

VICTORIA

Auditor General
Victoria

**Grants to
non-government
organisations
Improving
accountability**

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The President
The Speaker
Parliament House
Melbourne Vic. 3002

Sir

Under the provisions of section 16 of the *Audit Act* 1994, I transmit my performance audit Report on *Grants to non-government organisations: Improving accountability*.

Yours faithfully

A handwritten signature in black ink, appearing to read 'J.W. Cameron', with a large, loopy flourish at the end.

J.W. CAMERON
Auditor-General

Contents

	<i>Page</i>
Foreword	vii
Part 1	
Executive summary _____	1
<i>Background</i> 3	
<i>Audit objectives and scope</i> 3	
<i>Audit findings</i> 4	
<i>Recommendations</i> 6	
Part 2	
Background _____	13
<i>Introduction</i> 15	
<i>Value and nature of grants</i> 15	
<i>Past audit coverage</i> 16	
<i>Management of grant programs</i> 17	
Part 3	
Conduct of the audit _____	19
<i>Audit objectives</i> 21	
<i>Audit scope</i> 21	
<i>Audit expectations</i> 24	
<i>Assistance provided to my staff</i> 25	
Part 4	
Accountability framework _____	27
<i>Introduction</i> 29	
<i>Lack of clear definition</i> 29	
<i>Government Guidelines</i> 31	
<i>Agency policies and procedures</i> 34	
<i>Public accountability</i> 34	
Part 5	
Planning and operation of grant programs _____	37
<i>Introduction</i> 39	
<i>Program planning</i> 39	
<i>Promotion of grant programs</i> 41	
<i>Guidance to applicants</i> 42	
<i>Appraisal of applications and allocation of funds</i> 44	
<i>Defining terms and conditions</i> 46	
<i>Payments to recipient organisations</i> 49	
Part 6	
Monitoring of grant programs _____	51
<i>Introduction</i> 53	
<i>Reporting requirements within agreements</i> 53	
<i>Reporting processes</i> 54	
<i>Assessment of reports provided</i> 54	
<i>Linking payments to the supply of timely reports</i> 56	
<i>Acquittal processes</i> 56	
<i>Recovery of grant funds</i> 57	
<i>Records management and file documentation</i> 58	

Part 7	Outcome of grant programs _____	59
	<i>Introduction</i> 61	
	<i>Deficiencies in evaluation procedures</i> 62	
	<i>Utilisation of evaluation information</i> 63	
Appendix A	Grant programs examined by audit _____	65

Foreword

The provision of grants to non-government organisations involves substantial sums of public funds annually. Such funding is variously described as grants, subsidies, sponsorships and donations, and has been used extensively as an alternate means for delivering government programs. In Victoria, differing terminology has led to differing accountability arrangements for funds used in this manner.

It is not surprising, therefore, that management and accountability arrangements for grant funding have been the subject of review by Auditors-General in this State and in other jurisdictions. Over the years, central agencies within State and local government have also recognised their responsibilities to provide appropriate guidance for agencies in managing grants.

The scope of this audit included examining the records of non-government recipient agencies to assess whether funds had been used as intended and were expended efficiently and effectively. This work, which was undertaken through evoking the powers vested in me under section 20 of the *Audit Act* 1994, facilitated a more effective examination of an important link in the chain of accountability.

I am confident that this Report will make a positive contribution towards improving accountability over grant-funded activities, particularly as it contains examples of what I consider are best practices, complementing prior examinations of, and existing guidance relating to, this prominent government activity.



J.W. CAMERON
Auditor-General

Part 1

Executive summary

BACKGROUND

1.1 Significant funding, in the form of grants, is provided by various State Government agencies and municipal councils to non-government organisations such as community groups, sporting organisations and cultural bodies. We estimate that in 1999-2000 funding in excess of \$600 million (excluding funding provided by the Department of Human Services under Service Agreements) was provided across more than 400 individual program areas. The provision of such grants is often seen by government agencies as an effective (in particular circumstances) means of delivering government services to the community.

1.2 These funding arrangements can be adopted where appropriate resources are not available within the public sector to deliver programs or where it is seen as a cost-effective means of achieving policy objectives. They can also have the advantage of enabling the delivery of programs by organisations which have a greater knowledge of, and closer contact with, target groups or service users.

1.3 Since 1986, various issues associated with the management of grants have been reported to Parliament by successive Auditors-General. Subsequent audits, including a 1994 Report on *Grants and subsidies to non-government organisations* found that many of the issues identified in 1986 had still not been adequately addressed.

1.4 Based on the findings of the 1986 and 1994 Reports, the Auditor-General provided input to the development of, and subsequent amendment to, Guidelines issued by the Department of Treasury and Finance to assist budget sector agencies with the administration of grants.

1.5 Against this background, it was considered an appropriate time to again examine management practices in this key area and to re-assess the ongoing appropriateness of the Guidelines and the effectiveness of their implementation.

AUDIT OBJECTIVES AND SCOPE

1.6 The audit assessed whether recipients had applied grants for the purposes for which they were given, and in an economic, efficient and effective manner. Particular attention was paid to assessing whether agencies had a sound administration and accountability framework, and the provision of grants had contributed to the achievement of the broad objectives of the programs to which they related.

1.7 The audit was focused on the State government budget and local government sectors, examining a sample of transactions (and programs) across a selection of departments and municipal councils. Using powers provided under section 20 of the *Audit Act* 1994, a sample of grant recipient organisations were visited to assess whether the grants had been used as intended.

1.8 The total value of grant programs subject to examination equated to approximately 22 per cent of our estimate of all budget sector and local government grant expenditure. The assessments within the individual agencies were aimed at enabling conclusions to be reached and recommendations to be made which are applicable not only to the agencies examined but to the budget and local government sectors as a whole.

1.9 The audit included an assessment of the overall adequacy of the accountability framework for managing grants.

AUDIT FINDINGS

Accountability framework

1.10 We concluded that the accountability framework and supporting guidelines relating to grants to non-government organisations is in need of further review. Current guidelines were developed at a time when the volume of grant funds disbursed was much smaller. However, this has changed in recent years with the delivery of services to the community by non-government organisations becoming more common and the distinction between the provision of grants and the purchase of services becoming less clear. Greater emphasis is also now placed on funding the delivery of agreed program outputs, regardless of whether the programs are delivered within or outside the public sector. **(paras 4.4 and 4.14 to 4.20)**

1.11 Similarly, greater attention is now placed within the local government sector on delivering services within a performance management framework. **(para. 4.4)**

1.12 The extent to which agencies had adopted and complied with guidelines issued by the Department of Treasury and Finance and the former Minister for Local Government varied. Both guidelines are also more relevant for the management of individual grants providing little assistance in relation to key areas such as planning or evaluating grant programs. Further comprehensive assistance is available in publications issued in the Commonwealth and other State jurisdictions. **(paras 4.13 to 4.15)**

1.13 Many agencies had developed policies and procedures for their grant programs. These frameworks were generally satisfactory in terms of promoting grant programs, selecting appropriate grantees and establishing agreements with the recipients. However, policies and procedures were generally deficient in terms of initial planning, monitoring and evaluation. Areas of weaknesses were also found to exist in the administration of one-off grants made by municipal councils. **(paras 4.21 to 4.22)**

1.14 The definition of grants requires clarification to incorporate grants, subsidies, sponsorships and donations. The accountability framework and management structures established by agencies were, in part, dependent on how the funding was categorised. The focus should be on more important considerations such as the nature of the grant, the quantum of funds provided, the risk involved, and whether the grant was a one-off payment or recurring over a number of years. There also needs to be clarification of the applicability of this framework to service agreements. **(paras 4.5 to 4.9)**

1.15 The level of public information disclosed about grants and grant programs by agencies was generally inadequate. It did not fully and accurately inform stakeholders and the public about the grant program's financial and other achievements. **(paras 4.23 to 4.25)**

Planning and operation of grant programs

1.16 Since our earlier 1994 Report on *Grants and subsidies to non-government organisations*, significant improvements have occurred in promoting grant programs, developing guidelines, assessing applications, and establishing funding agreements. However, the planning and monitoring aspects of grant programs need further guidance, including:

- establishing the need for a program;
- clearly defining its objectives;
- considering alternative options for program delivery;
- designing grant programs to minimise any risks and maximise the efficient achievement of program objectives;
- developing formal processes and policies to ensure co-ordination of funding in areas of potential duplication; and
- establishing an effective monitoring regime and evaluation strategy which, while having due regard to the potential burden on grant recipients, provides adequate information to manage the program. (**paras 5.2 to 5.4, 5.7 to 5.23 and 5.28 to 5.30**)

1.17 Agencies had not developed clear policies and practices covering conflict of interest. Municipal council and committee members and staff were frequently involved in the approval processes, including evaluation, without actively determining or declaring whether they had a potential or actual conflict of interest. (**paras 5.24 to 5.27**)

1.18 Although agreements incorporated suitable financial reporting requirements, the non-financial requirements varied considerably and merit further attention. (**paras 5.31 to 5.36**)

