

The Auditor-General

Audit Report No.43 1998–99
Performance Audit

Networking the Nation
—The Regional Telecommunications
Infrastructure Fund

Department of Communications,
Information Technology
and the Arts

Australian National Audit Office

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ISSN 1036-7632
ISBN 0 644 38914 1

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Canberra ACT
2 June 1999

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Communications, Information Technology and the Arts in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Networking the Nation—The Regional Telecommunications Infrastructure Fund*.

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



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations/Glossary

ANAO	Australian National Audit Office
DOCA	Department of Communications and the Arts—since changed to the Department of Communications, Information Technology and the Arts
DOFA	Department of Finance and Administration
DPIE	Department of Primary Industries and Energy—since changed to Department of Agriculture, Fisheries and Forestry.
NLP	National Landcare Program
NTN	Networking the Nation
OBT	One Billion Trees
POP	Point of Presence
RTIF	Regional Telecommunications Infrastructure Fund
Start	the Strategic Assistance for Research and Development (R&D Start) Program.

Summary and Recommendations

Executive Summary

Background

1. *Networking the Nation* was established with effect from 1 July 1997 to support activities and projects designed to meet a range of telecommunications needs in regional, rural and remote Australia. Funding for the program is provided by the Regional Telecommunications Infrastructure Fund (RTIF). The program provides total support of \$250 million, of which \$50 million was to be allocated annually for the five year period from 1997–98. As at 30 June 1998, a total of 302 applications with a total estimated value of \$247 million had been received.¹ Of these, 96 projects worth \$57.4 million had been approved.

2. Funding decisions for grants made under the program are the responsibility of an independent Board that was appointed by the Minister for Communications, Information Technology and the Arts. The Department of Communications, Information Technology and the Arts (DCITA) provides administrative support to the program through the program secretariat which was established to provide advisory and support services to the Board.

Audit approach

3. The ANAO's objectives were to examine the administration of the program with a view to ascertaining the scope for improving administration and to provide assurance on the equity, efficiency and effectiveness of the management and administrative processes applied in the administration of grants under the program. assess the effectiveness, efficiency and equity of the management and administrative processes applied in the administration of grants under the program.

Audit conclusions

4. The ANAO found that the objectives of the program had broadened from those originally approved by Government. This raises issues about the necessary authority for the revised program objectives and has implications for both program and administrative effectiveness.

¹ These applications include 31 projects for assistance to develop proposals worth an estimated \$27 million. These applications were excluded from the ANAO analysis of the RTIF database which focused on fully developed project proposals (Phase 3).

5. Although final details of the program were to be settled between the Minister, the Prime Minister, the Minister for Finance and Administration, and other relevant Ministers, the Department was unable to provide any evidence to indicate that the changes to the program objectives were referred to the other Ministers as required by the Government decision.

6. The ANAO considers that the Department should have briefed the Minister on the implications of broadening the objectives of the program and alerted him to the obligation to consult with his Ministerial colleagues, in the interests of better accountability.

7. In reviewing the efficiency of the program's management, the ANAO found that the administrative processes, although rigorous, are too highly structured and labour intensive. An amount of \$9.6 million has been allocated from program funds to cover administrative costs over the five year period of the program. Administration is undertaken by the program Secretariat in a branch with an average staff level of 20 for the year ended 30 June 1998. As a percentage of program funds, the program's administrative costs (3.8 per cent) compare favorably with those of other Commonwealth grant programs (which are between 2 and 18 per cent from recent surveys and audit reports). While there is always a balance to be drawn between the economy of administrative arrangements and the effective delivery of the program, given the Department now has some experience in administering the program, there is scope to review its resource allocation for the program to better match resources to workload and to examine the opportunities to reduce the costs of program delivery. The Department is now beginning to address these issues.

8. In addition, the ANAO, in its review of program administrative arrangements, concluded that:

- the roles and responsibilities of the various stake-holders (such as the Minister, Board, Secretariat, consultants, state advisory panels, and recipients) were well defined and implemented;
- the program has been well promoted and documented, with guidelines, application forms, and other information for prospective applicants which describe accurately all aspects of program decision-making and administration;
- the reasons for Board decisions were well documented; and
- program and project evaluation mechanisms were being developed by consultants at the time of audit and, therefore, formal judgments could not be made concerning the extent to which the program is meeting its objectives efficiently and effectively.

9. In terms of access and equity, the ANAO found that the program has been administered in accordance with the program design and associated guidelines. ANAO's analysis of the Departmental database found that funds were allocated in accordance with the aims and objectives of the program and that decision-making was equitable, with no obvious weighting in the allocation of funds to particular political parties.² For example, projects in Coalition-held electorates accounted for 79 per cent of the applications received, 72 per cent of the approvals and 72 per cent of the funds allocated. This compared to projects in Labor-held electorates which accounted for 17 per cent of applications, 23 per cent of approvals and 23 per cent of the funds allocated. Projects in Independent-held electorates account for the remaining projects.

Agency Response

10. Overall, the Department responded positively to the audit and agreed to the recommendations.

² This analysis was based on the pre-1998 election distribution of seats.

Key Findings

Planning and development

11. The objectives of the program were broadened from those originally approved by Government. This raises issues about the necessary authority for the revised program objectives and has implications for both program and administrative effectiveness. The initial objectives approved by Government were to be along the lines of:

- directly improving telecommunications infrastructure in rural and regional areas, including expanding mobile telephone coverage;
- creating employment opportunities in areas of high rural unemployment by assisting the establishment of customer call centres; and
- enhancing the competitiveness of regional businesses and hence employment prospects by improving the access of regional Australia to state of the art telecommunications facilities.

Final details were to be settled between the Minister for Communications, Information Technology and the Arts, the Prime Minister, the Minister for Finance and Administration, and other relevant Ministers.

12. The objectives published in the program guidelines, which were approved by the Minister, are to “assist the economic and social development of regional, rural and remote Australia by funding projects which:

- enhance telecommunications infrastructure and services in regional rural and remote areas;
- increase access to, and promote use of, services available through telecommunications networks in regional, rural and remote areas; or
- reduce disparities in access to such services and facilities between Australians in regional, rural or remote areas and those in urban areas.”

13. Specific references to employment outcomes and the strategies by which the objectives should be achieved were removed from the original program objectives. There is no evidence to indicate that the changed objectives were referred to the other Ministers as required by the Government’s decision. The ANAO considers that, at least in the interests of better accountability, the Department should have briefed the Minister to advise him that:

- the changed objectives were broader than those initially set by

Government and widened the potential range of projects eligible for funding;

- the revised objectives were more general and would present greater difficulties in evaluating the program (particularly in terms of measuring the degree to which program objectives are achieved); and
- the changes to program objectives were required to be developed in consultation with the other Ministers, as part of the process of settling the final details required by the Government's decision to introduce the program.

Allocations to State and Territory projects

14. The Government determined that State allocations were to be based on the proportion of population living outside each State capital city with a separate allocation to be made to the Territories. The ANAO noted that there was no other needs assessment undertaken to implement the Government's decision on the allocation of funds for telecommunications infrastructure, services or facilities.

Allocation of funds over time

15. The effectiveness of the program may also be affected by the method of allocating funds over time. While program allocations have been spread equally over a five year period at an aggregate level, at the individual State level, projects are approved on a first-come, first-served basis and the rate of funds commitment is variable. This carries with it the risk of insufficient funds being available in the latter part of the program for particular States. For example, \$13 million from the Tasmanian allocation of \$58 million had been committed in the first year compared with \$3.8 million committed from the New South Wales allocation of \$37.4 million. The Board considers that, where pressing community needs have been identified (within overall funding constraints and subject to the strategic priorities for the Program), funding for applications of sufficient quality should be provided for purposes consistent with the program's guidelines and funding criteria. The ANAO accepts that the allocation of funds is a matter for the Board to decide. Nevertheless, funds rationing measures, such as a notional annual allocation for each State, are an option in programs of this type to help ensure sufficient funds are available throughout the life of the program.

Program guidelines

16. The program was well supported with guidelines that provided comprehensive documentation of all aspects of program administration and decision-making (that is, objectives, strategies, administrative arrangements, eligibility and selection criteria). Documentation included

fact-sheets providing general guidance about the program and telecommunications matters; forms for the three phases of the application process (that is, Phase One for registration of the application, Phase Two for development applications and Phase Three for project applications); and detailed Ministerial announcements of Board funding decisions.

Promotion of the program

17. The program was well supported by a comprehensive and focused promotion strategy which strategy that aimed to disseminate information about the program widely to the target audience. This included the use of print and electronic media to achieve wide outreach. The effectiveness of program promotion is expected to be included in evaluation arrangements for the program being developed by the Department at the time of the audit.

Risk of cost-shifting

18. The nature of the program objectives and its design have provided some risk of cost-shifting from the States to the Commonwealth. This is particularly the case where projects had a large health or education component as these areas are often covered by specific Commonwealth/ State funding agreements. Although the Board and the Secretariat were aware of this risk, there have been occasions when the distinction between Commonwealth and State funding responsibilities has been less than clear cut and projects which would seem to involve elements of cost-shifting were still being considered by the Department at the time of the audit.

Administrative arrangements

Clearly defined roles and responsibilities

19. The roles and responsibilities of stake holders were clearly defined and worked to ensure the smooth delivery of the program. The processes of administration, assessment and decision-making were clearly separated, enabling operations to proceed in a timely and orderly manner. However, the administrative processes were relatively resource intensive and required commensurately significant administrative effort to ensure applications moved through the assessment stages to consideration by the Board.

Costs of administration

20. The administrative processes were effective and rigorous but were quite highly structured and labour intensive compared to those of other similar Commonwealth programs. An amount of \$9.6 million has been allocated from program funds to cover administrative costs over the five year period of the program. Administration is undertaken by the program

Secretariat in a branch with an average staff level of 20 for the year ended 30 June 1998. As a percentage of program funds, the program's administrative costs (3.8 per cent) compare favorably with those of other Commonwealth grant programs (between 2 and 18 per cent from recent surveys³ and audit reports). However, many of these latter Commonwealth programs require only limited Commonwealth involvement in administration, whereas the Department applied considerable administrative effort to ensure all applications met Board requirements for consideration.

