	ANAO comments
Procurement process	Engagement under existing contractual terms of the ICT Services and Support Contract.
Funding proposal approved (Reg 9)	\$1 741 020 over a three-year period.
Project management plan	The plan includes timelines, milestones and budget components. These are monitored and progress or variations are reported regularly to management. Stated in the Project Management Plan. <i>To implement a grants system that allows the NHMRC to:</i>
Project objective	<ul style="list-style-type: none"> • <i>Manage grants and awards application, assessment and approval processes; and</i> • <i>Administer and acquit grants and awards.</i> <i>It is intended that this system will be adopted throughout the NHMRC for all grants schemes thereby enabling an efficient integration of systems with meaningful and consistent reporting at all required levels.</i>
Human resources plan	Identifies roles and responsibilities and training requirements for the NHMRC staff involved in the system development. The ANAO suggests that an overarching systems administrator should be defined early and included in training initiatives.
Communication and user training	The ANAO noted there was a <i>RMIS Replacement Project: Communication Strategy</i> (dated 1 October 2008). In line with the strategy, the NHMRC was using a range of communication channels to update staff and stakeholders. The strategy states that the ‘Strategic Communication Section will play a key role in implementing the Communications strategy. They will assist with the development of branding, brochures, posters, advice in terms of wording for marketing and communication.’ It was not clear who had responsibility for overseeing the communications strategy. The system will include an in-built ‘CAPA’ productivity tool, with training to be provided by the NHMRC. The ANAO suggests that the NHMRC evaluate training needs carefully during piloting of the first module of RGMS. Staff familiarity with the system is crucial for reducing risk of data entry user errors and misuse of the system.
Documentation for grant process analysis	Lack of documentation for key processes has been a weakness of the NHMRC. It is important for the NHMRC to complete procedural documentation for all its grant schemes to allow the design of RGMS components to be as complete and fitting as possible. Gaps in process knowledge present a significant risk to the development and future success of the RGMS.
RGMS progress reporting	The project has a communication management plan which includes a range of reporting requirements, including: weekly progress reports to the NHMRC management; fortnightly grants IT projects meetings; and monthly Project Steering Committee meetings.
Role-out of the new system	The system is being built in phases (or modules) with the first ‘pilot’ of a small grant scheme in June 2009. This will inform system improvements for the next module, providing the opportunity to refine the system before the large Project Grant round in late 2009. This cautious approach is appropriate given the NHMRC’s previous unsuccessful experiences with grant management systems. The ANAO suggests that the NHMRC develop a rigorous feedback methodology to ensure that any operational problems encountered at each implementation phase are considered early.

Component	ANAO comments
Specifications for generating reports	These were still under development.

Source: ANAO based on NHMRC information.

Staged implementation of the RGMS

5.23 Prior attempts by the NHMRC to develop a grant management system had been unsuccessful.⁹⁴ Given this history, the NHMRC decided to take a staged approach to developing the RGMS—building and testing components for one grant program at a time, with the intention of phasing out RMIS by the end of 2009. This staged approach had value, in that it was a cautious approach that would help to ensure that the NHMRC’s limited project budget was not unduly expended. Each stage of development could be evaluated and appropriate adjustments made before commencing to development and implementation of the next grant program module.

5.24 However, there were also risks associated with the phasing in of RGMS. In particular, the NHMRC would be operating in the new systems environment as well as the existing RMIS environment. This was likely to result in a temporary duplication of effort, additional costs, and increasing demands on staff resources during the transition phase.

Addressing areas of vulnerability

5.25 While the NHMRC has undertaken extensive work towards development of the RGMS, there are particular vulnerabilities and areas of high risk that the NHMRC should strengthen to achieve effective and efficient grant management. These areas include:

- increase compliance with the NHMRC grant funding policies, build adequate controls into the RGMS to prevent inadvertent or deliberate non-compliance with funding rules and any legislative requirements for grants;
- to improve data transfer and verification, develop a suitable interface between RGMS and the financial system, to accommodate two-way information exchange and reconciliation of the two systems;

⁹⁴ Neither Grantnet nor RMIS had adequately met NHMRC’s business requirements.

- to reduce the incidence of poor quality data, duplication of effort, and security of grantee details, relinquish the use of local scheme-specific databases in favour of the more centralised controlled system;
- to improve staff capability in grant management, provide adequate training and documented procedures to staff prior to the introduction of each RGMS module (grant program); and
- to avoid corruption of data in the new grant management system, early in the phased implementation of RGMS, introduce a regular and ongoing system of maintenance and cleansing of RGMS data.

5.26 If achieved, these measures will provide the NHMRC with a suitable level of confidence and accountability in grant administration.

Recommendation No.5

5.27 To strengthen the NHMRC's management of grants, the ANAO recommends that the NHMRC include as part of its new Research Grant Management System (RGMS):

- appropriate compliance controls to identify breaches of legislative, key policy and eligibility requirements for all grant applications;
- a suitable interface between RGMS and the NHMRC's financial system to allow accurate information exchange and regular reconciliation of the systems;
- a regular program of data verification and cleansing to prevent corruption of future NHMRC data; and
- a structured training program and complete documentation for all key processes.

NHMRC response: *Agreed.* The implementation of RGMS will integrate compliance controls related to applications. It will also integrate with NHMRC's Financial Management Information System and allow greater data integrity, documentation and training.

6. Monitoring Performance

This chapter examines the NHMRC's performance management framework including aspects of the agency's monitoring and reporting of progress against set outcomes.

6.1 Good governance requires an agency to have a structured and regular system for monitoring and reporting its performance. This includes the collection and analysis of a balanced set of performance information to demonstrate agency effectiveness against set outcomes, and efficiency in managing outputs, key tasks and services.⁹⁵ Measuring and reporting performance assists agencies to manage core business, monitor trends and inform business improvements. External performance reporting, such as the Annual Report, conveys an agency's achievements to the responsible Minister, the Parliament, stakeholders and broader the community.

6.2 The audit assesses whether the NHMRC is effective in monitoring and reporting its performance, by examining key elements of:

- the NHMRC's performance management framework; and
- its collection and use of performance information.