Monitoring of grant programs

1.19 The monitoring of grants programs by funding agencies requires improvement. While most agencies stipulated reporting requirements in agreements, we identified a number of shortcomings, including:

- the practices of agencies varied with respect to the level of reporting they required from grant recipients;
- agencies had not undertaken timely follow-up of compliance by recipients with accountability obligations;
- few agencies provided formal feedback to grant recipients regarding the agency's assessment of their progress or achievements;
- information provided to funding agencies by recipients in relation to outputs or outcomes they state they achieved was not independently verified by the agency;
- active monitoring of grant programs and individual projects was not undertaken in some agencies;
- very few agencies required recipients to provide an acquittal statement that committed the grant recipient to ensuring funds were only spent on official projects within the terms and conditions of agreements; and

- only a small number of grant programs had in place formal policies or procedures to provide guidance as to how funds were to be recovered if under-spent or written-off. **(paras 6.4 to 6.13 and 6.18 to 6.27)**

Outcome of grant programs

1.20 Few agencies had formally evaluated each program regularly, or at its conclusion. Some projects were evaluated by some agencies some of the time, but this occurred on an *ad hoc* basis. Where agencies had conducted an evaluation, the extent to which that data was utilised for the purposes of continuous improvement varied from agency to agency. **(paras 7.3 to 7.13)**

RECOMMENDATIONS

1.21 We note that some agencies and councils are currently pursuing a number of initiatives that may address some of the recommendations outlined in this Report. A list of these recommendations is set out below.

<i>Report reference</i>	<i>Paragraph number</i>	<i>Recommendation</i>
Accountability framework	4.7, 4.15	The Department of Treasury and Finance and the Department of Infrastructure should review the guidelines applicable to the budget and local government sectors respectively, including ensuring the definition of grants includes subsidies, sponsorships, and donations and clarifying the applicability of such guidelines to service agreements.
	4.25	The Department of Infrastructure should consider the current disclosure requirements for grants in annual reports, and establish appropriate links between the provision of funding and performance measurement and reporting regimes.
Planning and operation of grant programs	5.3	Agencies need to adopt more comprehensive planning processes.
	5.9	Agencies should establish mechanisms to ensure greater co-ordination with other agencies which fund similar programs.
	5.13	Agencies should introduce a comprehensive guide outlining the funding available to applicants and deadlines for receipt of applications.
	5.15	Agencies should link funding arrangements to program objectives.
	5.20	Agencies should introduce a formal mechanism for unsuccessful applicants to obtain feedback in relation to their application.
	5.23	Agencies need to improve their documentation of selection processes.
	5.27	Agencies need to develop guidelines on what constitutes a conflict of interest and the action to be taken in such circumstances. They should also require relevant staff, board or council members to complete an annual return declaring any pecuniary interests.
5.30	Agencies should co-operate in standardising funding terms and conditions of agreements within and between agencies.	

<i>Report reference</i>	<i>Paragraph number</i>	<i>Recommendation</i>
Planning and operation of grant programs <i>- continued</i>	5.36	Agencies need to develop and implement accountability requirements for grant recipients which reflect the underlying risk and materiality of that grant.
	5.38	Greater attention needs to be given by funding agencies during the planning of grant programs as to the most appropriate approach to the timing and terms of payment arrangements.
Monitoring of grant programs	6.8	Agencies should provide feedback to recipients on such aspects as the quality of their accountability reporting.
	6.13	Agencies should ensure that adequate processes are in place for monitoring.
	6.17	Agencies should explore linking the funding of grant recipients to the achievement of performance milestones.
	6.23	Agencies should formalise the acquittal process to be followed upon completion of projects.
	6.27	Agencies should document strategies and procedures to facilitate the timely recovery or redirection of unspent grant funding.
	6.31	Agencies should document evidence of monitoring including file notes of interviews with recipients and the results of physical observations such as attendance at events.
Outcome of grant programs	7.7	Agencies should conduct systematic evaluations to ensure that programs evolve in line with community needs and changing circumstances.
	7.13	Agencies should develop a plan to review grant programs and implement the recommendations of evaluations in a timely manner. Agencies should also ensure they are published (e.g. annual report) and brought to the attention of relevant bodies.

RESPONSE provided by Secretary, Department of Treasury and Finance

As you note in your Report, the current “Guidelines for Uniform Application Procedures and Funding Arrangements for Non-Government Organisations” were issued at a time when output management was still in its infancy. As you will be aware, the management framework has changed considerably in the last 5 years. For departments, the new framework means a paradigm shift in the way services are delivered, from a focus on inputs, to a focus on production of outputs and provision of services that achieve the Government’s desired outcomes. This shift is still occurring.

Under the new accrual output budgeting framework, grants to organisations are similar to any other “input” or item of expenditure designed to contribute to delivering a specific output or producing a desired outcome. Under this framework, departments appropriately maintain most of the responsibility for planning, monitoring and evaluating grants programs. As noted in your Report, the introduction of the accrual output budgeting framework (with its focus on monitoring the performance of output delivery) has reduced the need for detailed central monitoring of individual grants programs.

However, the Department of Treasury and Finance accepts that the nature of grants programs may warrant the continuation of a set of appropriate guidelines for the planning, monitoring and evaluation of grants to non-government organisations. I agree with the Report’s suggestion that the current guidelines applicable to the budget sector be reviewed and updated in light of the current output framework and the need for new guidelines to provide guiding principles rather than prescriptive rules. The Department of Treasury and Finance undertakes to review the guidelines in due course, noting that the need to include a planning and evaluation aspect is consistent with the output budgeting framework.

RESPONSE provided by Secretary, Department of Premier and Cabinet

Arts Victoria, a Division of the Department of Premier and Cabinet, was one of the 5 government departments involved in the performance audit of grants to non-government organisations. As part of the audit, Arts Victoria was provided with a detailed report specific to the operation and management of Arts Victoria's grant programs. Overall, the audit found that Arts Victoria has established a sound administration and accountability framework for grants provided to non-government organisations. As such, many of the recommendations and issues raised in the parliamentary Report are not applicable to Arts Victoria.

Specifically, the audit found that:

- appropriate strategies are in place to promote interest in Arts Victoria's funding programs and to encourage a wide field of applicants;*
- there are clearly documented guidelines for applications for funding;*
- appraisal and assessment procedures ensure that funding is only approved for projects which are consistent with grant program objectives;*
- funding agreements are well constructed and sufficiently detailed;*
- there is an appropriate monitoring and evaluation framework which facilitates timely monitoring and compliance;*
- grants have been applied economically, efficiently and effectively;*
- Arts Victoria has established a sound evaluation framework to assess the extent to which its grant programs achieve their objectives and contribute to broader organisational objectives; and*
- Arts Victoria provides sufficient information about the outcomes of its funding programs for accountability purposes.*

RESPONSE provided by Secretary, Department of State and Regional Development

Accountability framework

The extent of government grant expenditure has expanded considerably in the 5 years since the promulgation of the revised Treasury and Finance Guidelines in 1995, and now ranges across a large number of business activities involving numerous and varied non-government organisations. At the same time, the Management Reform Program has introduced new accountability expectations, accounting standards and reporting requirements that should form the framework for any specific whole of government guidelines for grants to non-government organisations.

Within the context of these changes, the Department has developed comprehensive guidelines and agreements for its grant funding programs. Recognition is given to the diversity of funding programs, grant recipients and desired outcomes. These range across business support, community and industry development, and contribution to capital works at Statewide and community level. In all cases, the Department works through contractual relationships with grant recipients to achieve government outcomes addressing economic, social and environmental goals.

In implementing these arrangements, the Department has broadly defined grant and grant program. This allows management and accountability structures to be put in place that are appropriate to the level of funding, the nature of the recipient, the outcomes being sought, and the experience gained over the past 5-10 years in the management of risk, without being unduly constrained by questions of definition.

In light of this experience, the Department sees merit in a consistent definition being applied across government.

With respect to the disclosure of information regarding grants, the Department is ensuring that its administrative arrangements satisfy the requirements of the Government's 11 October 2000 statement on openness and probity in Victorian government contracts. All grant agreements will be subject to this policy.

RESPONSE provided by Secretary, Department of State and Regional Development - continued

Planning and operation of grant programs

The Department acknowledges the best practice principles expressed by the Auditor-General. All grant programs are aligned to policy and have clearly identified objectives. Within the Department, increasing emphasis is being given to outcome evaluation, providing the opportunity for further refinement in the design of programs and the evaluation of options for delivery mechanisms.

In respect to conflict of interest issues, the Department operates according to the general standards of work performance and ethical conduct expressed in the Code of Conduct for the Victorian public sector. As part of these standards, a clear and consistent policy on Executive private interests is maintained, with declarations of pecuniary interest and statements updated annually.