21. The ANAO acknowledges that, while there is always a balance to be drawn between the economy of administrative arrangements and the effective delivery of the program, given the Department now has some experience in administering the program, there may be scope to reduce the cost of program delivery. In this context, with the settling in of program arrangements and the experience of the Department in administering the program, there is an opportunity for the Department to examine opportunities to streamline the application and approval processes; to review its resource allocation for the program to match resources to workload; and to examine opportunities for reducing the costs of program delivery. The Department is now beginning to address these issues.

Decision-making processes

22. The decision-making processes were rigorous and transparent. Assessment and approval processes were well documented and properly supported, with decision-making vested in the Board and based on recommendations of the Department, after consultation with technical and financial experts and State Advisory Groups.

23. All decisions examined by the ANAO were made against selection and eligibility criteria, and variations by the Board to recommendations of the Secretariat were rare. Board decisions and Secretariat administrative processes were well documented and followed the procedures developed for assessment, consultation and approval of applications.

Equitable decision-making and allocation of funds to projects

24. In reviewing access and equity, the ANAO found that the program has been administered in accordance with the program design and associated guidelines. Access to the program has been facilitated by a

³ Audit Report No.36, 1996-97 *Commonwealth Natural Resource Management and Environment Programs*; and *National Survey of Funding Programs*, Coopers and Lybrand Consultants, April 1997, p. 70.

focused promotion strategy with information widely disseminated across regional and rural areas and across the community at large. Similarly, the equity of the decision-making process is demonstrated by an analysis of 522 project records⁴ which indicated that projects in Coalition-held electorates accounted for 79 per cent (or 413) of applications, 72 per cent of approvals and 72 per cent of the funds allocated. This compared to projects in Labor-held electorates which accounted for 17 per cent (or 109) of applications, 23 per cent of approvals and 23 per cent of the funds allocated. Seats held by Independent members account for the balance.

25. A larger number of project applications was received and approved for Coalition-held electorates than for Labor or Independent electorates. This is consistent with the rural and regional focus of the program and the large number of these electorates held by the Coalition.

26. Although there were variations in the average value of grants between States, and between Coalition-held and Labor-held electorates, these were consistent with the proportion of and value of applications, and the total amount of funds allocated to the State. The average value of grants in NSW was \$191 000 in Coalition electorates, \$56 000 in Labor electorates and \$81 000 in Independent electorates. This compares with an average of \$479 000 for Labor electorates and \$436 000 for Coalition electorates in Tasmania, and \$529 000 for Labor electorates and \$440 000 for Coalition electorates in Western Australia.

27. Overall, there was no evidence of systematic bias beyond that inherent in the focus of the program. The patterns of approvals were consistent with patterns in applications. However, at a State level, the ANAO noted that, with the exception of the Northern Territory which had received only six projects (all of which were approved), a higher proportion of applications were approved in Tasmania (73 per cent) compared with other States (for example, 23 per cent of applications in Queensland and 26 per cent of applications in Victoria). These results could reflect the higher proportion of funds allocated to Tasmania.

⁴ The ANAO analysis focussed on Phase 3 applications (that is, fully developed project proposals) which are recorded on the RTIF database as 522 individual project records worth an estimated \$211 million. Of these, 255 records related to approved projects worth an estimated \$52 million (after adjustment for multi-period and multi-electorate projects). The analysis is based on the distribution of electorates before the October 1998 election. The RTIF database was not designed for analysing projects on an electorate basis and, where an application covers more than one electorate, the total amount of the grant is recorded against each electorate and some multiple counting of the total value occurs. This impact was reduced by averaging grants across the number of electorates that these projects covered. As a result the analysis is indicative only but sufficient to compare satisfactorily the relative weighting of approvals and allocations, or variations between Department recommendations and Board approvals.

Review and evaluation

28. Methods for evaluating both the performance of the program and individual projects were still being identified by the Department at the time of audit. However, an independent consultant has been appointed and is developing both the approach to, and the processes of, evaluation. At an individual project level, the deeds of agreement or memoranda of understanding contained milestones, reporting requirements and performance indicators to help monitor their progress. The ANAO audit coverage did not test this area because the program, and associated projects, were in an early stage of development. However, the ANAO noted that, because the revised objectives are broad and general, they will present difficulties in measuring the extent to which program objectives are achieved.

Recommendations

Set out below are the ANAO's recommendations with report paragraph references and a summary of the Department's responses. More detailed responses and any ANAO comments are shown in the body of the report. The ANAO considers that the Department should give equal priority to all recommendations.

**Recommendation No.1
Para 2.8** The ANAO recommends that the Department brief the Minister on options for consulting with other Ministers on the changes made to the program objectives.

Departmental response: Agreed.

**Recommendation No.2
Para 2.27** The ANAO recommends that the Department review its assessment procedures to examine more stringently the risk of cost-shifting and duplication as part of any assessment criteria.

Departmental response: Agreed.

**Recommendation No.3
Para 3.18** The ANAO recommends that the Department:

- (a) examine opportunities to streamline better application and approval processes to reduce administration costs; and
- (b) review its workflows and resource allocation to ensure that the resources allocated are commensurate with workload.

Departmental response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter outlines background information to Networking the Nation, the Regional Telecommunications Infrastructure Fund, and the objectives and methodology of the audit.

1.1 Networking the Nation was established with effect from 1 July 1997 to support activities and projects designed to meet a range of telecommunications infrastructure and service needs in regional, rural and remote Australia. Funding for the program is provided by the Regional Telecommunications Infrastructure Fund.

1.2 The objectives of the program, as published in the program guidelines, were to assist the economic and social development of regional, rural and remote Australia by funding projects which:

- enhance telecommunications infrastructure and services in regional, rural and remote areas;
- increase access to, and promote use of, services available through telecommunications networks in regional, rural and remote areas; or
- reduce disparities in access to such services and facilities between Australians in regional, rural or remote⁵ areas and those in urban areas.

1.3 Funding decisions made under the program are the responsibility of an independent Board comprising five persons appointed by the Minister for Communications, Information Technology and the Arts. The Board is supported by the Department of Communications, Information Technology and the Arts (DCITA) which provides administrative support to the program through the program Secretariat were established to provide advisory and support services to the Board. The Secretariat is responsible for general administration, assisting the Board by processing and assessing applications, and providing advisory services to the Board, applicants and prospective applicants. A State Government perspective is provided by State Advisory Groups which comment on non-Governmental projects in their states.

1.4 The program consists of a total allocation of \$250 million, or \$50 million per year, for the five years from 1997–98. Funds were allocated to the States and Territories as outlined in Chapter 2 (Table 1 refers).

⁵ "Regional, rural and remote areas" are defined in the guidelines as including any area outside the capital city of each State or Territory.

1.5 Funds were allocated to the States by Government on the basis of the proportion of the population living outside the capital city of each state. A separate \$20 million component of the RTIF has been reserved for the two Territories. Administrative costs of \$9.6 million over the life of the program have been deducted from the individual State allocations, on a pro rata basis, according to the amount of the individual State allocation.

Audit objectives, scope and focus

Audit objectives

1.6 The objectives of the audit were to examine the administration of the program with a view to ascertaining the scope for improving administration and to provide Parliamentary assurance on the efficiency, equity and effectiveness of the management and administrative processes applied in grant the administration of grants under the program.

Audit scope and focus

1.7 The scope and focus of the audit included:

- the planning and design of the program (including the clarity of objectives, roles and responsibilities, the dissemination of information, the existence of clear guidelines that specify the objectives and eligibility criteria);
- the transparency and rigour of the decision-making processes (including equity and consistency, the application of eligibility and selection criteria to assessments and recommendations of the Secretariat and the adequacy of documentation of decisions by the Board; and
- the economy and efficiency of administrative arrangements (including assistance to applicants and the costs and effects of the submission-based approach on administration).

1.8 A schematic representation of the areas of grant administration covered in the audit is presented in Figure 1. Figure 2 illustrates the application process for Networking the Nation.

Audit methodology

1.9 The audit has been performed in accordance with ANAO Auditing Standards and was based on a normative model including criteria developed from previous ANAO audits of grant programs. The criteria applied are presented in the introduction to each section of this report. Fieldwork took place between May and September 1998.

1.10 The audit methodology included interviews with relevant management and operational personnel, the examination and review of Departmental documents including project and administrative documents and files, and analysis of data obtained from the program Secretariat database. In addition, the ANAO sought the views of relevant stakeholders. These views were taken into consideration in forming the audit conclusions. The cost of the audit was \$146 000.