6.3 The ANAO's analysis largely focuses on the NHMRC's 2007–09 triennium, particularly the 2008–09 financial year. It also considers recent government initiatives to improve transparency and reporting in the public sector, specifically *Operation Sunlight—Enhancing Budget Transparency*, and how these are shaping the NHMRC's performance management framework.

NHMRC's performance management framework

6.4 As a peak body for evidence based health and medical research, the NHMRC is expected to measure its progress against a performance framework of pre-determined outcomes and key performance indicators that will adequately reflect the agency's performance in supporting key elements of health and medical research in Australia. The NHMRC has an obligation to meet whole of government reporting requirements as well as those of the NHMRC Act.

⁹⁵ ANAO and Department of Finance and Administration, *Better Practice Guide—Better Practice in Annual Performance Reporting*, 2004. p. 1.

6.5 Figure 6.1 shows the NHMRC’s outcomes framework, as defined through its 2008–09 and 2009–10 Portfolio Budget Statements.

Figure 6.1

NHMRC outcomes framework

2008-09 Outcome	2009-10 Outcome
<p>Australia’s Health System Benefits from High Quality Health and Medical Research Conducted at the Highest Ethical Standard, Well-Developed Research Capabilities and Sound Evidence-Based Advice that Informs Health Policy and Practice.</p>	<p>Improve health and medical knowledge, including through funding research, translating research findings into evidence - based clinical practice, administering legislation governing research, issuing guidelines and advice for ethics in health and the promotion of public health.</p>
<p style="text-align: center;">Output 1</p> <p>Achieving high standards of governance and accountability is critical to the NHMRC’s Statutory obligations in administering requirements of the Prohibition of Human Cloning for Reproduction Act 2002 and the Research Involving Human Embryos Act 2002. Australia’s health system benefits from high quality and medical research because the NHMRC proactively drives the utilisation of research knowledge by delivering a majority of published advice in national priority areas. The output group’s contribution to the outcome is measured by research sector compliance with relevant legislation.</p>	<p style="text-align: center;">Program Objective</p> <p>Through this program, the Australian Government aims to improve health and medical knowledge so that health consumers, clinical practitioners, health insurers, health system providers and industry can be informed by a sound evidence-base when making health-related decisions.</p>
<p style="text-align: center;">Output 2</p> <p>Provides advice for Australian Government decision-making, including advice on current and emerging health related issues. The NHMRC is Australia’s peak body for developing health advice for the Australian community, health professionals and government. The NHMRC is the pre-eminent source of evidence based advice to inform health policy and practice. The output group’s contribution to this outcome is measured by the timely production and publication of relevant, evidence based advice that meets consistently high level of ministerial satisfaction.</p>	<p style="text-align: center;">Key Strategic Directions</p> <ul style="list-style-type: none"> • support researchers to deliver the best and most relevant research upon which evidence-based health policies and practices are built; • translate research findings into evidence-based practice to improve decision-making by health care practitioners in their treatment of the Australian community; • monitor researcher compliance with legislation to ensure the appropriate use of human embryos in research; • promote the highest ethical standards to protect the welfare and rights of participants in research; and • promote public health to improve the health status of the Australian community.
<p style="text-align: center;">Key Strategic Directions</p> <ul style="list-style-type: none"> • support the best researchers and most relevant research that targets major health issues, including Indigenous Australians’ health; • produce high quality evidence-based guidelines and health advice, accelerate the uptake of research evidence and increase the capacity of health professionals to implement that evidence; • promote the responsible conduct and governance of research throughout Australia, and provide leadership to ensure Australian research is conducted within a sound ethical framework; • increase investment in health and medical research, actively encouraging researcher and private sector interaction, and philanthropic support; and • enhance communication with stakeholders and improve internal expertise and capacity to respond to major and emerging health issues. 	

Source: Compiled by the ANAO from *Health and Ageing Portfolio Budget Statements: 2008–09*, pp. 441–2; and *2009–10*, pp. 676.

Consistency with the 2008–09 outcomes and outputs framework

6.6 Prior to the 2009–10 Budget, agency Portfolio Budget Statements were expected to include indicators to cover:

- the effectiveness of outputs in contributing to desired outcomes; and
- the efficiency of outputs—their quality, quantity and cost.⁹⁶

6.7 Effectiveness indicators were intended to identify the contribution of outputs and administered items to the achievement of the agency outcome.⁹⁷

6.8 The NHMRC 2008–09 Outcome (see Table 6.1) was supported by two output groups: Output Group 1—Policy Advice; and Output 2—Program Management. The grant management program was within Output 2, although Output 1 was also relevant to the NHMRC grant management in terms of translating the research funded through grants into evidence based practice.

6.9 The Portfolio Budget Statements outlined five key strategic directions providing a broad overview of the NHMRC’s gambit (Figure 6.1). The quantity and price of outputs were given in terms of grant expenditure for the MREA grant schemes.

NHMRC 2009–2010 Portfolio Budget Statements

6.10 In 2009, the Australian Government initiated measures to enhance the quality, transparency and consistency of Budget reporting and promote good governance. Through *Operation Sunlight—Enhancing Budget Transparency*, key aspects of the Government’s performance framework are being reviewed and modified, including: the outcomes and outputs framework; budget reporting and papers; and the transparency of estimates and appropriation management.⁹⁸

6.11 In line with the *Operation Sunlight* Outcome Statement Review, the NHMRC has structured its 2009–10 Portfolio Budget Statements in accordance

⁹⁶ ANAO, *Better Practice Guide—Performance Information in Portfolio Budget Statements*, May 2002; and ANAO, *Better Practice Guide—Annual Performance Reporting*, April 2004.

⁹⁷ ANAO, *Better Practice Guide—Performance Information Principles*, 1996.