Monitoring of grant programs

The Department agrees that effective monitoring of grants within grants programs is essential. The Department's preferred approach is to make grant funding subject to the recipient evidencing the achievement of agreed performance targets. Where this is not practicable because of the nature of the program, grant agreements specify other accountability and acquittal requirements. These requirements are subject to close monitoring and enforcement.

Outcome of grant programs

The Department's capacity to evaluate its grant and other programs has been enhanced by the recent introduction of outcome evaluation as part of its ongoing business management process. Three evaluations are targeted for commencement in 2000-2001 with the objective of analysing the impact and effectiveness of service delivery against the stated objectives, providing performance data to assist in resource allocation and policy amendment (as required), and to assist in the promotion of government services to the community.

The introduction of outcome evaluation extends the scope of the various program and output evaluations completed in the past. It is envisaged that it will provide an effective framework within which a range of evaluations will be conducted over the next 3 years, allowing considerably more data to be available to the Department and government on the effectiveness of grant programs.

RESPONSE provided by Chief Executive, Vic Health

The Report appears to be comprehensive and well constructed. It will assist us to improve on our existing grant making procedures. Constructive feedback is always useful for continuous quality improvement.

We would like to thank the audit team for the professional manner in which they conducted the audit.

RESPONSE provided by Acting General Manager, Adult, Community and Further Education Board

The Report makes some important observations, particularly with regard to varying accountability requirements of funding agencies. This issue is brought into sharp focus when an organisation is funded by 2 or more government agencies, each with different accountability requirements. Around 170 Adult, Community and Further Education Board-funded Adult Community Education organisations are Neighbourhood Houses and also receive funding from the Department of Human Services.

I also agree that it is appropriate to review the Department of Treasury and Finance guidelines on grants to non-government organisations which are considerably out of date.

The Adult Community and Further Education Board views its systems and processes for managing its grants to adult education organisations via regional councils, its supporting funding guidelines and policies, and its strong focus on accountability, performance monitoring and audit, as robust and transparent.

I will be testing the Board's policies, systems and processes against the Report findings to ensure they continue to meet the necessary standards.

RESPONSE provided by Chief Executive, City of Greater Geelong

The City of Greater Geelong notes the findings and recommendations outlined in the Report. The findings and recommendations reinforce the results of our internal audit review, which had identified similar issues to those raised in your Report. Your staff were advised at the opening interview that the City of Greater Geelong was in the process of re-engineering the entire management of its grants program. Our revised approach has been based on the "Better Practice Guide: Administration of grants" issued by the Australian National Audit Office in May 1997. The revised framework has already been implemented in relation to the Community Development and Arts Grants, Community Development Grants to Neighbourhood Houses and Community Leisure Incentive Grant programs. The City of Greater Geelong is currently in the process of implementing this approach across other operations of Council, based on the underlying risk in the provision of the grant and the materiality of that grant.

In our view, your Report does not adequately deal with a major issue that was raised with your staff during the audit, that is the ownership and maintenance of capital assets emanating from grant programs constructed on Crown land. We have written to the Department of Natural Resources and Environment in relation to this matter. While it is acknowledged this issue goes beyond just grant-funded assets, it potentially has significant implications on all councils and departments from an ongoing budgetary, stewardship and statutory reporting perspective.

Finally, I would like to take this opportunity to thank your staff for the professional manner in which they undertook this audit.

Further Audit Comment

Paragraph 4.20 of this Report comments on the need for agencies to be provided with more guidance on the issue of ownership and maintenance of capital assets purchased with grant funding. Paragraphs 5.28 to 5.30 also comment on the terms and conditions of funding agreements, including instances identified by my staff where agreements did not adequately deal with issues associated with the ownership of assets purchased with grant funding. The issue of ownership and maintenance of capital assets emanating from grant programs that are constructed on Crown land is a broader accounting and statutory reporting policy issue. Guidance on this matter is provided in the Accounting Standards issued by the Australian Society of Certified Practising Accountants.

RESPONSE provided by Acting Chief Executive, City of Melbourne

In general, the City of Melbourne found the Report to be quite useful. The Report identified some ideas which we intend to use to improve our grant programs, e.g. improvements in the reporting on the assessment of outcomes, including feedback to the grant recipient. The following are some specific comments where our thoughts differ from the suggestions for improvement.

The development of more detailed definitions of the various funding “types” would be useful. While the adoption of a broader definition would encompass a broader number of funding arrangements, we think that clearer, specific, agreed definitions would lead to improved accountability.

We agree that there is a need for greater clarity in the procedures to be followed when potential conflicts of interests arise. Again, more formal arrangements/procedures would improve accountability.

The Report raised the issue of the amount of documentation provided to council to support recommendations, specifically the limited information about how each recommendation meets the assessment criteria. It should be noted that, in the situation where “expert advisory panels” are being used to assess applications, Councillors are not being asked to assess applications, but rather to approve the process which the recommendation have been through. Confidentiality of the actual assessment material is a sensitive issue.

RESPONSE provided by Chief Executive, Maroondah City Council

Maroondah City Council was pleased to participate in the recent performance audit of grants to non-government organisation conducted by your Office.

The Report provides valuable information and feedback and has been written in a clear and precise manner.

The Report highlights suggestions for improvement which will be taken on board at Maroondah City Council to ensure our current Community Grants Program reflects a continuous improvement approach.

I wish to take this opportunity of thanking and congratulating you and your staff for the professional manner in which the audit was conducted.

Staff at Maroondah City Council responsible for the administration of grants will benefit from the findings of this Report and have enjoyed the opportunity of being involved in this process.

Part 2

Background

INTRODUCTION

2.1 Funding in the form of grants to non-government organisations, such as community groups, sporting organisations, cultural bodies and commercial organisations, is often used by government agencies as a means of delivering government services to the community. These funding arrangements can be adopted where appropriate resources are not available within the public sector to deliver programs, or where it is seen as a cost-effective means of achieving policy objectives. They can also have the advantage of delivering programs by organisations which have a greater knowledge of, and closer contact with, target groups or service users.

2.2 Section 20 of the *Audit Act 1994* refers to a public grant as “a gift or grant given by the State or a public body, whether or not from moneys appropriated by the Parliament”. However, the legislation currently does not clearly define a grant. Similarly, there is no definition of a grant in guidelines issued by the Department of Treasury and Finance.

2.3 For the purpose of the audit, the following definition of “grants” was adopted
“... payments to non-government organisations to support activities outside the public sector which are directed at achieving goals and objectives consistent with government policy. The payments are normally conditional upon recipient organisations using these moneys for specific purposes set out in funding agreements and are not required to be returned or reciprocated”.

VALUE AND NATURE OF GRANTS

2.4 Information was not readily available to enable the total value of grants provided to non-government organisations to be accurately quantified. We estimate that in 1999-2000, grants of approximately \$600 million (excluding funding provided by the Department of Human Services under Service Agreements) were applied across more than 400 individual program areas. A large proportion of this amount was funded from within the State budget sector.

2.5 There is a great diversity in the nature and value of grants, and in the type and number of grant recipients. For example:

- the activities funded include heritage projects, community development and support within municipalities, festivals and cultural activities, support of ethnic groups, industry development, training programs and promotion of participation in healthy activities;
- the size of individual grants range from \$50 to several million dollars;
- recipients include individuals, community groups and large companies; and
- the number of recipients under individual programs range from one to many thousands, with some recipients receiving grants from more than one government agency.



The Art Centre in Warburton receives grants to assist in attracting performances and exhibitions for audiences in the outskirts of Melbourne.

PAST AUDIT COVERAGE

2.6 Since 1986, various issues associated with the management of grants have been reported to Parliament by successive Auditors-General. In 1986 an audit across the Victorian public sector (reported in the *First Report on Treasurer's Statement, 1985-86*) found that:

- the level of grant payments could not be readily quantified;
- terms and conditions of funding were not formally agreed between the grant providers and recipients;
- widespread inconsistencies existed in accountability for payments;
- inconsistencies existed in departmental monitoring of grant expenditure; and
- payments were made to recipients in advance of requiring the grant funds.

2.7 Subsequent audits, including a 1994 Report on *Grants and subsidies to non-government organisations* and audits in specific program areas examined these and a number of additional issues. These audits found that many of the issues identified in 1986 had still not been adequately addressed. They also found:

- examples where funding was not used for the intended purpose;
- a lack of adequate performance indicators to assess the effectiveness and efficiency of service provision;
- instances where accountability processes were inadequate;

- the absence of a system to record and safeguard the State's equity in any assets funded by the State but held by non-government organisations; and
- the need to increase competition among service providers.

2.8 Based on the findings of the 1986 and 1994 Reports, the Auditor-General provided input to the development and subsequent amendment of guidelines issued by the Department of Treasury and Finance in 1988 and subsequently amended in March 1995, to assist budget sector agencies with the administration of grants. A number of the matters raised in the reports were addressed in the guidelines. There have also been increasing accountability requirements around Commonwealth funding, which can have an impact on data collection and monitoring requirements.

2.9 Against this background, it was timely to re-examine management practices in this key area and to re-assess the ongoing appropriateness of the guidelines and the effectiveness of their implementation.