Figure 1

A Framework for Grant Administration

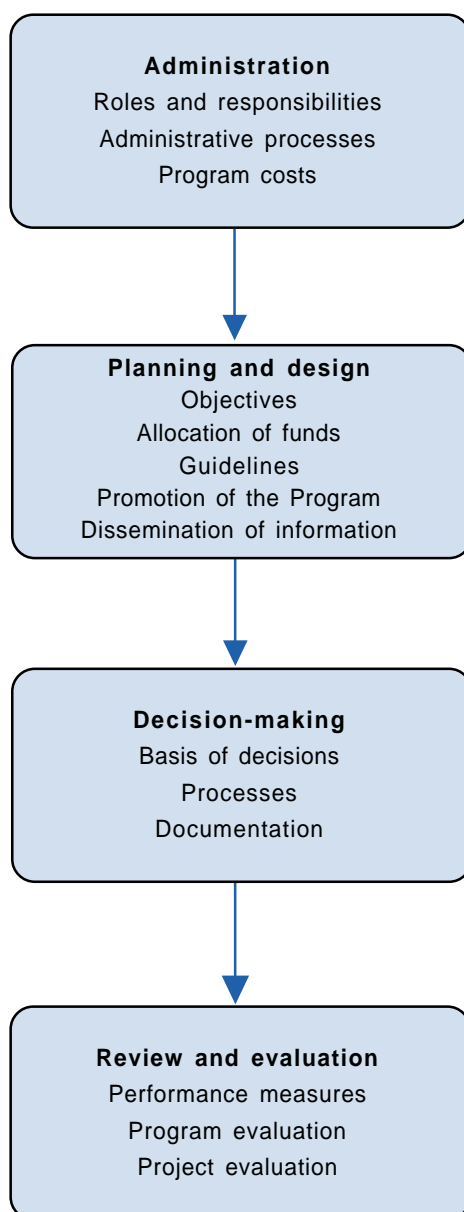
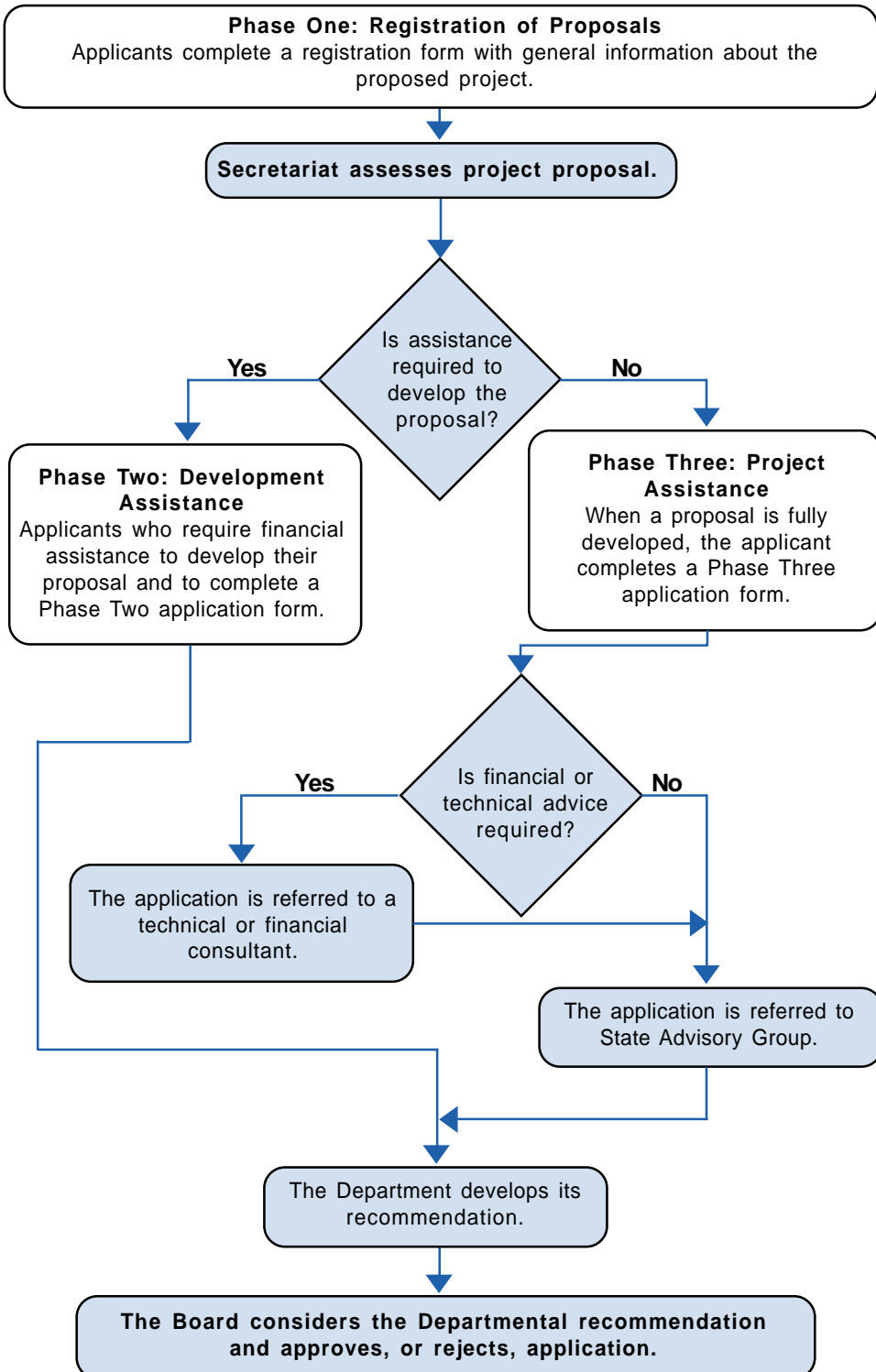


Figure 2
The Networking the Nation Application Process



Previous internal and external reviews

1.11 The program has not been previously audited by the ANAO. However, Commonwealth grants and payments have been audited by the ANAO previously, for example, in the following audits:

- *Community Cultural, Recreational and Sporting Facilities Program* (Report No. 9 of 1993–94);
- *Local Capital Works Program* (Report No.14 of 1994–95);
- *Administration of Grants in the Australian Public Service* (Report No. 32 of 1996–97);
- *Commonwealth Natural Resource Management and Environmental Programs* (Report No. 36 of 1996–97); and
- *Preliminary Inquiries into the Natural Heritage Trust* (Report No. 42 of 1997–98).

1.12 Elements of these audits were incorporated into the approach to the audit model.

1.13 The program was the subject of an internal DOCA audit (Internal Audit Report No.5 of 1998) conducted by KPMG, early in 1998. The internal audit examined the processes for approving grants; the procedures used to identify expenditure of funds; and the scope for any improvements to grant administration. The internal audit concluded that the processes adopted to approve grants were appropriate to meet the program objectives.

2. Planning and design of the program

In this chapter the ANAO examines the extent to which planning and design have enabled the program to achieve its operational objectives in the most economic, efficient and effective manner. This examination included testing for clearly defined objectives, roles and responsibilities, guidelines, the dissemination of information to all stakeholders, and an ongoing process of review and evaluation.

Principles of good practice

2.1 The ANAO sought to establish the extent to which the planning arrangements for *Networking the Nation* were based on the objectives of the program, taking into consideration the inter-relationships of alternative funding sources and similar programs. In particular, the ANAO sought to ascertain the extent to which the planning and design of the program included:

- clearly defined and documented objectives and targets for performance, and milestones, which are clearly linked to, and consistent with, the strategic objectives of the Government and the Department;
- the translation of the objectives into meaningful and documented guidelines for the preparation, lodgement and assessment of applications, together with eligibility criteria for applicants, and selection criteria that ensure only eligible projects and those that are most likely to achieve the program aims and objectives are approved;
- eligibility criteria are consistent with program objectives, documented and specified by legislation where possible;
- clearly specified roles and responsibilities for all stakeholders;
- the promotion of the program to ensure the dissemination of information and awareness of the program reaching as much of the target audience as possible;
- minimised opportunities for duplicating programs or cost-shifting between State and Commonwealth programs; and
- methods for ensuring that there are sufficient funds for high quality projects throughout the life of the program.

Objectives of the program

2.2 The original objectives of the program were specified by the Government to be “along the lines of”:

- the direct improvement of telecommunications infrastructure in rural and regional areas, including expanding mobile telephone coverage;
- the creation of employment opportunities in areas of high rural unemployment by assisting the establishment of customer call centres;
- assisting community-managed non-profit communications projects in regional areas;
- establishing additional Internet points of presence to reduce or eliminate STD charges for Internet access; and
- enhancing the competitiveness of regional businesses and hence employment prospects by improving the access of regional Australia to state of the art telecommunications facilities.

2.3 As part of the Government decision, final details for the program were to be settled between the Ministers responsible for the then portfolio of Communication and the Arts, Finance, the Prime Minister and other relevant Ministers.

2.4 The original objectives set by Government were subsequently broadened in the published program guidelines. These amended objectives, were to

... assist the economic and social development of regional, rural and remote Australia by funding projects which:

- *enhance telecommunications infrastructure and services in regional, rural and remote areas;*
- *increase access to, and promote use of, services available through telecommunications networks in regional, rural and remote areas; or*
- *reduce disparities in access to such services and facilities between Australians in regional, rural or remote areas and those in urban areas.*

Findings

Program objectives

2.5 The ANAO found that the amended objectives were broader than the original Government objectives. The effect of these changes was to widen the range of projects eligible for funding. In addition, because they are more generalised, the revised objectives will present difficulties in evaluating program effectiveness. For example, in the amended objectives the reference to ‘*creation of employment opportunities*’ was replaced with a broader reference, namely, to ‘*assist the economic and social development of regional, rural and remote Australia*’.

2.6 The Department advised the ANAO that the amended objectives were approved by the Minister for Communications and the Arts and that they contain the spirit, if not the letter, of the objectives approved by Government. Changes had been made because the employment component in the original objectives was not necessarily compatible with the objective of increasing telecommunications infrastructure; for example, increased access to telecommunications could have a negative impact on employment in a community. Nonetheless, the ANAO considers that the more general objectives, as amended, have enabled a wider range of projects to become eligible for funding and widened the risk of cost-shifting than would otherwise have been the case.

2.7 The Department was unable to provide the ANAO with any evidence to indicate that these changes were developed in consultation with other Ministers as required by the Government decision. This raises issues about the necessary authority for the revised program objectives. In this regard, the ANAO considers that the Department should have briefed the Minister to advise him on:

- the implications of broadening the objectives of the program, such as the less direct focus on achieving the Government's policy objectives by widening the potential range of projects eligible for funding;
- the revised objectives, which were more general and would present greater difficulties in evaluating the program (particularly in terms of measuring the degree to which program objectives are achieved); and
- his obligation to consult with his Ministerial colleagues in the changes to program objectives as part of the process of settling the final details required by the Government's decision to introduce the program.