⁹⁸ Recommendation 13 of the Murray Report incorporated into *Operation Sunlight* requires further transparency on the use of Special Accounts through the inclusion of a register and the provision of financial estimates in Budget Paper 4 from the 2009–10 Budget. This will complement the end of financial year audited financial information that is already reported to Parliament. <http://www.financeminister.gov.au/media/2008/mr_432008.html> [accessed 7 October 2009].

with the new *Outcomes and Programs Framework* Structure. This includes: reporting on a Program basis; development of an outcome strategy; NHMRC trends; and NHMRC expenses and resources.⁹⁹

6.12 The *Outcomes and Programs Framework* requires that Programs align with Outcomes. Key Performance Indicators (KPIs) should measure the impact of the Program and include qualitative and quantitative indicators.¹⁰⁰ Consistent with this, the NHMRC has: specified the major activities within the strategic direction; outlined the strategies to achieve the major activities; clearly defined the KPIs attributed to Program 1.1; and stated the set quantitative and qualitative deliverables for the key performance indicators.

Compliance with the NHMRC Act

6.13 As mentioned in Chapter 2, under the NHMRC Act the Chief Executive Officer (CEO) is required to develop a Strategic Plan outlining: the CEO's assessment of the major national health issues that are likely to arise during the period; and the manner in which the CEO proposes to perform his or her functions in dealing with those issues.¹⁰¹

6.14 The CEO is also responsible for:

- reporting progress against its Strategic Plan in the Annual Report (NHMRC Act section 16); and
- preparing a written review to the Minister, evaluating the success in implementing the Strategic Plan six months before the end of the plan (NHMRC Act section 17). This report is tabled in Parliament

6.15 The NHMRC met each of these requirements (also see Chapter 2). Annual Reports contained extensive information on NHMRC's progress against the Strategic Plan. The CEO's review of the NHMRC's 2007–09 Strategic Plan was presented to the Parliament on 30 June 2009.

⁹⁹ Prior to the 2009–10 Budget, departmental activity was reported under departmental outputs. Departmental costs are now to be reported as programs (see Figure 6.1).

¹⁰⁰ Department of Finance and Deregulation, Portfolio Budget Statements Construction Kit, 2009–10 Budget, 2009.

¹⁰¹ *National Health and Medical Research Council Act 1992*, Division 3, Section 16.

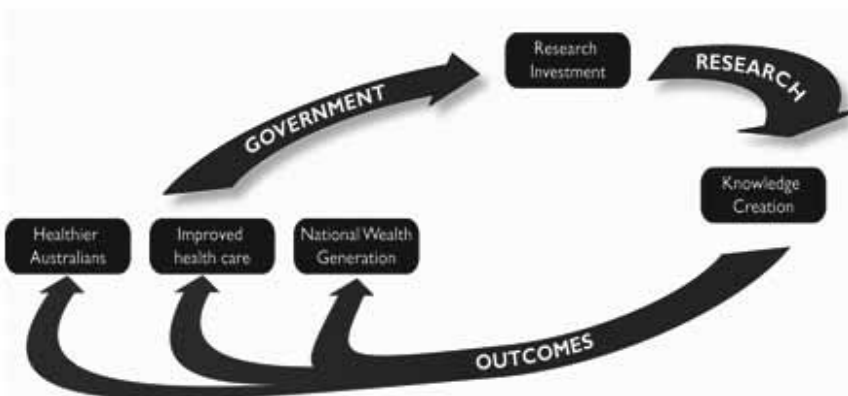
Performance measures under the Strategic Plan

6.16 The NHMRC's 2007–09 Strategic Plan expanded on the performance monitoring and reporting framework through the identification of relevant: objectives; key strategies; mechanisms to achieve the key strategies; and key performance indicators to measure success. The strategic directions in the 2007–09 Strategic Plan aligned with those provided in the Portfolio Budget Statements. Major national health issues were also incorporate into the Strategic Plan.¹⁰² These included:

- **Australian Government National Research Priorities**—which are linked to the Research Priority Areas in the individual grant programs;
- **Strategic Objectives**—outlining the major strategies and mechanisms with Key Performance Indicators; and
- *The Virtuous Cycle*—which outlines the need to translate research into policy and practice (see Figure 6.2).¹⁰³

Figure 6.2

The Virtuous Cycle



Source: NHMRC, *Report on the Operations of the NHMRC Strategic Plan 2007-09*, 30 July 2009. <<http://www.nhmrc.gov.au/publications/synopses/nh117syn.htm>> [accessed 7 October 2009].

¹⁰² NHMRC Strategic Plan 2007–2009, pp. 9–13.

¹⁰³ *Sustaining the Virtuous Cycle—for a healthy, competitive Australia—Investment Review of Health and Medical Research*, 2004.

6.17 The National Research priorities are incorporated into the NHMRC’s grant programs, with researchers able to indicate these on grant applications. Information on priority areas, grants and expenditure is included on the NHMRC website, providing public transparency.

6.18 The NHMRC has applied qualitative and quantitative measures to its Strategic Objectives. For some objectives, however, the extent and detail of data required for qualitative assessment is still being established (see examples in Table 6.1).

Table 6.1

Key Performance Indicators for Objective 1: The best and most relevant research

Key Performance Indicators	ANAO’s assessment of the indicators	
Objective evidence of excellence, transparency and quality, such as peer review of final reports and bibliometric analysis, as outlined in the NHMRC Performance Measurement Framework	Qualitative	<p>Consistent peer review of final reports analysis was not apparent.</p> <p>Bibliometric analysis is completed and will be publicly released.</p> <p>A key strategic direction identified by the NHMRC is translating research into practice.</p>
International review completed by 31 December 2007	Quantitative and Qualitative	Two international reviews and benchmarking undertaken and incorporated into the draft performance framework for 2009–2011. ¹⁰⁴
Growth in all research approaches relevant to health	Quantitative	The NHRMC reports on expenditure against each research field, including priority areas, on its website and in the Annual Report 2007–2008.
Five per cent funding from Medical Research Endowment Account for research relevant to indigenous people.	Quantitative	The allocation was met and reported through the Annual Report 2007–2008 and on the NHMRC website.

Source: ANAO analysis. Key Performance Indicators are from the NHMRC Strategic Plan 2007–2009.

6.19 The ANAO recognises that outcomes from health and medical research activities are generally long term and, as such, development of appropriate measures for short term reporting can be difficult. Quantifying the full impact of the NHMRC’s investment in health and medical research in Australia, and in turn the impact on the health and well being of the community, is also a complex process.