MANAGEMENT OF GRANT PROGRAMS

2.10 Responsibility for establishing accountability frameworks in relation to public funds allocated to non-government organisations substantially rests with the agencies providing the grants. The Guidelines issued by the Department of Treasury and Finance are aimed at assisting State Government agencies in:

- streamlining funding application procedures;
- ensuring that the basis of funding is clearly defined; and
- establishing uniform financial accountability requirements.

2.11 The Guidelines provide the minimum requirements for an agreement between a funding agency and a non-government organisation and are in many cases expanded or supplemented by policy and procedural frameworks developed by funding agencies for specific grant programs.

2.12 Similar guidelines were issued in November 1995 by the then Minister for Local Government to assist municipal councils in managing their grant programs.

Part 3

Conduct of the audit

AUDIT OBJECTIVES

- 3.1** The objectives of this audit were to determine whether:
- a sound administration and accountability framework had been established in relation to grants provided to non-government organisations;
 - grants had been applied by recipients for the purposes for which they were given and had been utilised economically, efficiently and effectively; and
 - grants had contributed to the achievement of the broad objectives of the programs to which they relate.
- 3.2** Where recipients had received grants from a number of agencies, the audit aimed to assess whether this had resulted in over-funding of particular programs or activities, or administrative inefficiencies.

AUDIT SCOPE

Agencies examined

- 3.3** The audit was focused within the State budget and local government sectors, examining transactions and programs in a selection of departments and municipal councils. The agencies were chosen to ensure coverage in material areas, across a range of grant types and values, and in metropolitan and rural locations. The assessments within individual agencies were aimed at enabling conclusions to be reached and recommendations to be made which are applicable not only to the agencies examined but to the State budget and local government sectors as a whole. Given this focus, the Report does not identify specific agencies. These agencies have, however, been provided with detailed feedback on the findings of the audit.
- 3.4** The departments and municipal councils examined are detailed in Table 3A, together with the value of grant funds provided by them in 1999-2000.

TABLE 3A
AGENCIES EXAMINED AND GRANTS PROVIDED
1999-2000
(\$million)

<i>Agency</i>	<i>Value of grant program/s</i>
Departments -	
Education Employment and Training - Adult, Community and Further Education Board	22.6
Human Services - Victorian Health Promotion Foundation	20.0
Premier and Cabinet - Arts Victoria	30.2
State and Regional Development - Sport and Recreation Victoria	23.3
Industry Victoria	25.1
Total	121.2
Municipal councils -	
City of Melbourne	7.8
City of Greater Geelong	2.1
Wodonga Rural City Council	0.9
Maroondah City Council	0.3
Total	11.1

3.5 The total value of grant programs subject to examination by audit (\$132 million) equated to approximately 22 per cent of our estimate of all budget sector and local government grant expenditure (approximately \$600 million). Further information on the specific grant programs examined for each agency and municipal council is provided in Appendix A, *Grant programs examined by audit*.

Visits to grant recipients

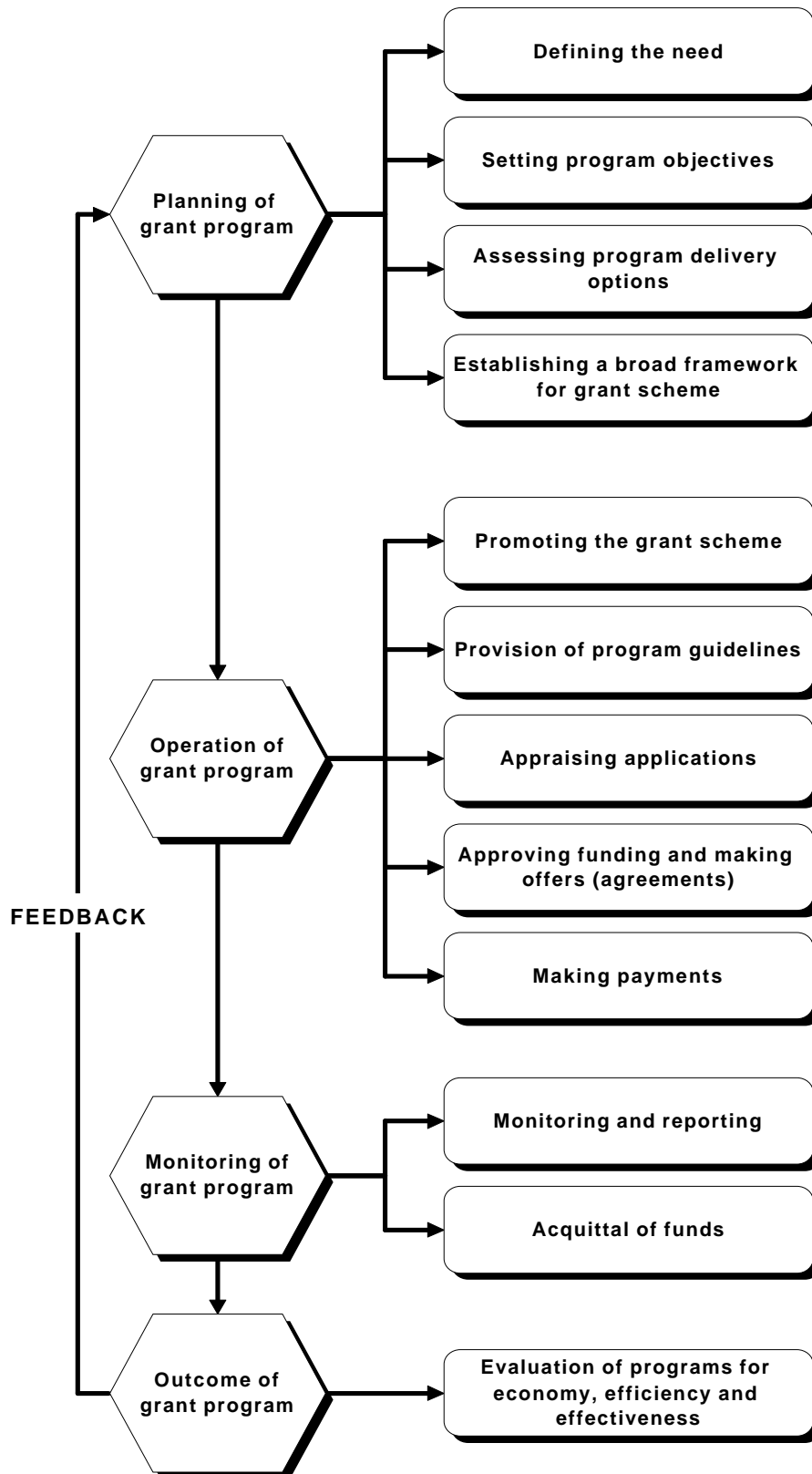
3.6 Given that weaknesses had previously been identified in the grant monitoring procedures of agencies, we extended the scope of our audit beyond the previous focus within agencies to include visits to a sample of non-government recipient organisations. These examinations were undertaken using powers provided under section 20 of the *Audit Act* 1994 and were directed at assessing whether the grants received had been used by recipients as intended, and were expended efficiently and effectively.

3.7 In total, 51 grant recipients were visited including some which had received grants from a number of agencies. The visits took the form of discussions with key personnel within the organisations, examination of relevant documents and, where appropriate, inspection of assets acquired with the funds received.

Focus of examinations

3.8 The audit included an assessment of the overall adequacy of the accountability framework put in place by agencies for their management of grants and covered administration and accountability mechanisms. Chart 3B, which was based upon the principles contained in the publication *Administration of Grants Better Practice Guide* developed by the Australian National Audit Office, provides an overview of the areas assessed within each agency.

CHART 3B
GRANT ADMINISTRATION AND ACCOUNTABILITY FRAMEWORK



Period covered

3.9 The audit primarily covered the period from July 1998 to September 2000. For the purpose of examining recipients, the sample was limited to grants made between July 1998 to June 2000.

Compliance with auditing standards

3.10 The audit was performed in accordance with Australian Auditing Standards applicable to performance audits and, accordingly, included such tests and other procedures considered necessary in the circumstances.

AUDIT EXPECTATIONS

3.11 A number of important principles, central to the efficient and effective management of grants, were used in evaluating provider agencies. Specifically, we expected that each agency responsible for the administration of a grant program would undertake actions in the following areas:

Planning and operation of grant programs (Part 5)

- adopt a sound planning process which:
 - clearly identified the need for a program;
 - defined its objectives;
 - considered alternative options for delivery;
 - designed the grant program to minimise any risks and maximise the efficient achievement of program objectives; and
 - established a monitoring regime and an evaluation strategy which would not overly burden recipients but provide adequate information to manage the program.
- promote the program to suitable recipients;
- ensure applicants are provided with adequate guidance and clear application processes;
- appraise applications on the basis of criteria which are clearly linked to program objectives and in a manner which is free from bias; and
- provide applicants with a clear understanding of funding conditions and accountability requirements.