Recommendation No.1

2.8 The ANAO recommends that the Department brief the Minister on options for consulting with other Ministers on the changes made to the program objectives.

Departmental response:

2.9 Agreed. The original Government decision required the Department to settle final details of the program between Ministers. At the time of program implementation the major details requiring resolution related to the provision of running costs for the program, which had not been identified in the Government's original decision. These details were settled in correspondence in February/March 1997 between the Minister for Communications, Information Technology and the Arts, and the Minister for Finance and Administration.

2.10 Although the Department viewed the objectives adopted in the implementation of the program as consistent with the requirements outlined in the original decision, in light of the comments made by the ANAO it will brief the Minister on options for consulting with other Ministers on the changes made to the program objectives.

Allocations to State and Territory projects

2.11 The Government determined that State allocations were to be based on the proportion of population living outside each State capital city with a separate allocation to be made to the Territories. No other needs assessment was undertaken to inform the Government’s decision on the allocation of funds for telecommunications infrastructure, services or facilities. The Department implemented the Government decision to provide allocations as per Table 1:

Table 1

Allocation of Funds across States and Territories

<i>State/Territory</i>	<i>\$m</i>	<i>% of population outside metropolitan area</i>	<i>% of Funds allocated</i>
New South Wales	37.4	38	14.9
Victoria	28.5	28	11.4
Queensland	53.1	54	21.2
Western Australia	26.5	27	10.6
South Australia	26.5	26	10.6
Tasmania	58.0	59	23.2
ACT	4.0	0.1	1.6
NT	16.0	54	6.4
Total	250.0		100.00

Source: Department of Communications and the Arts

Allocation of funds over time

2.12 Under the present arrangements funds are allocated, and projects are assessed and approved, in funding rounds held two to three times each year. Although \$50 million has been allocated to the program for each of five years, no annual allocation is made at the State level, where projects are approved on a first-come, first-served basis and the rate of funds commitment at the State level is variable. This carries with it the risk of insufficient funds being available in the latter part of the program for particular States. For example, \$13 million of the Tasmanian allocation of \$58 million had been committed in the first year compared with \$3.78 million committed of the New South Wales allocation of \$37.4 million. There is an opportunity to adopt fund allocation processes at the individual State level to ensure a sufficient level of funds is available for any high quality projects in the latter part of the Program for all States.

2.13 The Department advised the ANAO that the Board recognised the merits of the approach suggested by the ANAO and the pressures on funding allocations in some States and Territories. However, where pressing community needs have been identified (within overall funding constraints and subject to the strategic priorities for the Program), funding for applications of sufficient quality should be provided for purposes consistent with the program's guidelines and funding criteria. The Board considered that its approach is designed to ensure that communities can fully utilise the opportunities presented by the introduction of the NTN program and that there is a real risk such opportunities would be lost and that the current disadvantages of the less well serviced regional, rural and remote communities would become more entrenched by strict rationing of funds. The States have generally supported the Board's approach, and have played an important advisory role in the allocation of funds in their respective jurisdictions. The ANAO accepts that the allocation of funds is a matter for the Board to decide. Nevertheless, funds rationing measures, such as a notional annual allocation for each State, are an option in programs of this type to help ensure sufficient funds are available throughout the life of the program.

Program guidelines

2.14 The ANAO sought to identify the extent to which program guidelines outlined the program objectives, administrative arrangements, the eligibility criteria, the selection criteria and assessment procedures with reasonable clarity. In addition, the guidelines should specify the processes to be applied to review and evaluate procedures.

2.15 Overall, the program was well supported with guidelines that clearly outlined all aspects of program administration and decision-making (including objectives, administrative arrangements, eligibility and selection criteria). In addition grant arrangements were application-based, with applicants required to submit formal application forms that required all relevant information about the applicant and the project. These forms were comprehensive and well designed, covering all three phases of the application process.

2.16 In addition to formal guidelines and comprehensive application forms, the program was supported by a range of general guidance for applicants. This included fact sheets about the program, Board funding priorities, the Universal Service Obligation and the open telecommunications market. Detailed announcements were made by the Minister about Board funding decisions and made available in hard copy, and on the program web-site on the Internet maintained by the Department.

Promotion of the program

The dissemination of information

2.17 The ANAO sought to ascertain the extent to which the program had been promoted and marketed to ensure a high level of interest from a wide range of potential applicants. In particular, the ANAO sought to identify the use of a range of technologies and approaches to ensure the equitable dissemination of information to target groups.

2.18 The program has been well supported by a focused promotion strategy. Information on the program has been widely disseminated across regional and rural areas, and across the community at large. This strategy included the production of brochures and information kits containing fact sheets about various aspects of the program, the use of a toll-free 1800 number and the development of an Internet site. The program has been advertised in major and regional newspapers around Australia and editorial copy was supplied for regional publications, such as *Local Government Focus*.

2.19 In addition, the program has been promoted through a structured and directed approach of media interviews and discussion in various media, particularly radio broadcasting and television in regional and rural areas across Australia. The strategy involves specific measures to improve indigenous access to and outcomes from the program, including the development of a promotional video clip and having Aboriginal people demonstrate particular uses of communications services that meet their cultural needs.

2.20 The effectiveness of program promotion is expected to be included as part of the evaluation arrangements for the program being developed by the Department at the time of the audit.

Risk of cost-shifting and duplication

Risk of cost-shifting

2.21 The broad nature of the program's objectives and its design have increased the risk of cost-shifting from the States to the Commonwealth, that is, for the Commonwealth to fund activities which would normally be the responsibility of the States. Projects involving activities covered by specific Commonwealth/State funding agreements are areas of particular risk, such as those projects that contain a large health or education component.

2.22 The risk of cost-shifting is recognised in guidance material given to prospective applicants and has been of some concern for both the Department and the Board. To minimise the risk, the Department and the Board have applied the selection criteria rigorously, sometimes rejecting or modifying projects considered by State Governments to be a high priority.

2.23 There have been some instances where the distinction between Commonwealth and State responsibilities has not been clear cut. For example, the Tasmanian OPEN-IT project involves the provision of online education and training through the tertiary, TAFE, state and private school sectors in Tasmania. This includes an infrastructure component covering the provision of computers, software, cabling and network equipment. These are responsibilities for which the State Government might be expected to make provision for in its education budget. This project was still being considered at the time of audit.

2.24 There is a range of steps that can be taken to minimise opportunities for cost-shifting. These steps include: specifying the types of payments or projects excluded from funding in any agreements between State and Commonwealth Governments; seeking more definitive information on specific State Government policies and directions, including a specific reference to cost-shifting in the Departmental assessment of applications; and seeking State Government assurance that the program funds sought will not be used to fund activities which would normally be funded by a State Government.

Potential for duplication

2.25 The wide-ranging nature of the program provides potential for duplicating elements of other Commonwealth programs or the Universal Service Obligations (USO) of the major telecommunications carriers. The Department has established some processes for restricting opportunities for applicants to obtain duplicate funding from other Government funding and the USO implications of applications. These processes include requiring applicants to disclose other sources of Government funding and the Department, itself, seeking comment from other agencies as to whether they are likely to contribute to the project. However, the system relies on voluntary disclosure by the applicant and it is possible for program applicants to receive duplicate funding from other Commonwealth agencies. The selection criteria includes consideration of the USO impact.

2.26 The Department of Finance and Administration has developed a centralised database which contains information on all discretionary grants approved by Ministers (DOFA Estimates Memorandum 1998/18, Discretionary Grants—Establishment of a Central Database and Coordination Across Departments refers). The ANAO considers that a database of this type, extended to cover all types of grant programs, should help agencies to identify more readily details of grants being provided under different Commonwealth programs.

Recommendation No.2

2.27 The ANAO recommends that the Department review its assessment procedures to examine more stringently the risk of cost-shifting and duplication as part of any assessment criteria

Departmental response:

2.28 Agreed. The NTN program guidelines note that the RTIF Board will consider proposals from State/Territory and local government departments and agencies on a case by case basis. The guidelines also note that the NTN program will not fund State Government departments and agencies to undertake activities which are considered to be the core business of those bodies.

2.29 As outlined in the ANAO's report, *'to minimise the risk [of cost shifting] the Department and the Board have applied the funding criteria rigorously, sometimes rejecting or modifying projects considered by State Governments to be a high priority.'* Decisions by the Board to fund State Government projects, including in the areas of health and education, have been made on a case by case basis, taking into account the full range of funding criteria, including a key criterion of how such proposals will address identified community needs.

2.30 The Department and Board are also aware of the risks of duplication of elements of other Commonwealth programs or the responsibilities of commercial providers, for example, the Universal Service Obligation (USO), and have already established a number of mechanisms to address this issue, as outlined the ANAO's report. The Department notes the establishment by the Department of Finance and Administration of a centralised database on discretionary grants, as a useful resource for Departments administering funding programs. The Department and Board will continue to pay close attention to NTN assessment procedures to address potential issues of cost shifting and duplication.

Case study—a risk of cost shifting?

OPEN-IT Project TAS 1997/017

The project sought to introduce an integrated approach, over three years, to the provision of on-line education and training through the tertiary, TAFE, state and private school sectors in Tasmania, using telecommunications to address disparities in the delivery of educational services across the state. The project also includes an infrastructure component—the provision of computers, software, cabling and network equipment for the Catholic and independent school sectors. The participants are the Tasmanian Department of Education, the University of Tasmania, TAFE Tasmania, the Association of Independent Schools and the Catholic Education Office.

The Department and the Board agreed that there was insufficient detail provided in the application and requested a revised application. The Board, although sympathetic to the broad objectives of the project, agreed to funding of \$250 000 for developing a strategic/implementation plan and other development activities, such as community consultation to identify educational needs, and hardware and software trials to assist in the planning process. Any further funding would be subject to the Board's consideration.