¹⁰⁴ *International Perspective on the Research Strategy* (Chaired by Dr Elias Zerhouni). *The International Review of the NHMRC Research Funding Process* (Chaired by Professor Alan Bernstein). *Report of the Review of Public Health Research Funding in Australia* (Chaired by Professor Don Nutbeam).

6.20 Within this context, the NHMRC had developed several tangible and quantifiable strategic directions, although it was also not always apparent how the NHMRC intended to measure its broader community impact in these areas. The ANAO notes, however, that the NHMRC was reviewing its performance framework in 2009, and had refined its strategic directions and program objectives in the 2009–10 Portfolio Budget Statements.

Collection and use of data for performance monitoring and reporting

6.21 The collection and analysis of sound data is important to measure progress against program objectives and to determine whether broader outcomes are being met. The ANAO examined the utility of various NHMRC data in measuring the performance of its grant programs.

Data about the grant application process

6.22 As examined in Chapter 5 (Information Technology) there are significant limitations in NHMRC’s data capacity in terms of accessibility, useability and data integrity.¹⁰⁵ Notwithstanding these limitations, the NHMRC provides extensive data and reporting on the demographics and statistics of the grant application process with the information that is accessible, including total expenditure, application numbers and funding by: State; Administering Institution; sector; broad research area; grant type and sub-grant type; and research fields, courses and disciplines.

6.23 Furthermore, the NHMRC is developing new data capabilities through its development of the new Research Grant Management System (RGMS) and a data repository (Datamart) for the central storage of NHMRC data. The NHMRC anticipates that these two initiatives will allow significant improvements to its collection, storage and retrieval of data, as well as provide consistent and usable format and enhanced access to data (see Chapter 5).¹⁰⁶ This in turn should offer potential benefits for performance monitoring, for example: enabling linkages between the Strategic Plan and the investment decisions made through the allocation of grant funds; and capturing

¹⁰⁵ The NHMRC reports that the process for data interrogation and analysis are cumbersome and time consuming, p. 6.

¹⁰⁶ *Proposed NHMRC Performance Framework, Discussion Paper 2009–2012.*

information against specified program/grant objectives or selection criteria, to better determine the impact of the health research (see below).¹⁰⁷

Capturing information from individual grant reports

6.24 Once awarded, individual grants should be monitored and assessed periodically for compliance with program objectives and the conditions of the funding agreement. Progress and final reports submitted by Administering Institutions for individual grants, provide a valuable source of information on outputs and outcomes against the specific grant's objectives. In addition, these reports contain information on new patents, publications, new collaborations, and progress in the medical or health research area. For some grants, the reports may also contain indications of progress against national research priorities or NHMRC strategic areas.

6.25 Harnessing information from these reports, however, is not an area of strength for the NHMRC. As demonstrated in Chapter 4, NHMRC has experienced ongoing compliance issues concerning reporting of grant progress under the Deed of Agreement, with a substantial number of the progress and final reports either not received and/or not reviewed. Reliable procedures for the tracking, assessment, follow-up and systematic analysis of grant reports, are also not well-established. Collectively, these weaknesses constrain the NHMRC in carrying out systematic analysis of qualitative information, which is valuable for determining progress against: individual grant objectives and outcomes; program objectives and outcomes; health priorities; strategic areas of health research; and compliance with grant conditions.

6.26 The broader consequences to this lack of qualitative data analysis, are that the NHMRC was not assessing:

- specific researcher performance over time, particularly in terms of compliance with the requirements of the Deed or with the grant objective and outcomes;
- the impact of NHMRC policy changes on grant outputs and outcomes;
- the relative merits (and cost-benefits) of one, two or three year grants, or the relative risks associated with the length of grants; and

¹⁰⁷ *Proposed NHMRC Performance Framework, Discussion Paper 2009–2012*, p. 6.

- the relative benefits or risks of large cost grants versus smaller cost grants, particularly in terms of meeting outcomes.

6.27 These types of analyses inform value for money and program performance, and are valuable in ensuring equity and efficiency in grant selection, and provide essential information for planning future grant schemes and strategic policies.

6.28 A challenge facing the NHMRC is in successfully developing its new data systems to capture a broader range of accurate and useful quantitative and qualitative data to inform the agency's effectiveness in administering grant programs, as well as providing qualitative and quantitative measures of the medium and long term impacts of its funded research.



Ian McPhee

Auditor-General

Canberra ACT

20 October 2009

Appendices

Appendix 1: Distribution of NHMRC Grants

Broad Research Area	2000 (\$)	2001 (\$)	2002 (\$)	2003 (\$)	2004 (\$)	2005 (\$)	2006 (\$)	2007 (\$)	2008 (\$)
Basic Science	110 649 457	134 924 718	144 630 983	169 024 678	179 419 860	197 269 644	213 991 087	252 803 923	293 001 474
Clinical Medicine and Science	36 554 542	51 890 338	63 928 803	81 220 840	94 117 901	112 690 063	131 632 417	154 074 842	174 878 273
Health Services Research	2 454 054	2 738 845	4 516 078	7 649 885	9 708 329	12 244 834	16 001 492	20 433 011	25 180 008
Preventive Medicine	2 722 478	2 971 979	2 546 144	2 866 430	4 268 664	5 823 974	8 572 901	8 950 825	12 033 487
Public Health	15 444 244	17 060 705	24 765 270	31 920 821	39 572 940	52 744 650	61 853 275	67 907 014	78 696 523
Not Applicable	1 925 018		22 852 594	19 050 280	15 263 159	30 567 088	19 147 992	34 913 993	11 226 766
Total	169 749 792	209 586 584	263 239 872	311 732 934	342 350 853	411 340 253	451 199 164	539 083 609	595 016 530
Sector	2000 (\$)	2001 (\$)	2002 (\$)	2003 (\$)	2004 (\$)	2005 (\$)	2006 (\$)	2007 (\$)	2008 (\$)
University	119 471 175	151 816 064	191 096 209	222 524 251	245 647 081	284 796 501	317 754 652	377 877 197	430 395 969
Research	41 391 061	50 564 235	64 818 848	80 672 573	86 750 987	116 531 860	122 667 696	149 062 714	150 017 086
Hospital	6 170 326	5 095 086	5 024 696	5 734 121	6 028 551	5 477 550	5 995 433	6 185 643	7 511 661
Government	1 841 901	1 243 006	1 305 640	1 498 203	1 546 019	1 628 079	1 844 960	2 428 385	2 638 757
Other	875 331	868 193	994 479	1 303 786	2 378 215	2 906 263	2 936 423	3 529 669	4 453 057
Total	169 749 792	209 586 584	263 239 872	311 732 934	342 350 853	411 340 253	451 199 164	539 083 609	595 016 530