Monitoring of grant programs (Part 6)

- monitor grants to ensure the money provided to organisations is used for the purpose sought and has achieved the desired outcomes; and
- ensure acquittal procedures are adequate.

Outcome of grant programs (Part 7)

- evaluate the grant programs for economy, efficiency and effectiveness.

ASSISTANCE PROVIDED TO MY STAFF

3.12 Significant support and assistance was provided to my officers by the management and staff of the selected departments and municipal councils. I wish to express my appreciation to these entities for this assistance and that provided by the grant recipients we visited.

Part 4

Accountability framework

INTRODUCTION

4.1 The provision of funds to non-government organisations brings with it risks in that the organisations delivering the services are not directly accountable to government or taxpayers for their overall operations. Other risks could include:

- the use of grant funds for purposes that are contrary to the terms and conditions of the funding agreement;
- grant recipients obtaining funding for the same project from more than one source;
- inequitable treatment of individuals or organisations in the appraisal process; and
- actual or perceived conflicts of interest.

4.2 It is, therefore, important that funding agencies have in place a sound approach to the management of these arrangements and are open and accountable for their stewardship.

4.3 The overall accountability framework for the provision of grants to non-government organisations is currently determined by:

- Guidelines issued by the Department of Treasury and Finance for use by departments;
- Guidelines for Community Grant Programs issued in November 1995 by the Office of Local Government to assist municipal councils;
- internal policies and procedures developed by individual agencies; and
- public disclosure requirements relating to the local government sector.

4.4 Some elements of this framework were developed at a time when the quantum of grant funds provided was relatively small. However, this has changed in recent years with the delivery of services to the community by non-government organisations becoming more common and the distinction between the provision of grants and the purchase of services becoming less clear. Emphasis is also placed by the Department of Treasury and Finance on funding the delivery, by budget sector agencies, of agreed program outputs, regardless of whether the programs are delivered within, or outside, the public sector. Effective from 2001-2002, the Victorian Government is also strengthening the budget framework to include progressive evaluation of the effectiveness and efficiency of outputs delivered by assessing the impact they have on departmental objectives and the Government's desired outcomes. At the local government level, attention is now placed on delivering services within a performance management framework.

LACK OF CLEAR DEFINITION

4.5 As part of the process of planning the audit, information on grants was sought from 46 agencies, comprising 8 departments and 38 public bodies. Information was also extracted from the annual reports of the State's 78 municipal councils. Our collection of the data was aimed at quantifying the level of grant funds provided to non-government agencies.

4.6 Some agencies surveyed experienced considerable difficulty in quantifying the level of grant funds they provided, partly because of differences in terminology, which included “grants”, “subsidies”, “sponsorships”, “donations” and “funding agreements”. In some cases, agencies used different classifications and management approaches for similar types of funding arrangements. For example:

- One municipal council categorised some of the funding it provided as “donations” and hence the funding was not subject to any formalised agreement between the council and the recipient. In other councils, funding arrangements which were the same in nature and similar in terms of value were categorised as “grants”, thereby requiring the establishment of formalised agreements setting out the intended purpose and terms and conditions of the funding;
- One department advised that it did not operate any grant programs. However, it did provide substantial funds to non-government organisations which it regarded as the “purchasing of services”. We found in substance these arrangements were no different to the grant programs of some other agencies; and
- Some agencies defined funding arrangements as “sponsorships” where they were simply contributing to the costs of or subsidising an event, such as a festival. In these cases, the agencies did not require any agreed outcome to be achieved by the recipient of the funds. In another agency, funds categorised as “sponsorships” were clearly targeted at achieving certain agreed benefits such as the promotion of a message.



*Sponsorship of a sporting club
for the promotion of the “Booze Less” message.*

4.7 The accountability framework and management structures established by agencies were, in part, dependent on how the funding was categorised. The focus should be on more important considerations such as the nature of the grant, the quantum of funds provided, the risk involved and whether the grant was a one-off payment or recurring over a number of years. Given the differing approaches by agencies, the definition of grants requires clarification to incorporate subsidies, sponsorships and donations. There also needs to be clarification of the applicability of this framework to service agreements. We **recommend** the Department of Treasury and Finance address these issues.

4.8 Irrespective of the terminology used, a sound management framework for all types of funding provided to organisations outside the public sector should comprise:

- a clear link to the objectives of the agency providing the funds;
- an open and transparent funding allocation process;
- formalisation of the expected use and aims of the funding;
- provision for the flow of information from the recipient in relation to the use of the funds and the outcomes achieved;
- an evaluation by the agency of whether desired outputs or outcomes have been achieved; and
- the input of evaluation data into subsequent planning of the grant program.

4.9 The nature and detail of this framework should then vary according to the risks associated with the funding the nature of the funding relationship (short-term/long-term, partnership, etc.) and the need for a balance between the materiality of the funding and the provision of information to ensure accountability.

GOVERNMENT GUIDELINES

4.10 Guidelines to assist budget sector agencies in the management of funding provided to non-government organisations were first issued by the Department of Treasury and Finance in 1988 and subsequently amended in 1995. The updated Guidelines, titled *Guidelines for Uniform Application Procedures and Funding Arrangements for Non-Government Organisations*, were intended to reflect the then Government's desire to shift the focus from funding financial inputs to specifying the outputs to be provided and the outcomes to be achieved with the funds provided. The Guidelines were also aimed at fostering productive, effective and realistic monitoring approaches and financial requirements which did not place unreasonable workloads on non-government organisations.

4.11 The Guidelines address 4 key elements of management, namely, application procedures, funding arrangements, financial accountability requirements and monitoring procedures. They are intended to cover funding provided to all organisations which operate on a not-for-profit basis, excluding hospitals and non-government schools, and to provide a broad framework for funding agreements between government departments and non-government organisations.

4.12 *Guidelines for Community Grants Programs* were issued in 1995 by the then Minister for Local Government to assist municipal councils in managing their grant programs. They cover such aspects as program aims and objectives, application processes, funding terms and conditions, conflict of interests and monitoring.

Compliance with Guidelines

4.13 We found the extent to which the current Guidelines had been adopted and complied with varied across agencies. In most cases, budget sector agencies were following the Guidelines provided by the Department of Treasury and Finance, although some had developed their own internal framework for individual grant programs which was more comprehensive. In contrast, we found examples of municipal councils that were not aware of the central Guidelines or were not following them in practice. Examples of non-compliance included the following:

- The budget sector Guidelines advocate a move away from the use of historic formulae as a basis of funding and avoiding situations where funding merely represents a contribution to the operating costs of organisations. Funding was to be based on agreed outputs of services to be provided, using a unit cost where possible. In practice, we found that this advocated change in approach had not always been adopted;
- Although the Guidelines indicate that the Department of Treasury and Finance would monitor adherence with the Guidelines and provide an annual report to the Premier on their operation, this has not occurred. The Department has advised that the output budgeting framework now in place has reduced the need for this detailed central monitoring; and
- Although the Guidelines applicable to municipal councils indicate that grant programs are to be developed in the context of councils' corporate planning and budgeting processes, this link was often not evident.

Adequacy of Guidelines

4.14 We found both Guidelines only provided limited assistance in some key areas. More comprehensive assistance is available in publications issued in other jurisdictions. One such example is the *Better Practice Guide: Administration of Grants* issued by the Australian National Audit Office in May 1997. We consider this Guide, which drew on a similar 1994 publication of the National Audit Office of the United Kingdom, provides more useful guidance in relation to the management of funding arrangements.

4.15 We **recommend** the Guidelines applicable to the budget and local government sectors be reviewed. The feasibility of utilising the work already undertaken in other jurisdictions should be evaluated and, where appropriate, adapted for use by Victorian agencies. The following issues need to be given particular attention in any review process.

Placing grants within a broad program context

4.16 The current Guidelines are more relevant for the management of individual grants and, as such, provide little assistance in relation to:

- planning grant programs, including clearly establishing the objectives of the program to which the funding relates;

- determining whether the provision of grants is the best means of meeting the required program objectives;
- ensuring the selection of recipients and the terms and conditions set in place for the funding are consistent with the program objectives, the associated risks, and the nature and materiality of the grant; and
- the need to ensure co-ordination with other government funding programs, both in terms of the quantum of assistance provided and reporting arrangements.

4.17 The Guidelines set out the reporting required of grant recipients with emphasis on the financial reporting requirements. Very limited guidance is provided to agencies on the use to be made of the information provided or the nature and extent of monitoring and evaluation which should be undertaken of the non-financial outputs or outcomes of specific grants or grant programs. It is recognised that both these areas are closely related to the nature of the funding program.

4.18 As discussed further in Parts 6 and 7 of this Report, these areas are currently not well addressed by many agencies. Grant payments were not always clearly linked to the output budgeting frameworks of budget sector agencies or the performance management systems of municipal councils.