ANAO Comment: This case indicates the difficulties in ensuring adequate protection of the Commonwealth's interests in Commonwealth/State grant arrangements. Although this project covers a number of State agencies and activities that would normally be funded by the State, as an educational project it is within the framework of priorities agreed by the Board and the Tasmanian Government. The ANAO considers that the specific consideration of the potential for cost shifting as part of the selection criteria would ensure the assessment of risk of cost-shifting is assessed systematically in developing departmental recommendations to the Board.

3. Administrative arrangements

In this chapter the ANAO examines administrative arrangements to ascertain the extent to which they enabled the program to be delivered in the most efficient and effective manner. This examination included roles and responsibilities for all stakeholders, the process of accountability (including administrative and decision-making processes); the allocation and management of resources to ensure the timely delivery of the program in the most cost-effective manner.

Principles of good practice

3.1 The ANAO sought to establish the extent to which the administrative arrangements facilitated the delivery of the program in the most efficient and effective manner. In this regard the ANAO sought to identify the extent to which the administrative arrangements:

- clearly defined roles and responsibilities for all stakeholders, with separation of Departmental processing from Board decision-making;
- provided a transparent process of accountability with clear and documented administrative and decision-making processes (including comprehensive documentation of applications, Departmental assessments and Board recommendations);
- ensured that resources were targeted to ensure the timely delivery of the program in the most cost-effective manner, with organisational structures focused on achieving specific outcomes and outputs; and
- were based on best, or at least better, practice for the delivery of this type of program.

Administrative processes

3.2 Funding decisions are made by an independent five person Board, appointed by the Minister, which is responsible for deciding the allocation of grants and for the general oversight of the program. Administrative support to the Board is provided by the RTIF Branch which comprised a staff of 20 as at 30 June 1998, drawn from the Department of Communications, Information Technology and the Arts. The Branch makes recommendations and provides reports to the Board. The Minister for Communications, Information Technology and the Arts is not involved in the Board decision-making processes.

3.3 The application process involves the following three steps:

- *Phase One*—all applicants lodge a Registration of Proposal Form with the RTIF Secretariat which outlines the proposed project; the Secretariat

assesses whether the application should proceed to Phase Two or Phase Three.

- *Phase Two*—this consists of seeding grants up to \$10 000 to help applicants to gather the information for a Phase Three application, by carrying out consultations or obtaining further information. \$500 000 is available in total each year for Phase Two applications.
- *Phase Three*—this is funding assistance for actual projects. There is no upper limit on individual projects for this assistance.

3.4 Key features of the administrative arrangements include:

- the role of the Minister for Communications, Information Technology and the Arts which is limited to appointing the Board, approving the program guidelines and terms of reference of the Board, and, at the conclusion of each funding round, to announcing the successful projects;
- the responsibilities of the Board for determining the activities and the projects to be funded, and for ensuring that the level of funding accords with the program guidelines and the overall state and territory funding limits; Board decision-making is based on the selection criteria outlined in the program's guidelines and the application documents. Each application is assessed on its merits against these criteria and in competition with other proposals;
- the administrative support of the Department, through the program Secretariat, which provides administrative support and advisory services to the Board. A State Manager and project staff are responsible for each State and Territory. Each State and Territory has a State Advisory Group nominated by the State Government which provides advice on State priorities and policies for telecommunications and information technology, and comments on individual projects. In addition the Department uses financial and telecommunications consultants to advise on particular projects where necessary; and
- the responsibilities of the grant recipient which are clearly defined in a memorandum of understanding negotiated with State Government recipients or are outlined in a deed of agreement in the case of non-Government recipients.

Findings

Clearly defined roles and responsibilities

3.5 Roles and responsibilities of all stakeholders have been clearly defined and specified and have worked to ensure the smooth delivery of the program. The processes of administration, assessment (including state and expert consultation) and decision-making have been clearly

separated and enable operations at each stage to proceed without interference from other stakeholders.

A transparent process of accountability

3.6 The administrative processes provide a transparent process of accountability for orderly processing and they clearly separate administration from decision-making. However, the administrative processes are resource intensive and require significant administrative effort to progress applications through to consideration by the Board.

3.7 All applications are assessed by the Secretariat at each stage of the process and the Secretariat places a high priority on case managing proposals to ensure that proposals are developed in ways consistent with program guidelines, funding priorities and ensure the best possible outcomes for communities. Applications from non-State Government bodies are sent to the relevant State Advisory Group for their views. The Department may also refer any application to its financial and technical consultants where it considers this to be necessary. After these steps have been completed, the Secretariat prepares a detailed recommendation on each project to the Board, including any advice it obtains from State Advisory Groups and its consultants.

3.8 The present administrative arrangements provide for a State, or Case Manager, and support positions for each State. This is regardless of the workload (such as the number and complexity of applications, the size and population, and the funds allocated to each State). As such, these arrangements do not represent the optimum use of resources. Conversely, these arrangements ensure that the applications referred to the Board are of a high quality and that all eligibility and selection criteria have been addressed. This system also provides applicants and State Advisory Groups with a readily identifiable point of assistance in the Department. In the long term, the Department may wish to propose, for Board consideration, more streamlined processing, on the basis of priorities set by the Board. This process could be introduced without changing the present decision-making authority of the Board.

The timely processing of applications

3.9 Overall, the processing of applications is orderly and timely. The ANAO analysed a sample of 48 grants, selected on a combination of random and judgment basis, to ascertain the extent to which the administrative processes ensured the timely processing of applications. This sample was separate to the 30 applications used to test the decision-making processes and compliance with the programs own procedures (paragraph 4.4 refers). The results indicated that there was an average

of 37 days between the formal submission of proposals and the completion of the Department's recommendation, with the range between 21 days (Western Australia) and 63 days (Northern Territory). There was an average of 11 days between the development of Departmental recommendations and Board decisions; this was largely because there were three funding rounds annually and Departmental assessments were timed for Board consideration in the funding round.

3.10 Variations between the individual States can occur for a variety of reasons, including differences in the number of applications received from States and Territories, the technical complexity of projects, the standard of applications received and the time taken by applicants to progress applications between the different stages. The Department applies considerable effort to ensuring that applications are of a high standard for Board consideration. In the light of the technical nature of the projects the ANAO considers that the average time taken to process applications (that is from Phase 1 to Board consideration) is reasonable.

Costs of administration

3.11 The administrative processes are highly structured and labour intensive. Administrative costs have been set at \$9.6 million over the life of the program to be met from program funds of \$250 million. These costs are deducted from the individual State allocations on a pro rata basis according to the amount of the individual State allocation. The administrative costs include the costs of a consultancy to evaluate the program. Administrative costs have been allocated over time as follows:

- \$2.194 million for 1997–98;
- \$1.757 million per annum for each year from 1998–99 to 2001–02; and
- \$0.384 million for 2002–03.

3.12 In negotiating program administrative costs with the Department, the Department of Finance and Administration indicated that it considered the level of running costs to be too high for a program of this type. DoFA proposed an alternative model for administration which would have resulted in running costs of 2.5 per cent of program funds, compared to the 3.8 per cent proposed for the RTIF model.

3.13 As a percentage of program funds, program administrative costs (between 3.6 and 4.3 per cent) are slightly higher than other Commonwealth programs (between 2 and 4.2 per cent as per Table 2). However, many of these programs involve funds being directly transferred to other public agencies with administrative infrastructure in place. Program administrative costs are reasonable when compared to a national survey of grant programs in which the ratio of

administrative/support costs to total funds ranged from 8 to 18 per cent of total funds for Federal Government programs.⁶(Table 3 refers). However, because of measurement differences, accurate and reliable data on administrative costs are limited and care should be taken in comparing results.

Table 2
Comparison of program administrative costs

Program	Average annual Program costs (\$)	Administrative resources applied		Administrative cost as % of program costs
		ASL	\$ 000	
RTIF (year 1)	50 000 000	24	2 194	4.3
RTIF (years 2 to 4)	50 000 000	18.5	1 757	3.6
START (years 2 to 4)	100 000 000	*	2 600	2.6
NLP Commonwealth— State & Community	84 171 000	18.3	1 661	2.0
NLP National	3 574 000	1.6	150	4.2
OBT Service delivery	4 300 000	1.3	84	2.0

Source: Performance Audit: *Commonwealth Natural Resource Management and Environment Programs* (Audit Report No.36, 1996–97) * ASL not available at time of report.

Table 3
Ratios of administrative and support costs to total funds

Agency	Range of ratios
Federal Government	8%–18%
State Government	8%–15%
Joint Federal/State Government	14%–24%
Local Government	11%–17%
Philanthropic	5%–15%
Large Corporates	12%–19%
Small Corporates	6%–18%

Source: Coopers and Lybrand ⁷.

3.14 The Department advised that many applicants were from the non-Government sector and had only limited experience in the telecommunications sector or in dealing with Commonwealth grant programs. Consequently, considerable effort could be required to ensure that applications covered all relevant technical, financial and

⁶ Ibid, p.70;

⁷ Ibid. The authors warn that the average ratio of administrative/support costs to total funds (12 per cent) should not necessarily be used as a performance target or industry benchmark given the different cost structures and accounting practices of the survey respondents.

administrative issues and were of a sufficiently high standard for Board consideration. However, the ANAO notes that approximately 40 per cent of applicants are from the State and Local Government sector and could reasonably be expected to have some knowledge of the Government funding requirements.

3.15 The ANAO acknowledges that, while there is always a balance to be drawn between the economy of administrative arrangements and the effective delivery of the program, there may be scope to reduce the cost of program delivery. However, the present arrangements do not provide any incentive for the Department to examine the cost of program delivery or review its administrative arrangements. In this context, there are alternative forms of program delivery for grant programs that could have been considered, as indicated in the following section. With the settling in of program arrangements, there is an opportunity for the Department to examine opportunities to streamline the application and approval processes, to review its resource allocation for the program to match resources to workload and to examine opportunities for reducing the costs of program delivery.