State	2000 (\$)	2001 (\$)	2002 (\$)	2003 (\$)	2004 (\$)	2005 (\$)	2006 (\$)	2007 (\$)	2008 (\$)
ACT	3 215 066	4 120 868	7 137 199	10 818 020	12 447 400	14 673 418	14 717 025	15 298 175	18 180 978
NSW	42 142 671	50 029 230	65 024 629	75 859 765	82 890 691	100 063 563	114 959 550	135 970 960	145 937 413
NT	1 158 351	1 854 382	1 655 863	3 372 716	3 700 299	3 949 480	3 776 721	4 581 007	6 236 338
QLD	20 057 966	28 780 774	33 404 025	38 574 470	46 089 371	56 277 047	60 532 642	75 217 229	84 252 384
SA	17 894 763	21 313 686	25 046 049	26 211 211	28 415 992	30 488 159	32 220 446	38 454 632	44 225 588
TAS	956 436	1 198 738	1 884 274	2 609 224	3 497 275	3 686 545	3 354 752	3 269 858	5 612 183
VIC	69 476 202	84 476 835	107 889 503	129 600 003	141 029 526	173 335 926	188 573 313	227 539 340	249 660 761
WA	14 848 336	17 812 071	21 198 330	24 687 525	24 280 300	28 866 115	33 064 715	38 752 407	40 910 886
Total	169 749 792	209 586 584	263 239 872	311 732 934	342 350 853	411 340 253	451 199 164	539 083 609	595 016 530

Source: <<http://www.nhmrc.gov.au/grants/dataset/ files/grantdata.xls>> [accessed 16 February 2009].

Appendix 2: Previous ANAO Audit Recommendations

NHMRC's response to Recommendations of ANAO Audit No. 29 2003–04 Audit *Governance of the National Health and Medical Research Council*

<p>Recommendation No.1</p> <p>The ANAO recommends that the Council, in order to clarify governance arrangements within existing legislation and administrative arrangements:</p> <ol style="list-style-type: none"> 1. assess the appropriateness of existing governance arrangements, particularly links between the Council, the Principal Committees, the Management Committee and the CEO, and amend as necessary; 2. document and endorse a governance charter, that clearly describes the separation of functions of the Council, the Chair of Council, Principal Committees and the CEO; 3. delegate powers where necessary and implement appropriate reporting against delegated powers; and 4. regularly monitor compliance with, and evaluate the effectiveness of, endorsed structures. <p>NHMRC Agreed in principle.</p>	
<p>NHMRC update 2009: Points 1, 2 and 3 have been addressed by changes to legislation resulting in part from the Uhrig Review. New powers invested in the CEO. Council and Principal Committees are now advisory to CEO. Point 4 is undertaken by NHMRC internal activities including Audit Committee, Internal Audit and Performance Meeting.</p>	<p>ANAO finding: Governance within the NHMRC has undergone significant change since the last audit. There is greater clarity in the NHMRC's separation of duties and evidence that these were reviewed by the mechanisms indicated by the NHMRC in its 2009 response (also see Chapter 2).</p>
<p>Recommendation No.2</p> <p>The ANAO recommends that the Council, in order to strengthen planning and budgeting, develop, establish and use an integrated business planning and budgeting framework. The framework should identify the relationships between various plans; establish appropriate timeframes; identify planning responsibilities and accountabilities; and describe the internal budgeting process.</p> <p>NHMRC Agreed.</p>	
<p>NHMRC update 2009: The CEO has implemented on-going business planning and activity costing systems. Key planning elements include: Executive (twice weekly), Leadership Group (weekly), and Performance Meeting (monthly).</p>	<p>ANAO finding: Significant progress has been made. The NHMRC's planning and budgeting framework makes linkages between Government priority areas, the NHMRC's Strategic Plan, Business Plan, Annual Report, and Portfolio Budget Statements. The NHMRC was able to demonstrate integration of its internal budget process for grant administration (the subject of the current audit) with the planning process (also see Chapter 2).</p>
<p>Recommendation No.3</p> <p>The ANAO recommends that the Council, in order to simplify and strengthen performance measurement:</p> <ol style="list-style-type: none"> 1. review its Performance Measurement Framework measures to develop intermediate outcome measures where appropriate, to ensure that they adequately facilitate regular, balanced performance reporting on outcomes; and 2. align its Performance Measurement Framework measures, its Portfolio Budget Statement measures, and operational measures. <p>NHMRC update 2009: The NHMRC agreed in principle to the first point and agreed with second point.</p>	
<p>NHMRC update 2009: Performance Measurement Framework' was developed and reported on in 2003-2006. The current CEO is establishing an improved Performance Measurement Framework that is oversighted by meetings cited above No.2. This is supported by a detailed business plan and quarterly reporting aligned to strategic objectives. A Risk Management Plan is in place. Annual Report addresses outcome measures.</p>	<p>ANAO finding: The NHMRC's performance framework aligns with its strategic objectives, and the agency is actively pursuing improvements in monitoring and reporting its performance. Strengthening of its data collection and IT systems through improved grant management should assist in attaining more effective information to measure outputs, outcomes, and operational efficiency (also see Chapters 2, 5 and 6)</p>

Recommendation No.4

The ANAO recommends that Health, in order to improve accountability to external stakeholders, separately identify the Council's:

1. performance information for Departmental and Agency Outputs' table in its Portfolio Budget Statements;
2. departmental items budget within the 'Resource Summary' for Outcome 9, in its Portfolio Budget Statements;
3. performance information within the 'Performance Information for Departmental Outputs', under Outcome 9 in its annual report; and
4. departmental items budget within the 'Financial Resources Summary', under Outcome 9 in its annual report.