Focusing on principles

4.19 The Guidelines applicable to the budget and local government sectors set out a number of prescriptive requirements, including the information which should be provided in grant applications and the minimum financial accountability for various levels of funding. Given the differing nature of grant programs and individual grants, and the wide range of recipients and funding relationships, it would be more useful to set out the principles to be followed by funding agencies in establishing a sound framework. For example, rather than prescribing the accountability requirements for all grants at a particular level of funding, guidance could be given regarding the factors which should be taken into account by agencies in assessing and managing risks associated with grants. Such guidance is provided by the Australian National Audit Office's *Better Practice Guide: Administration of Grants*.

Expanding guidance in some specific areas

4.20 The Guidelines need to be expanded to address a number of areas not currently covered and found during the audit to have been not well managed. These include:

- The management of potential conflicts of interest, particularly in the funding allocation process. While covered to some extent in the Guidelines applicable to the local government sector, they need to be further expanded in this area or links made to the guidance on conflicts of interest provided by the Local Government Act and other guidelines issued to municipal councils;
- Matters associated with the ownership and maintenance of capital assets purchased with grant funding provided by agencies; and
- Encouraging agencies to co-ordinate the provision of funding and monitoring requirements with other government funding programs.

AGENCY POLICIES AND PROCEDURES

4.21 Many agencies have developed their own policies and procedures either for their grant programs as a whole or, more usually, for specific grants. These frameworks were found to be satisfactory for the allocation of funds, including promoting grant programs, selecting non-government organisations to receive funds and establishing agreements with the recipients. However, as with the Guidelines issued by the Department of Treasury and Finance and the Minister for Local Government, they were generally deficient in the planning and evaluation components of programs. Areas of weaknesses were also found to exist in policies and procedures relating to one-off grants made by municipal councils, some of which were quite substantial.

4.22 Further comment on these weaknesses and suggested corrective actions is contained in Parts 5 and 7 of this Report.

PUBLIC ACCOUNTABILITY

4.23 In the case of municipal councils, Regulations made under the Local Government Act require annual reports to contain a list of donations and grants made by the councils during the financial year, including the names of the persons or bodies receiving the funds and the amount of each donation or grant. There is no requirement for such information to be independently audited. Although not a budget sector disclosure requirement, many budget sector agencies disclosed information in their annual reports regarding the value of funds provided to non-government organisations, often including the names of recipients.

4.24 Disclosure is an important element of public accountability. We found the current level of grant information disclosed in annual reports to be variable and, for some municipal councils and agencies, to be inadequate in terms of fully and accurately informing report readers, including the general public. Specific examples of deficiencies included:

- Some municipal councils did not disclose any information on donations and grants in their annual reports, while others disclosed all grants and donations, together with the names of the recipient organisations, even if the grants and donations amounted to less than \$100. While disclosure of very small grants is not practical, there is certainly a need to disclose details of larger grants;
- There was a lack of information in some annual reports regarding the program area or objective to which the grants related and the outcomes achieved or expected from the grant programs;
- Grant program information was generally not linked to any performance information, such as performance indicators, reported publicly in annual reports; and
- The inclusion of some items as grants or donations for reporting purposes could be regarded as misleading. For example, some municipal councils listed organisations as grant recipients when in fact the funds had been spent by the council for council facilities or projects. Examples included amounts spent by councils on facilities utilised by a non-government organisation and costs incurred by councils in relation to festivals or sporting events run by themselves.

4.25 We **recommend** that the Department of Infrastructure re-assess the current disclosure requirements to ensure adequate transparency and accountability for grant expenditure. The Department has advised that a review of the legislation and regulations applicable in the local government area is currently in progress. This review process would provide an opportune time to:

- re-consider the current disclosure requirements in relation to grants;
- assess whether it is necessary to disclose all grants and donations, irrespective of their value; and
- establish appropriate links between the provision of funds to non-government organisations and the performance measurement and Best Value Regime currently being implemented in the local government sector.

Part 5

Planning and operation of grant programs

INTRODUCTION

5.1 Considering the audit principles set out in Part 3, we expected that funding agencies would:

- adopt sound planning processes;
- promote the program to suitable recipients;
- ensure applicants are provided with adequate guidance and clear application processes;
- appraise applications on the basis of criteria which are clearly linked to program objectives, and in a manner which was free from bias; and
- provide applicants with a clear understanding of funding conditions and accountability requirements.

PROGRAM PLANNING

5.2 Although significant progress has been made by departments and municipal councils in developing sound structures for the overall management of funding programs, the administration of grant programs was less effective in:

- clearly identifying the need for a program;
- clearly defining program objectives;
- considering alternative options for program delivery;
- designing a suitable administrative and accountability framework for the grant program in a way which seeks to minimise any risk and maximises the efficient achievement of program objectives; and
- establishing an effective monitoring and evaluation regime.

5.3 While these issues require consideration in all cases, the detail would need to be developed in relation to the level of risk and the materiality of the grants. Accordingly, we **recommend** agencies adopt more comprehensive planning processes.

5.4 Many grant programs have been in place for a number of years and, although the need for them had often been established some time earlier, ongoing need was not reassessed on a regular basis. Other planning and design weaknesses included:

- A lack of consideration of alternative program delivery options, including the use of in-house delivery of some or all the elements of the program, the efficient combination of the program with a similar program or service (possibly funded through a different agency or program), or the use of loans;
- The absence of structured risk assessments to assist in designing an appropriate program and implementation approach;

- Program designs that did not appropriately reflect the maturity of the program or the relationship with the grant recipient. There are circumstances where the adoption of a “preferred supplier” status has arisen over time. In some cases, funding continued to be provided to the same organisations with either too little or too much re-assessment of the program or the recipients. We saw examples where funding was provided on a triennial basis, but generally the commitment by the agency was for one year only requiring repeat applications, even where recipients had been funded repeatedly for a number of years. Feedback from recipients indicated that this, in turn, made any strategic planning by them difficult and increased administration for both parties at the expense of direct expenditure on the program or service. In these cases, for a specified period of time, a clear commitment might be given to fund organisations for a specified longer term. Such arrangements can be designed with a strong focus on accountability for outcomes, rather than on application and assessment processes;
- Monitoring regimes which were time and resource intensive compared with the risk and size of the grant. This issue was of particular concern to organisations which received funding from multiple sources, sometimes from within the one agency; and
- A lack of recognition at the planning phase of the need to put in place an evaluation strategy which could be used to drive the development of suitable performance measures and information flows from the grant recipient to the agency.

5.5 In one agency, considerable recent work had been undertaken to ensure a sound planning framework was established for its health promotion grant programs. This agency recognised that research was an integral part of the process by which programs were identified, designed, implemented and evaluated. Accordingly, research was used to obtain knowledge of causes and possible avenues for intervention, which in turn led to the development of policies and the implementation of grant programs. The subsequent evaluation of programs resulted in adjustment of the original objectives of and strategies for delivery of the program.

5.6 One program administered by this agency that had an objective to enhance health outcomes provided funding to a university accident research centre to undertake research into injuries sustained in a particular sport. The research centre subsequently identified that injuries sustained were a cause for concern in both children and adult players. The agency responded by working with the particular sporting association to promote safety in the sport and actively introduce injury prevention measures into its associated clubs.

5.7 Across government, multiple grant programs exist within and between agencies, which might be accessed by a range of organisations. It is a clear responsibility of funding agencies to ensure co-ordination between their own programs and those with similar programs in other agencies. This co-ordination has been poor in the past and continues to raise issues for grant recipients, especially with respect to accountability requirements and for the effectiveness and efficiency of program outcomes.

5.8 Although several agencies indicated that they consult with other funding agencies, with similar programs, we found that this generally occurred on an *ad hoc* basis. Many agencies had not developed formal processes and policies to ensure co-ordination of funding in areas of potential duplication.

5.9 We **recommend** agencies identify areas of potential overlap in funding with other agencies which fund similar programs and establish mechanisms to ensure greater co-ordination.

PROMOTION OF GRANT PROGRAMS

5.10 Where a decision has been made to achieve program outcomes via grants, a high level of interest from suitable applicants assists in ensuring available funds can be targeted to best effect. Promoting grant programs to all interested parties also fosters an equitable distribution of available funds.

5.11 We found those grant programs examined were generally well promoted to potential recipients through the media, through dispatching publications to relevant groups, lodging information on the internet and conducting information forums. In one agency, a booklet was developed which outlined all funding programs of the agency in summary form, sources of further information, including contact points, and details of how to obtain application forms. The booklet for the year 2000 was mailed out to all individuals and organisations that had applied for funding during the preceding 2 years and others listed on the agency's database. This approach assisted potential applicants to consider a range of funding options. In another agency, which had recently discontinued the preparation and distribution of a booklet due to reduced resources, many recipients suggested to us that the booklet, which contained an outline of funding availability and relevant dates, should be re-introduced.

5.12 We were advised by recipients that the availability of funds and the timing for lodging applications were well known within the relevant industries. There were some minor exceptions where non-government organisations indicated that they had become aware of the possibility of funding through "word of mouth" or contacts within the particular agencies.