Better practice forms of program delivery

3.16 The administrative arrangements for the program involve the use of an application-based model in which the onus is on applicants to identify particular needs for telecommunications services and infrastructure. The nature, cost and structure of individual proposals can vary significantly and present challenges in ensuring sufficient funds are available over the life of the program, particularly for high quality projects in the latter years of the program. In addition, the application-based approach to delivery requires the applicant to identify the initial need for particular services and infrastructure. It necessitates an extensive process of examination, including State Advisory Groups, and Departmental telecommunications and financial consultants as required. As a consequence this process is relatively resource-intensive.

3.17 There are several alternative forms of program delivery that may be more cost-effective, such as a submission-based approach or the use of competitive tenders. For example:

- the submission-based approach invites submissions to address particular service or infrastructure needs that have been identified by the Department in consultation with key stakeholders. This approach provides greater certainty regarding the need for the project, the particular technical competencies required of the applicant and the identification of desired outcomes and outputs. Departmental

assessment is simplified because applications must be directly outcome/output focused on needs previously identified; and

- the competitive tender approach which invites tenders to deliver particular pre-determined outputs or outcomes. Tenders are competitive and are usually based on delivering least-cost solutions to pre-determined needs for services or infrastructure. Under this approach the agency is responsible for administration of the tender and ensuring that the tender provides the outcomes sought. The Department advised the ANAO that it had explored other forms of program delivery in designing in implementing the program and considered that the submission-based approach would most readily ensure strong community involvement in the Program.

Recommendation No.3

3.18 The ANAO recommends that the Department:

- (a) examine opportunities to streamline better application and approval processes to reduce administration costs; and
- (b) review its workflows and resource allocation to ensure that the resources allocated are commensurate with workload.

Departmental response:

3.19 The Department agrees with Recommendation 3(a). In February 1999 the NTN Secretariat undertook a corporate planning exercise to examine a range of issues relevant to the effective administration of the NTN program and to identify strategies to address them. The Secretariat has established a working group which is currently examining a range of administrative processes, including application and approval processes. The aim of the working group is to identify processes which, in view of the increasing workload of the Secretariat, will enable it to administer the program in the most effective and accountable ways;

3.20 The Department agrees with Recommendation 3(b). Consistent with the above, the Secretariat has examined its current and anticipated workflows, which include ongoing case management and assessment of proposals; increased administration of projects deeds (over 190 projects have been approved to date, with a further major funding meeting to be held in mid-May 1999) and program evaluation, including the dissemination of information on the lessons learned from the program, to assist regional strategic planning and departmental policy development. Given the need to accommodate the Secretariat's increasing workload within the current staffing resources, the Secretariat has already introduced more flexible staffing arrangements as workloads require.

For example, in cases where at present some States/Territories have comparatively less demanding workloads, it has been possible to allocate responsibility for two jurisdictions to one state manager. The Secretariat will continue to implement flexible staffing arrangements in response to workflow requirements. Nevertheless, the Secretariat also recognises the value of retaining case/state managers to work predominantly with the applicants from particular jurisdictions, in order to develop the knowledge base of Secretariat staff on State specific issues.

4. Decision-making

In this chapter the ANAO examines decision-making processes to ascertain the degree to which they provide transparency and accountability based on objective assessment against selection criteria and supported by adequate documentation.

Principles of good practice

4.1 The ANAO sought to establish the extent to which the decision-making process was transparent and accountable. In particular the ANAO sought to establish the extent to which:

- decision processes were open, fair and equitable and provided accountability for decisions;
- decision-making was free from systematic bias in the distribution of grant funding;
- decisions were based on objective assessment against selection criteria that were known and understood by all stakeholders; and
- decisions were supported by adequate documentation.

4.2 The ANAO undertook analysis of grants using data obtained from the program database. Although the database holds comprehensive information on applications, its suitability for analysis is limited; the database is structured to record grants on a project, rather than an electorate, basis. Where an application covers more than one electorate, the total amount of the grant is recorded against each electorate and results in multiple counting. The ANAO reduced this effect by averaging multi-electorate grants. The analysis is indicative only but sufficient for identifying bias in approvals and allocations, or variations between Department recommendations and Board approvals.

4.3 At the time of audit, the Program had received an estimated 302 applications worth approximately \$247 million. On the Departmental database, these are recorded as 522 individual records worth an estimated \$211 million (after adjustment for multi-electorate and multi-state projects).⁸ Of the 522 project records, 255 projects worth an estimated \$52 million had been approved as at 30 June 1998. Analysis of the database records of the number and value of applications and approvals by State is presented in the tables later in this chapter.

⁸ The Departmental figures include Phase 1 (project development proposals) whereas, for analytical purposes the ANAO focussed on Phase 3 applications (that is, fully developed project proposals). These are recorded on the Departmental database as 522 individual records worth an estimated \$211 million.

4.4 In addition, analysing grant details using the database records, the ANAO examined a sample of 30 applications, selected on a combination of random and judgment basis, to test the decision-making processes and compliance with the program's procedures. This sample was separate to the 48 applications examined to assess administrative processes (paragraph 3.9 refers).

Findings

Decision processes

4.5 Assessment and approval processes are rigorous, transparent, well documented and properly supported. There is a clear separation of responsibilities between the Minister, the Board and the Department. Decision-making is vested in the Board, based on the recommendations of the Department after consultation with technical and financial experts, and State Advisory Groups. All decisions are made against selection and eligibility criteria.

4.6 Board variations to the departmental recommendations are rare. For example, after the March 1998 funding round, the database records indicate that in fewer than eight out of 93 approved projects, the Board had varied the departmental recommendations. In one case, the OPEN-IT project in Tasmania, the Department recommended funding of \$1.7 million but the Board required the development of a strategic plan for the project (for which it allocated \$250 000) before it would consider the larger amount.

Documentation of decisions and recommendations

4.7 Approved projects are publicised via Ministerial announcements and unsuccessful applicants are told in writing why their applications were unsuccessful. Several stakeholders advised the ANAO that it would help prospective applicants if information on the Board's reasoning about the different types of application could be made publicly available. The ANAO considers there would be merit in providing this information in a way that retains the privacy of applicants.

4.8 Board decisions and departmental recommendations are thoroughly documented and follow the documented processes for each stage of the administrative, assessment and approval processes. Each category of project assistance (Phase Two and Phase Three) has specific selection criteria which are used to assess applications. The Minister is provided with general details of applications pending Board decisions but has no role in the assessment and approval processes.

4.9 Applications accepted for Board consideration are closely scrutinised by the Department. From this scrutiny the Department may

sometimes suggest improvements to the submission which may also be referred to telecommunications and/or financial consultants for closer examination on the technical and financial viability of the proposal and for suggestions on project implementation. The application is also referred to the appropriate State Advisory Group for comment and recommendation. Following this stage the Department prepares its recommendation to the Board, incorporating the views of the State Advisory Groups and its consultants.

Equity in the approval of projects

4.10 Equity is an important element in all Commonwealth programs which provide financial assistance. In view of concerns expressed in other Commonwealth programs about even-handed treatment in the approval of projects and the allocation of funds⁹, the ANAO undertook an analysis of the allocation of funds to ascertain the extent to which decision-making was equitable.

4.11 Overall, funds have been allocated in accordance with the aims and objectives of the program and the results of the ANAO analysis of the database indicated the absence of party political weighting in decision-making. Although Coalition electorates received greater funding in aggregate than other parties, this occurred because more applications were received for projects located in provincial and rural electorates (which were predominantly held by the Coalition).

4.12 Comparison of the total number of applications and approvals confirms the equity of decision-making with the patterns of funding approval generally consistent with the patterns of applications. For example, analysis of the 522 project records (as per Tables 4 and 5) indicates that:

- projects in Coalition-held electorates accounted for 79 per cent (or 413) of the number of applications received, 72 per cent (or 183) of the number of approved applications, 83 per cent (or \$175.6 million) of the total funds sought and 72 per cent (or \$35.8 million) of the funds approved;
- projects in Labor-held electorates accounted for 17 per cent (or 88) of the applications received, 23 per cent (or 59) of the approved applications, 12 per cent (or \$26.1 million) of the total funds sought and 23 per cent (or \$11.9 million) of the funds allocated; and

⁹ *Preliminary Inquiries into the Natural Heritage Trust* (Audit Report No.42 of 1997–98), *Commonwealth Natural Resource Management and Environmental Programs* (Audit Report No.36 of 1996–97), *Administration of Grants in the Australian Public Service* (Audit Report No.32 of 1996–97), *Local Capital Works Program* (Audit Report No.14 of 1994–95) and *Community Cultural, Recreational and Sporting Facilities Program* (Audit Report No.9 of 1993–94).

- projects in Independent-held electorates accounted for four per cent (or 21) of the applications received, five per cent (or 13) of the approved applications, four per cent (or \$8.9 million) of the total funds sought and five per cent (or \$4 million) of the funds allocated.

Table 4

Total number of applications and approvals, by State

State	Total number of applications			Total number of approvals		
	Coalition	Labor	Independent	Coalition	Labor	Independent
NSW	77	15	4	47	14	3
VIC	95	7	0	27	0	n/a
QLD	112	4	2	28	0	0
WA	29	8	15	20	6	10
SA	32	0	0	17	n/a	n/a
NT	6	0	0	6	n/a	n/a
TAS	37	47	0	26	36	n/a
ACT	0	6	0	n/a	3	n/a
MST ^(a)	25	1	21	12	0	0
Total	413	88	21	183	59	13
% of total	79%	17%	4%	72%	23%	5%
GRAND TOTAL			522	GRAND TOTAL		255

Source: Departmental data base as at 30 June 1998

n/a - No applications were received.