DOHA's response: Agreed.

NHMRC update 2009: The NHMRC became a statutory agency in July 2006 and now reports through a separate chapter of the Health portfolio's Portfolio Budget Statement. There has been a separation of resources from DoHA and a Service Level Agreement (SLA) entered between NHMRC and DoHA.

ANAO finding: Significant governance changes have occurred since the NHMRC became a statutory agency in 2006. The NHMRC has strengthened its performance framework, including alignment of strategic directions and outputs, and reporting of financial and performance information since 2006 (also see Chapter 6).

Recommendation No.5

The ANAO recommends that the Council, in order to improve the soundness of its administrative systems:

1. identify the type, composition and source of administrative systems needed to support its legislated functions;
2. assess the costs and benefits of existing systems in comparison with alternative systems;
3. monitor standards to ensure that systems are operating efficiently and effectively and are meeting identified needs; and
4. regularly meet with an appropriate departmental officer with the responsibility for oversight of the MoU to ensure that it is functioning properly and that services are provided in accordance with defined standards.

The NHMRC agreed with all points except the second point, which it agreed to in principle

NHMRC update 2009: Improvement of administrative systems is a work in progress addressed by: RMIS and RIMES systems; development of Clarity; and regular SLA monitoring. In the process of separation from DoHA all systems are subject to effectiveness/efficiency/VFM review.

ANAO finding: A large body of work is in progress, so only an interim evaluation against the recommendation was made. Since the last ANAO performance audit, the NHMRC has undertaken extensive evaluation of its IT systems and grant processes, and substantial separation of administrative support functions from DoHA had occurred by the close of the audit. The ANAO acknowledges the large change agenda that the NHMRC has had in addition to its usual business. The NHMRC was actively pursuing development of a new grant management system (RGMS) and introduction of a new financial management system in 2009 (also see Chapters 2 and 5).

Recommendation No.6

The ANAO recommends that the Council, through the CEO, develop its internal control processes by:

1. establishing a risk management policy and implementing processes to monitor compliance with the policy;
2. providing training to Secretariat staff on risk management and fraud control arrangements;
3. documenting policies and procedures and consolidating these materials to facilitate monitoring and management; and
4. arranging appropriate internal assurance facilities commensurate with the Council's governance role.

The NHMRC agreed with all points except for the fourth point, which it agreed to in principle.

NHMRC update 2009: As a statutory agency led by a CEO, NHMRC has developed risk plans at the enterprise and branch level, including risk planning and monitoring in management of major projects, and actively monitors risk through Leadership, Performance Management, Operational Division and other meetings. Staff training in risk management and fraud control was conducted in 2008. Policies and procedures are currently being consolidated. Internal assurance facilities are being addressed by the internal audit committee activities.

ANAO finding: The NHMRC has established risk management plans, and a fraud plan, however, development of a compliance framework for the grant management function is in early stages of development. The audit did not include evaluation for fraud (also see Chapter 2).

Notes: White cells—NHMRC responses provided during the current audit are in blue text; the ANAO's comments (based on assessments made during the current audit) are in black text.

Appendix 3: Obligations in the Deed of Agreement

The obligations outlined to the Administering Institution include, however are not limited to:

- providing facilities and services necessary for the effective conduct of research and to meet the normal institutional overhead expenses including maintenance costs of equipment purchased with the NHMRC funds and normal institutional maintenance charges;
- committing financial resources equivalent to the amount of any salary and other entitlements of conditions of service payable as a result of an enterprise agreement, that is in excess of the amount of the component for personnel support provided by the NHMRC. The Institution must ensure that such financial resources are directed within the Institution's administrative arrangements to supplement salary payments directly;
- providing facilities and resources for the management and administration of personnel records and all related claims allowable under the Deeds of Agreement;
- ensuring the ethical conduct of research including: providing the NHMRC with annual statements of compliance in relation to human and animal ethics matters and certification in relation to all the NHMRC endorsed statements on research practice;
- Administering research funding to the standards required by the Commonwealth, including:
 - nomination of a responsible financial officer who is not the grant recipient;
 - having processes in place to satisfy annual progress and final reporting of scientific output, annual financial reporting requirements and for the acquittance of funding, including the return of unused funds;
 - provision of an annual compliance statement that the funds were expended in accordance with the conditions under which they were awarded and annual independent auditing of accounts; and
- Indemnifying the Commonwealth against all action, claims demands, costs and expenses as specified in the Deeds¹⁰⁸.

The Deed of Agreement also stipulates that funds are used in accordance with the following guidelines.¹⁰⁹

- The Institution shall use the Funds only for the purpose of performing the relevant Project in accordance with the Approved Budget.
- The Institution shall deposit all Funds into a bank account controlled solely by the Institution and keep proper accounts and records of its receipts and use of the Funds. The Institution must maintain individual ledgers within the bank account for each Project and use any apportioned interest earned on the Funds only for the purposes of the Projects.
- The Institution shall not use the Funds for the purposes of expenditure on any Administrative Costs associated with the Projects.
- The Institution shall only use the Funds during the Period of Funding.
- If the relevant Project's Approved Budget contains an item of equipment to the value of \$10 000 or more, then the Institution must purchase that item of equipment or a substantially similar item of equipment that is required for conduct of the Project. If the Institution is unable to purchase the equipment, it must notify the Commonwealth and the Commonwealth may in such a case suspend, reduce or terminate payment of the Funds for that Project or terminate the Project or this Deed pursuant to clause 15.
- Grant recipients must report their use of grants through progress reports submitted by the researcher. Progress Reports enable the NHMRC to assess whether satisfactory progress is being achieved. In the final year a Final Report must be submitted. Also, in accordance with the Deed of Agreement for the NHMRC Researcher Support Schemes; Research, Practitioner and Australia Fellows are required to submit a one page executive summary addressing achievements and progress against the aims of their respective scheme in the third year of the grant.¹¹⁰

¹⁰⁸ NHMRC Administering Institution Policy 2005, Conditions for registering as an NHMRC Administering Institution for the purposes of applying for, and subsequent administering NHMRC funds, p. 6.