5.13 We **recommend** that, where multiple grant programs exist within an agency, a comprehensive guide be prepared by the relevant agencies, outlining all funding available and application dates. This would assist in generating more competition for funds and offer agencies more choice for service delivery.

5.14 In some cases of funding of non-government organisations by municipal councils, arrangements had been in place for a number of years, and were not always clearly linked to specific grant programs. The funds were provided in response to individual requests made to the councils rather than in response to an advertisement for a specific grant program. Examples included:

- \$262 000 provided by a council in 1999-2000 to a local art gallery on an annual basis. There was no evidence of a formal application or approval process. The main requirements of the council were for the gallery to market and promote the city, provide opportunities for council members to speak at key activities, provide regular information on major events, provide invitations and tickets for councillors and staff to attend major events at no cost, and to attend meetings of the gallery;
- \$10 000 provided to fund a local art gallery by a council. The funding arrangement was historically based and had been in place since 1995. The arrangement was not formalised other than an agreement that art works from the gallery would be displayed in council buildings; and

- \$90 000 allocated for 1999-2000 by a council for 9 councillors (\$10 000 each) to spend at their discretion as sponsorships or grant, with limited accountability or disclosure.

5.15 While we recognise these are isolated examples, they constitute less than satisfactory accountability arrangements. As open-ended arrangements such as these are no longer acceptable, we **recommend** they be replaced, following review, by a more comprehensive needs/objectives-based assessment linked to councils' strategic priorities for the community.

GUIDANCE TO APPLICANTS

5.16 The provision of clear guidance to assist applicants when submitting a grant application enhances the efficiency of the selection process and improves the level of applications that comply with the eligibility criteria.



Guidelines developed by agencies to assist non-government organisations when submitting a grant application.

5.17 We found that funding guidelines provided by agencies to potential recipients were widely promoted and, in most cases, of a high standard. Some of the features of the better guidelines included:

- the attachment of application forms which streamlined the evaluation procedures of funding agencies;
- a clear indication of the criteria to be used in the evaluation of applications and the factors which would make organisations ineligible for funding;
- details of hints, tips, or common errors made by applicants;
- information which set out the funding conditions and accountability requirements; and
- the use of electronic submission processes such as the internet to streamline the application process.

5.18 High standard funding guidelines in place in one agency included a useful description of what will and what will not be funded. Table 5A illustrates what will not be funded by that particular agency.

**TABLE 5A
EXAMPLE OF AN AGENCY FUNDING GUIDELINE
HIGHLIGHTING WHAT WILL NOT BE FUNDED**

The Grants Program will not provide funding to:

- Organisations or activities not based in Victoria;
- Organisations which are not incorporated bodies;
- Core organisation activities which require continuing support;
- Fund-raising events or activities;
- Retrospective funding including projects which are already established, have been previously trialled or duplicate existing projects or organisations;
- Major capital and equipment items such as cars, caravans and buildings;
- Core costs associated with running the normal functions of the organisation;
- Videos, films, publications, conferences or travel;
- Employment of, or professional fees for, staff who are part of the general ongoing functions of an organisation or sitting fees for project management staff; and
- Projects that are considered by the agency to be the funding responsibility of local, State or Commonwealth Government.

5.19 There was also scope to streamline the application process within agencies by adopting a consistent framework for various grant programs and procedures within an agency. For example, we found several instances where applications were accepted after the closing date, including 2 that were received 60 days after the deadline. A consistent and clear policy in relation to whether late applications will be accepted would strengthen the integrity of the process.

5.20 Deficiencies in guidance related to the absence of formal processes for unsuccessful applicants to obtain feedback in relation to their application. We consider the introduction of formal mechanisms in this regard would enhance transparency and may, in the longer term, assist in ensuring all organisations with the capacity to deliver services are fairly considered in the selection process. Accordingly, we **recommend** agencies introduce formal feedback mechanisms.

APPRAISAL OF APPLICATIONS AND ALLOCATION OF FUNDS

Selection criteria

5.21 In the majority of grant programs reviewed, selection criteria had been established which were in line with the objectives of the programs and used by members of selection panels or committees to assess applications. The recommendations of the panels or committees were usually forwarded to senior management of the organisation, the municipal council or the Minister for approval.

5.22 We consider the processes in this area could be further improved through more careful documentation of some selection processes. The following examples illustrate the documentation deficiencies in relation to some funding arrangements:

- After assessing applications, a panel recommended funding allocations totalling \$3.4 million, which were then forwarded to a committee for approval. Only very limited documentation supporting the recommendations was provided to the committee and no evidence was available to show how applications were evaluated against the grant program assessment criteria;
- Funding of \$412 000 was provided to a company by a municipal council to promote and support economic business and tourism development in the region. There was no formal application process. Although we were advised that the company was required to make a presentation to the council on their funding request, there was no information available regarding the nature of the presentation or subsequent considerations by the council of the adequacy or otherwise of the company's actions; and
- Funding of \$250 000 to construct a hydrotherapy pool was provided by a municipal council. However, there was no record of the council's approval on file or budget detailing the estimated construction costs.

5.23 Where assessment documentation deficiencies exist, this usually extends to poor linkages to program objectives and limited formal assessment against defined criteria or prioritising against other requests for funds. Decisions made by municipal councils were, in the main, made at council meetings, with the basis of allocation decisions not well documented. As a result, we were unable to determine the merits of particular funding decisions and the council was not in a position to substantiate that the processes followed achieved an equitable and transparent distribution of funds. Accordingly, we **recommend** agencies improve their documentation of selection processes.

Conflict of interest

5.24 Guarding against potential, perceived or actual conflict of interest requires clear policies and practices. Budget sector agencies can refer to conflict of interest guidelines issued by the Department of Premier and Cabinet. For local government, Guidelines developed by the Department of Infrastructure address the issue generically for municipal councils as well as draw on the requirements of the Local Government Act. However, we found that many agencies had not adequately addressed this issue specifically for their grants programs, both in terms of staff involved on evaluation panels who may have an interest in the outcome of a grant decision or of council or committee members involved in approval processes. In relation to staff involvement, we found that:

- only one agency had a specific conflict of interest policy in place, and it had only been recently developed;
- conflict of interest situations had not been clearly defined by most agencies;
- the majority of agencies did not maintain registers of interest for staff involved in the selection process; and
- staff were generally not required to declare any interests in relation to particular applications.

5.25 Conflict of interest can also be a significant issue for municipal councils or committee members. Due to the specialist skills, experience or interests of some members, situations often arose where such persons have a significant involvement in non-government organisations applying for funds. For example, board or council members could also be members of boards or management committees of funded organisations. In such situations, the members are usually required to complete a declaration of interest annually and, in some cases, at each council meeting.

5.26 In general, the approach to dealing with specific situations where potential conflicts of interest arose varied between agencies, with most not well managed. Only one agency had a clear policy to cover these situations by having sound processes in place to ensure members were not involved in decision-making. Less adequate situations identified were:

- Although some agencies expected members to leave meetings in conflict situations, we were advised that this did not always occur in practice;
- At least one agency did not expect members to excuse themselves from the decision-making process, relying on the professionalism of the members to consider funding issues objectively;
- In one regional committee responsible for approving grant applications, 8 of the 12 members appointed for 1999 had links with the agencies seeking funding. For the current year, 3 members were in this position. We were advised that it would not be practical for these members to exempt themselves from decisions regarding the allocation of funds. The approach taken in this case was to provide the committee with summary information only rather than detailed supporting documentation and selection criteria which could be seen as giving potential applicants a competitive advantage;
- In one municipal council, we observed 24 grants totalling \$92 000 which were approved at informal meetings between councillors and staff, rather than council meetings. No minutes were maintained of these meetings and no evidence was available to determine whether councillors had declared any pecuniary interests; and

- Some agencies accepted complimentary tickets from grant recipients. In one case, tickets were provided to promotional events, dinners and art exhibitions which had not been provided for in the funding agreement.

5.27 We **recommend** that agencies develop specific guidelines for grant programs on what constitutes a conflict of interest and the action to be taken in such situations. Staff, board or council members should also be required to complete an annual return declaring any pecuniary interests. This will assist in ensuring that any potential, actual or perceived conflicts of interest are identified and resolved in a timely manner.

DEFINING TERMS AND CONDITIONS

Form of agreement

5.28 An essential component of effective grant administration is an appropriate funding agreement, covering the following areas:

- roles, expectations and obligations of each party to the agreement;
- purpose of the project/service;
- duration of the agreement;
- desired outputs and outcomes of the project/service;
- means by which the effectiveness, efficiency and economy of the project/service will be measured, including relevant performance measures and targets;
- required content of status reports, project reports, financial statements and financial reports, including possible audit requirements; and
- grievance procedures.