(a) Multi-State Projects—projects covering more than one State

Table 5

Total value of applications and approvals, by State

State	Total value of applications \$m			Total value of approvals \$m		
	Coalition	Labor	Independent	Coalition	Labor	Independent
NSW	\$28.918	\$0.935	\$0.478	\$2.555	\$0.736	\$0.233
VIC	\$26.906	\$0.631	\$0	\$3.212	\$0	n/a
QLD	\$41.277	\$0.583	\$1.384	\$8.131	\$0	\$0
WA	\$12.319	\$3.238	\$7.040	\$6.439	\$2.513	\$3.846
SA	\$19.580	\$0	\$0	\$5.279	n/a	n/a
NT	\$12.578	\$0	\$0	\$3.672	n/a	n/a
TAS	\$22.175	\$19.186	\$0	\$5.737	\$8.630	n/a
ACT	\$0	\$1.507	\$0	n/a	\$0.027	n/a
MST ^(a)	\$11.902	\$0.057	\$0	\$0.791	\$0	n/a
Total	\$175.655	\$26.137	\$8.903	\$35.817	\$11.906	\$4.079
% of total^(b)	83%	12%	4%	72%	23%	5%
GRAND TOTAL			\$210.695	GRAND TOTAL		\$51.802

Source: Departmental data base as at 30 June 1998

n/a - no applications were received.

(a) Multi-State Projects - projects covering more than one State

(b) contains rounding adjustments

4.13 Although there were variations between States, similar weightings were evident in comparing approvals as a percentage of total applications received, as indicated in Table 6, for example:

- in NSW, applications involving projects in Coalition-held electorates accounted for 80 per cent of applications and 73 per cent of approvals; applications involving projects in Labor-held electorates accounted for 16 per cent of applications and 22 per cent of approvals, and applications involving projects in Independent-held electorates accounted for four per cent of applications and five per cent of approvals;
- in Western Australia, applications involving projects in Coalition-held electorates accounted for 56 per cent of applications and 56 per cent of approvals; applications involving projects in Labor-held electorates accounted for 15 per cent of applications and 17 per cent of approvals, and applications involving projects in Independent-held electorates accounted for 29 per cent of applications and 27 per cent of approvals; and
- in Tasmania, applications involving projects in Coalition-held electorates accounted for 44 per cent of applications and 42 per cent of approvals; applications involving projects in Labor-held electorates accounted for 56 per cent of applications and 58 per cent of approvals, and there were no applications or approvals involving Independent-held electorates.

Table 6
Comparison of applications and approvals by State

State	Percentage of applications received			Percentage of projects approved			Applications approved (%)
	Coalition	Labor	Independent	Coalition	Labor	Independent	
NSW	80	16	4	73	22	5	66
VIC	93	7	0	100	0	0	26
QLD	95	3	2	100	0	0	23
WA	56	15	29	56	17	27	69
SA	100	0	0	100	0	0	53
NT	100	0	0	100	0	0	100
TAS	44	56	0	42	58	0	73
ACT	0	100	0	0	100	0	50
MST^(a)	96	4	0	100	0	0	46
% of total	79%	17%	4%	72%	23%	5%	

Source: Departmental data base as at 30 June 1998

(a) Multi-State Projects - projects covering more than one State

4.14 The patterns of approvals were consistent generally with patterns in applications, although there were some variations at a State level. Except for the Northern Territory (in which all six applications received were approved), a higher proportion of applications were approved in the Tasmania (73 per cent) compared with those in other States (for example, 23 per cent of applications in Queensland and 26 per cent of applications in Victoria). These results may reflect the higher proportion of funds allocated to Tasmania.

4.15 The ANAO also found there were significant variations in the average value of grants between States but general consistency within States, tending to reflect the number of applications received and the funding allocation to individual States. For example, as indicated in Table 7:

- the highest average value of grants was \$612 000 (Northern Territory) and the lowest average value was \$9000 (for development projects in the ACT); in the Northern Territory the projects sought (and funded) were larger;
- the average funding approval in NSW was \$54 000 in Coalition electorates, \$53 000 in Labor electorates and \$78 000 in Independent electorates; this compares with the average funding approval in Tasmania of \$221 000 for Coalition electorates and \$240 000 for Labor electorates, and \$322 000 for Coalition electorates, \$419 000 for Labor electorates and \$385 000 for Independent electorates in Western Australia; and
- in terms of percentages, at a State level, funds approved compared to funds sought tended to be weighted in favour of Labor electorates; for example, in Western Australia project approvals in Labor electorates averaged 103.5 per cent of funds sought compared to 75.8 per cent for Coalition electorates, in New South Wales project approvals for Labor electorates averaged 84.3 per cent of funds sought compared to 14.5 per cent for Coalition seats, and, in Tasmania, where projects in Labor seats averaged 58.7 per cent of funds sought compared to 36.8 per cent for projects in Coalition electorates.

Table 7

Average value of approved grants as a percentage of average value of applications by State

State	Average funding approval (\$)			Average funds approved as a percentage of funds sought (%)		
	Coalition	Labor	Independent	Coalition	Labor	Independent
NSW	54 000	53 000	78 000	14.5	84.3	65.0
VIC	119 000	n/a	n/a	42.0	n/a	n/a
QLD	290 000	n/a	n/a	78.8	n/a	n/a
WA	322 000	419 000	385 000	75.8	103.5 ^(b)	81.9
SA	311 000	n/a	n/a	50.7	n/a	n/a
NT	612 000	n/a	n/a	29.2	n/a	n/a
TAS	221 000	240 000	n/a	36.8	58.7	n/a
ACT	n/a	9 000	n/a	0.0	3.6	n/a
MST^(a)	66 000	n/a	n/a	13.8	n/a	n/a
National Average	196 000	202 000	314 000			

Source: Departmental data base as at 30 June 1998

n/a - no applications were received.

(a) Multi-State Projects - projects covering more than one State

(b) In one project the approved amount was increased.

4.16 Comparison of approvals to total applications, by location of electorate, confirms the equity of decision-making. For example, Figure 3 indicates the following:

Inner Metropolitan electorates

- In Inner Metropolitan electorates, 50 per cent of applications in Coalition electorates were approved compared to 62 per cent of applications in Labor electorates.

Outer Metropolitan

- In Outer Metropolitan electorates, 48 per cent of applications in Coalition electorates were approved compared to 76 per cent of applications in Labor electorates.

Provincial

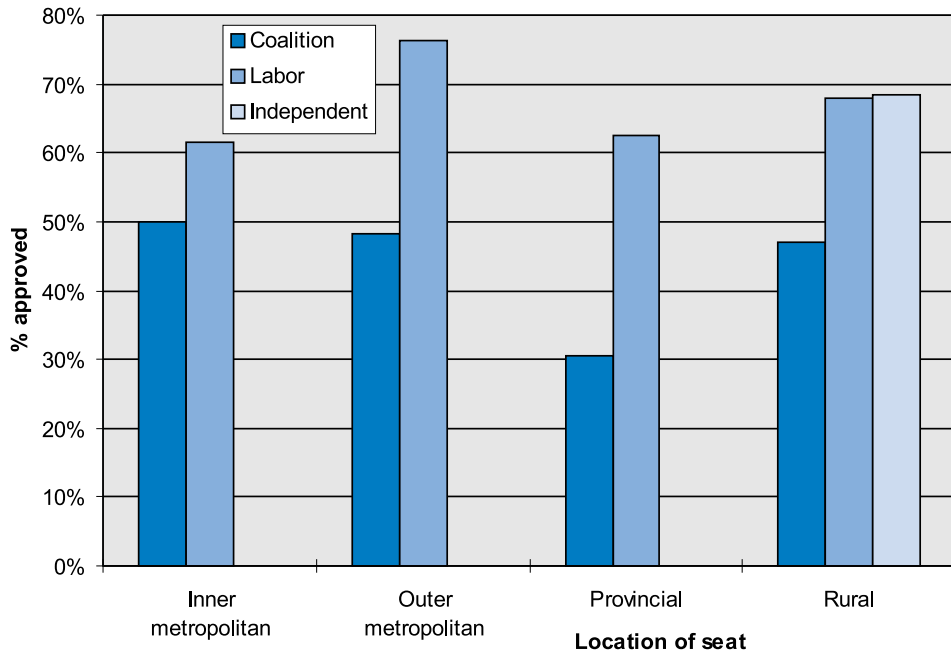
- In Provincial electorates, 31 per cent of applications in Coalition electorates were approved compared to 63 per cent of applications in Labor electorates.

Rural

- In Rural electorates, 47 per cent of applications in Coalition electorates were approved compared to 68 per cent of applications in Labor electorates and 68 per cent of Independent electorates.

Figure 3

Approved projects compared to applications received (by location of electorate)



4.17 As part of its analysis, the ANAO examined the approval of funds by the status of the electorate (that is Marginal, Fairly Safe and Safe)¹⁰ (Figure 4 refers). There were some indications of apparent weighting in terms of the average value of approvals by electorate status. However, this reflected the pattern of applications rather than particular weighting arising from the decision-making process and it varied across electorate status. Overall, the results indicated the following:

Marginal electorates

- In Marginal electorates, (that is, where the winning candidate receives less than 56 per cent of the vote), the average grant for projects in Labor-held electorates was \$254 565 compared with an average of \$213 279 for projects in Coalition-held electorates.

Fairly safe electorates

- In Fairly Safe electorates, (that is, where the winning candidate receives between 56 per cent and 60 per cent of the vote), the average grant for projects in Labor-held electorates was \$57 272 compared with an average of \$119 667 for projects in Coalition-held electorates (there were a larger number of higher value applications from Coalition-held electorates).