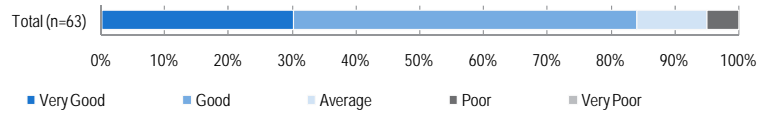
¹⁰⁹ Deed of agreement between the Commonwealth of Australia and the National Health and Medical Research Council.

¹¹⁰ <www.nhmrc.gov.au> [accessed 7 October 2009].

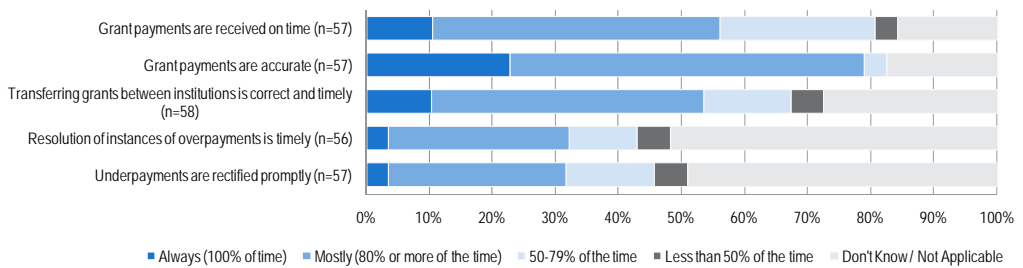
Appendix 4: ANAO Survey of Administering Institutions

The following summary data are from the ANAO's survey of 97 Administering Institutions, conducted to inform the ANAO's assessment of administrative arrangements between the NHMRC and its key stakeholders.

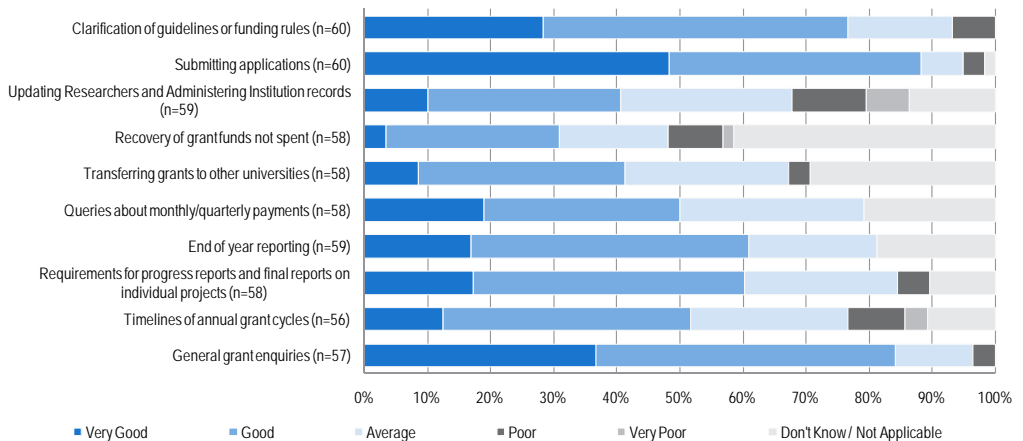
Overall, how would you rate the working relationship between the NHMRC and your Research Administration Office?



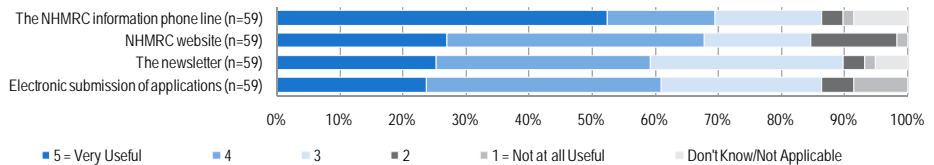
Please indicate your Research Administration Offices experience of NHMRC's administration of grant funds in terms of the following aspects.



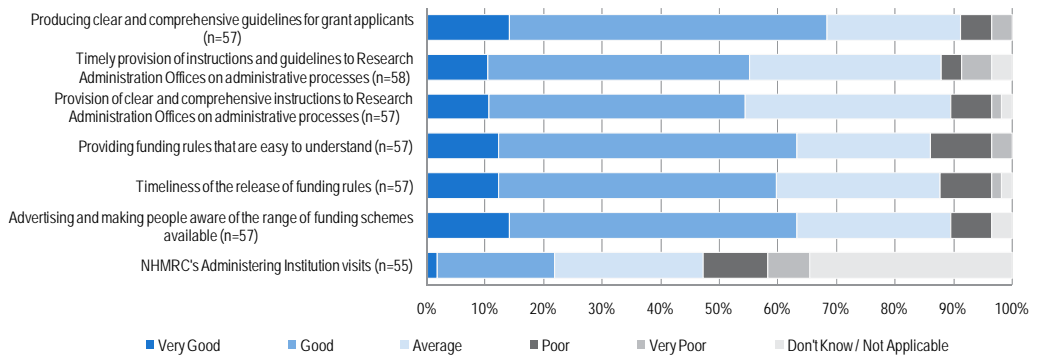
Based on the experiences of your Research Administration Office, how would you rate the NHMRC's performance in responding to questions or problems that you have raised in the following areas?



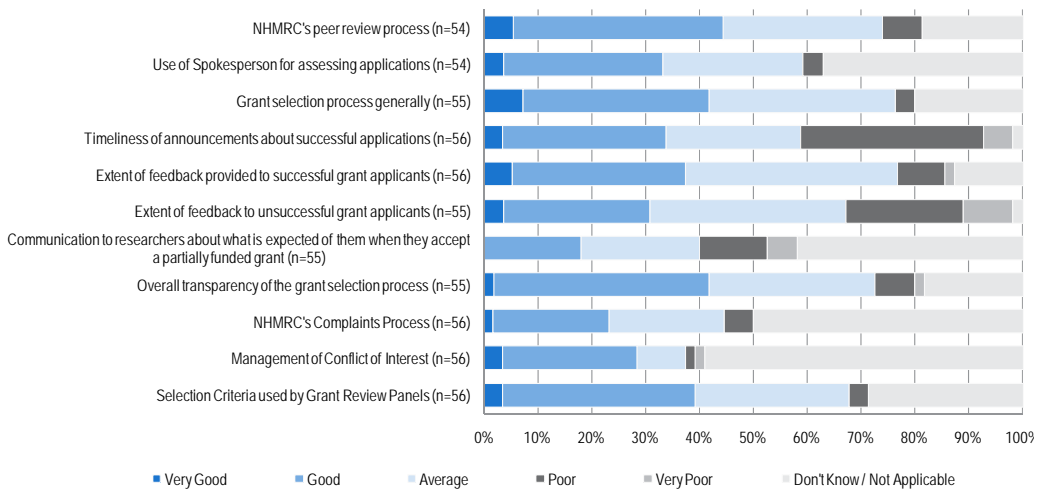
How useful do you find the following NHMRC services?