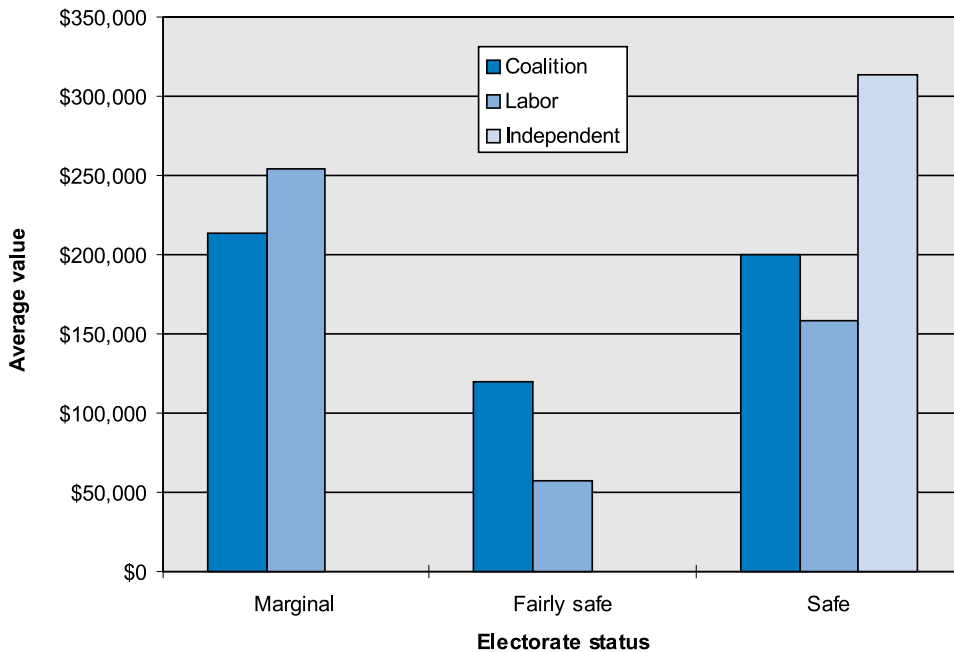
¹⁰ This analysis was based on the pre-1998 election distribution of seats.

Safe electorates

- In Safe electorates, (that is, where the winning candidate receives greater than 60 per cent of the vote), the average grant for projects in Labor-held electorates was \$158 070 compared with an average of \$200 503 for projects in Coalition-held electorates.

Figure 4

Average value of grants approved (by electorate status)



4.18 The analysis indicates that the average value of project approvals was significantly greater for Independent electorates (\$314 000) than for Labor electorates (\$202 000) or Coalition electorates (\$196 000) (Table 8 refers). Variations to Departmental recommendations were rare and there was a relatively even spread in the differences between Departmental recommendations and Board approvals. For example, the average difference was -\$30 000 (or minus 13 per cent) for Coalition electorates, -\$50 000 (or minus 20 per cent) for Labor electorates and -\$3000 (or minus one per cent) for Independent electorates.

Table 8**Comparison of the average value of recommendations and approvals**

<i>Political Party</i>	<i>Average value of Departmental Recommendations (\$000)</i>	<i>Average value of Board approvals (\$000)</i>	<i>Difference between average recommendations and approvals (\$000)</i>	<i>Percentage difference between average recommendations and approvals ^(a)</i>
Coalition	226	196	- 30	- 13
Labor	252	202	- 50	- 20
Independent	317	314	- 3	- 1
Total	264	237	- 27	- 11

Source: Departmental data base as at 30 June 1998.

(a) All numbers are rounded up to the nearest 000 or whole number

4.19 Nationally, average funding per project was relatively even across Coalition, Labor and Independent electorates. Analysis of the proportional distribution of projects and funding across political parties shows relatively little variation in the weighting of the number and value of Board approvals and Departmental recommendations. For example, the number of projects in Coalition electorates accounted for 72 per cent of total recommendations and 72 per cent of total approvals. Similarly, there was an even spread in the value of recommendations and approvals. For example, projects in Labor electorates accounted for 25 per cent of the recommended funding and 23 per cent of the approved funding. (Tables 9 and 10 refer)

Table 9**Comparison of Departmental recommendations and Board approvals**

<i>Political Party</i>	<i>Departmental recommendations</i>			<i>Board approvals</i>		
	<i>No. and percentage of projects</i>	<i>Value and percentage of recommendations</i>	<i>Average value per project (\$000)</i>	<i>No. and percentage of projects</i>	<i>Value and percentage of Board approvals</i>	<i>Average value per project (\$000)</i>
Coalition	189 (72%)	\$42.7m (69%)	226	183 (72%)	\$35.8m (69%)	196
Labor	61 (23%)	\$15.4m (25%)	252	59 (23%)	\$11.9m (23%)	202
Independent	13 (5%)	\$4.0m (7%)	316	13 (5%)	\$4.0m (8%)	314
Total	263 (100%)	\$62.1m (100%)	264	255 (100%)	\$51.8m (100%)	237

Source: Departmental data base as at 30 June 1998.

(a) All numbers are rounded up to the nearest 000 or whole number

Table 10**Differences between Board approvals and Departmental recommendations**

<i>Political party</i>	<i>No. and % difference between no. of approvals and no. of recommendations</i>	<i>Value and % difference between approvals (\$) and recommendations (\$m)</i>	<i>Difference between average value per approval and recommendations (\$)*</i>
Coalition	6 (3%)	-\$6.9m (16%)	- \$30 000
Labor	2 (3%)	-\$3.5m (13%)	- \$50 000
Independent	0 (0%)	0* (99%)	- \$3 000
Total	8	\$10.4m	

(a) Rounded to nearest whole number or \$000;

Public versus private benefit

4.20 The nature of the program is such that consideration of public versus private benefit is unclear. Although due consideration is given by the Department and the Board to the protection of Commonwealth interests when issues involving private benefit arise, because of the design of the program it is difficult to clearly separate public and private benefit. There is an opportunity for the Department, in consultation with the Board, to develop criteria to assist it in assessing applications. The ANAO noted that the Board was conscious of the potential for conflict of interest and had either rejected or required re-arrangement of some projects to overcome Board concerns about private benefit. The inclusion of this element formally into the assessment process should facilitate consistency in developing recommendations and minimise the risk of approving applications which contain a significant private benefit component.

5. Program review and evaluation

In this chapter the ANAO briefly examines the processes for program review and evaluation and the degree to which programs and projects were reviewed periodically for economy, efficiency and effectiveness. This included the use of performance information and a formal system of performance reporting.

Principles of good practice

5.1 The existence of review and evaluation processes is a key element in establishing that the grant program retains its relevance and for ascertaining the effectiveness of the program and whether there are better ways of achieving its objectives. Ideally, evaluation mechanisms and performance measurement and/or assessment should be established when programs are first developed.

5.2 The ANAO sought to establish the existence of a process of review and evaluation to ascertain the extent to which:

- both the program and individual projects were reviewed to ensure their economy, efficiency and effectiveness;
- performance information had been developed and applied for evaluation purposes; and
- evaluation was undertaken independently of program managers.

Findings

Evaluating program and project performance

5.3 At the time of the audit, methods for evaluating overall Program performance and the operation of individual projects were still being identified by the Department. Ideally, evaluation mechanisms for both the Program and individual projects should have been developed at the time the Program was introduced as part of the integration of the planning, implementation and evaluation phases. The Department has engaged external consultants to develop its approach to project and program evaluation. The Department of Finance and Administration guidelines on evaluations¹¹ should assist the Department to develop a satisfactory approach.

¹¹ *Doing Evaluations; A Practical Guide*, Department of Finance, AGPS 1994

Program review and evaluation

5.4 At the program level, the Department has commissioned a formal, comprehensive evaluation of the Program by external consultants. This evaluation, which will not be completed until the end of the program in five years time, will examine how effectively and efficiently the objectives of the Program have been achieved and will also review individual projects. The consultants were appointed earlier in 1998 and are implementing the management plan agreed with the Secretariat. Both because of this and the relative youth of the Program, it is too early to reach any conclusions about the effectiveness of the evaluation mechanism and the degree to which the Program is achieving its objectives. In this context, the broadening of the Program objectives will make the evaluation more difficult to undertake.

Project review and evaluation

5.5 Although formal mechanisms for evaluating individual projects have yet to be developed, the deeds of agreement, or memoranda of understanding, negotiated for funded projects do contain milestones, reporting requirements and performance indicators for each project. In particular, there is a requirement for external evaluation of all projects worth more than \$1 million.

5.6 In addition, each project funded under the Program is required to provide regular progress reports to the Department, providing information about project activities and outcomes. This information is to be used for both ongoing project management and evaluation purposes. ANAO coverage did not extend to this area because the program was at an early stage of development and most of the approved projects had just commenced. Nonetheless, limited examination by the ANAO indicated that the requirement for periodic reporting was being met but there was an opportunity for the Department's database to be better used to provide periodic reports on outstanding project returns.

5.7 At the time of audit, mechanisms for ensuring that only *bona fide* projects (and applicants) are funded had not been well developed. There has tended to be reliance on State or Territory consultative mechanisms to provide background information on projects and applicants. The Department advised that case managers may visit the larger or more sensitive projects at the assessment stage and after the project is approved.

5.8 The ANAO found that there was an opportunity for a more systematic approach to visits, and to the review and evaluation of projects, particularly those that are major. The introduction of other administrative controls, such as company searches to confirm the details

of applicants, may also assist the Department in its administration. At the time of audit, formal on-site assessment processes had not been implemented although some inspections had been undertaken. The Department has acknowledged there are gaps in its processes and has engaged a consultant to review these, including evaluation of both administrative arrangements and project evaluation mechanisms.

Performance information

5.9 The evaluation of the Program and individual projects requires the use of relevant performance information that measures, or assesses, economy, efficiency and effectiveness. Performance information incorporates the resources used (inputs), what is done (processes), what is produced (outputs) and what impacts are achieved (outcomes). This information is necessary to provide a tool for accountability, including reporting and assessment of performance.

5.10 Because of the urgency associated with the implementation of the Program, the Department had not had the opportunity to identify the information necessary to assist it to evaluate the program as well as individual projects. As indicated above, the Department is in the process of taking action to introduce Program and project evaluation mechanisms that are expected to incorporate appropriate performance information.

Canberra ACT
2 June 1999



P. J. Barrett
Auditor-General

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