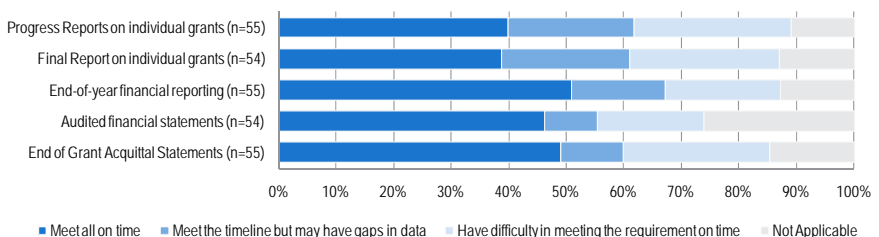
How would you rate the NHMRC's activities in the following areas?



How would you rate the following NHMRC processes (based on your experience in managing components of the grant application and management process, and interacting with your researchers)?



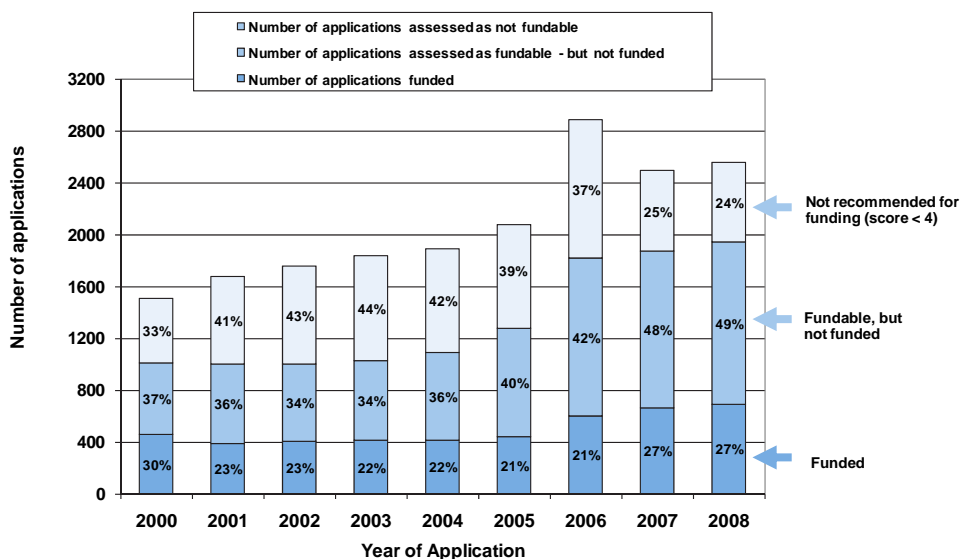
Have you been able to meet each of the NHMRC's reporting requirements as specified in the Agreements?



Appendix 5: NHMRC Funded Project Grant Applications

Figure A 1

Funded and Fundable Project Grant Applications 2000–08



Source: NHMRC Research Management Information System, as at April 2009.

Figure A 2

Numbers of Funded and Fundable Project Grant Applications 2000–08

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Rating Category
Number of applications funded	459	388	406	412	416	441	600	664	692	7 to 5
Number of applications assessed as fundable - but not funded	551	609	592	615	673	832	1214	1203	1246	5 to 4
Number of applications assessed as not fundable	495	683	756	807	803	799	1070	622	619	Below 4
Total apps	1505	1680	1754	1834	1892	2072	2884	2489	2557	

Source: NHMRC Research Management Information System, as at April 2009.

Appendix 6: Conflict of Interest Guidelines

Figure A 3

Types of conflict of interest

Direct pecuniary interest	Indirect pecuniary interest	Non-pecuniary interest
<p>Arises wherever there is a potential for a committee member or related person to directly gain financially from the results of NHMRC discussions or decision-making processes to which the committee member contributes. This may include situations such as:</p> <ul style="list-style-type: none"> • a directorship of, or shareholdings in, a company that may benefit from a decision of the NHMRC to which the member contributes; • a financial investment in an organisation, such as a trust, that may benefit from a decision of the NHMRC to which the member contributes; • a consultancy or a grant involving financial gain to the member's employer (eg a hospital or higher education institution) in circumstances where the member will benefit financially from their involvement; or • a relationship based on a common interest such as professional or institutional allegiance, sporting, social or cultural associations who may benefit from a decision of the NHMRC to which the member contributes. 	<p>Arises from members' employment or professional interests or from their personal relationships. They include:</p> <ul style="list-style-type: none"> • situations of members holding a formal position of authority in a non-commercial organisation - for example, if a university representative were a member of an NHMRC Working Committee, he or she would have an indirect pecuniary interest in any project, grant or consultancy for which a researcher from that university had applied: or • an application for a consultancy or grant by a member's partner or relative, a close personal friend or a close professional colleague. 	<p>Arises where a member simultaneously has an appointment to, or employment or consultancy or other involvement with, another organisation or body that is in some way involved with the NHMRC. The interest may arise if the interests of the NHMRC and the other body or organisation are in conflict, or if access to information arising from NHMRC involvement could be used to unfair advantage if divulged to the other organisation or body.</p> <p>Such an interest also arises where a member has a relationship, whether professional – as with a colleague in an employment context or a professional association – or personal, with a person who may benefit from a decision of the NHMRC to which the member contributes</p>

Source: NHMRC, *Conflict of Interest Policy*, July 2008.

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