5.29 A significant amount of work has been undertaken by agencies in recent years to improve agreements between funding agencies and grant recipients. Most grant programs we examined had in place agreements which were clear and contained most of the required components, including the terms and conditions of the funding. The nature of the agreements varied and included complex contractual documents developed with the assistance of legal advice, different types of funding agreements, a letter advising the recipient of the allocation of funds and conditions of the funding, and an exchange of letters regarding the funding conditions. The form of the agreements was in most cases appropriate to the nature and value of the funds provided. However, in a small number of cases:

- Agreements were not in place, even where the amounts involved were substantial. In one such example, \$425 000 was provided by a municipal council to an Australian Football League club within the municipality. There were no formal application or evaluation processes and the consideration of the proposal was undertaken at a meeting which was closed to the public. The limited documentation available at the council and recipient indicated that the funding was sought to increase the capacity of the football facilities. However, this was never formalised in an agreement setting out any requirements in relation to the funding. Further, no documentation could be produced by the council or recipient to substantiate how the grant funds were expended;

- In another example, a municipal council provided grants totalling approximately \$120 000 (ranging in value from \$4 000 to \$20 000) to various non-government organisations without any agreements;
- The obligations in one agreement resulted in significant costs to the recipient. In that example relating to a start-up business grant, the municipal council imposed a requirement for the new business to participate in a Fashion Show only 6 months after it commenced operating which ultimately proved to be a costly exercise. In another example, a recipient receiving \$1 million a year for a period of 7 years was required to obtain an independent audit of expenditure annually. For the first year this cost amounted to \$6 500;
- In one municipal council, the only advice to some recipients in relation to funding arrangements was a list of tasks to be undertaken;
- In some instances, we observed agreements had not been signed; and
- Certain issues were not adequately dealt with in agreements, including grievance processes, acquittal requirements, issues associated with the ownership of assets acquired with funds provided and potential ambiguities in the terms and conditions. In one example, \$50 000 was provided by a municipal council to stage horse trials and other related events over a 3-year period. However, the terms and conditions within the agreement are not clear as to whether the grant is for \$50 000 for 3 years or \$50 000 per year for 3 years (\$150 000). The agreement stated:

“Sponsorship fee: \$50 000. For a period of three years from 1 October 1999 to 30 September 2002, with an option on a further two years. If Council wishes to take up the option of a further two years’ sponsorship from 30 September 2002, it must exercise its option and agree terms prior to 1 September 2002”.

5.30 We also found that different agreements were used for different programs within the same agency. Given that many of the requirements in relation to funding terms and conditions do not vary from program to program, there is scope for efficiency gains through standardisation of the key components of agreements within and between agencies. We **recommend** agencies co-operate in this regard.

Accountability requirements

5.31 Guidelines issued by the Department of Treasury and Finance set out minimum financial accountability requirements for non-government organisations in receipt of funds. Different requirements are specified depending on whether the funding is \$20 000 or below, between \$20 000 and \$50 000, or \$50 000 and above. The Guidelines suggest that statements should be submitted by the recipient within 90 days after the end of the financial year in which the funding is provided, but do not specify any minimum requirements in relation to the reporting of non-financial data.

5.32 A different approach has been taken in the Guidelines applicable to local government. The Guidelines are not prescriptive but suggest that monitoring arrangements should include both financial reporting and information of a more qualitative nature on the outputs of the agreement. They indicate that the timing of the reporting should be negotiated on a case-by-case basis.

5.33 In practice, we found a range of approaches to the adoption of accountability requirements within agreements both between and within agencies. It was not evident that the differences were based on an assessment of the risks involved and, in some cases, different requirements applied for funding arrangements that were similar in value and nature. Conversely, we found that similar accountability requirements were adopted for funding arrangements which were materially different. The following examples illustrate these differences:

- \$40 000 was provided to 2 organisations by the same agency but they were subject to different accountability requirements. One had to provide an income and expenditure statement and balance sheet signed by the principal accounting officer and certified by a qualified public accountant, whereas the other organisation was not required to have such a certification; and
- Two organisations in receipt of funding from one agency were subject to the same accountability requirements comprising detailed half-yearly reports, and annual financial, management, marketing and program evaluation reports despite the fact that one receives annual funding of \$155 000 while the other receives \$800 000.

5.34 Generally, the recipients we visited did not consider the accountability requirements were overly onerous. However, some that received grants from more than one agency did make the observation that more stringent requirements were placed on them by some agencies compared with others, and that the combined requirements could result in the organisation being overly diverted from achieving the outcomes of the grant program. Doubts were also raised as to the usage of the monitoring information.

5.35 In most instances, agreements incorporated suitable financial reporting requirements, some of which were less stringent than those suggested by the Department of Treasury and Finance Guidelines. There was less consistency in terms of the inclusion of non-financial reporting requirements in agreements. By way of example:

- A municipal council, under its business development program, provided \$100 000 to assist an environmental organisation to establish its regional office within the municipality. Only one performance measure was established for the funding, namely, the establishment and operation of the regional office of the organisation. Measures linked to the business development objectives of the council, such as the creation of employment opportunities or achievement of business outcomes, were not specified; and
- In contrast, many of the agreements relating to the funding of arts activities required an annual evaluation report which incorporated:
 - an assessment of the organisation's performance in achieving its stated aims including description of actual activities undertaken and assessment of successes and failures;
 - a report on the organisation's corporate governance framework including corporate decision-making processes, management and staffing structure, management systems, strategic planning and review processes and major changes and or issues affecting the organisation during the year;
 - a marketing report focused on an assessment of the impact of marketing activity during the year; and
 - a performance measurement report providing statistical information relating to performance measures agreed with the agency.

5.36 We **recommend** that agencies develop and implement accountability requirements for grant recipients which reflect the underlying risk in the provision of the grant and the materiality of that grant.

PAYMENTS TO RECIPIENT ORGANISATIONS

5.37 A common issue we identified from discussions with recipients related to the method and timing of funding payments. These primarily related to:

- Instances of delays in the provision of funds which, in turn, adversely impacted on the delivery of services. For example, some recipients indicated that as funding was not received until just prior to the commencement of projects, this caused difficulty in entering into contractual arrangements associated with the programs. In one case, an organisation indicated that it received funding too late to implement its planned winter program;
- Cash flow problems that arose for recipients as a result of the number of agencies involved in the payment process. One such example included a payment from the Community Support Fund to a life saving club. The club was required to submit invoices to the municipal council which in turn submitted the claim to the agency approving the grant, which then forwarded its approval to the administrator of the Community Support Fund to release the funds. The administrator then provided the money to the council which then passed it on to the life saving club. The entire process took 5 weeks and created cash flow problems for the club;
- Instances where funds were provided before the funding agreement was signed. In one example, 2 of the quarterly payments were provided prior to the signing of the agreement. In another case, the recipient indicated that in order to start their program, they committed funds prior to receiving funding or even signing the agreement;
- The timing of payments in that there is a need for funding agencies to align payment cycles with the councils budgetary cycle; and
- The term of funding agreements which were usually 12 months, even where funds had been provided to organisations for a number of years.

5.38 We **recommend** that greater attention be given by funding agencies during the planning of grant programs to determining the most appropriate approach to the timing and terms of payment arrangements with a view to ensuring that they are conducive to the efficient achievement of the grant program objectives.

Part 6

Monitoring of grant programs

INTRODUCTION

6.1 Monitoring is an important part of responsible management of any grant process. However, in determining reporting requirements and processes, there is a balance between the need to protect public funds, (through agencies managing the grant) and the effort and resources required by non-government organisations to comply with the requirements. The use that can be made of the information by the funding agency also needs to be considered. The extent and frequency of monitoring by agencies should therefore vary according to the size of the grant, the nature of the relationship with the grant recipient, and the associated risks.

6.2 Considerable effort should be put into the design of grant programs and the processes of selection of recipients with a view to reducing the degree of resource-intensive monitoring required. However, even with the most well-planned grant programs and rigorous selection practices, the maintenance of sound monitoring practices is important to avoid:

- project failure;
- problems in acquitting funds; and
- making payments when previous amounts provided have not been used appropriately by the recipient.

6.3 As identified in the principles described in Part 3 of this Report, monitoring should encompass both the financial and operational aspects of performance to determine the extent to which organisations have used funds for the purposes sought and have achieved the desired outcomes.

REPORTING REQUIREMENTS WITHIN AGREEMENTS

6.4 Agencies vary in the level of reporting required of recipients. Any reports required are usually specified in the agreements or letters of offer and might include the following:

- audited financial statements (annually, quarterly or half-yearly);
- certified financial statements, usually where audited statements are not requested (annually, quarterly or half-yearly); and
- project operation reports (quarterly, half-yearly, annually and upon completion of the project).

6.5 Nevertheless, in 2 agencies we found several instances where agreements involving grants ranging from \$5 000 to \$800 000 had not been established which outlined the reporting requirements. Agencies need to ensure agreements specify the frequency and nature of reports required to be provided by grant recipients. In another case, the agency identified recipient dissatisfaction with the reporting requirements. This led to streamlining the reporting requirements contained within the funding agreement. Further comment on this issue is detailed in Part 7 of this Report.

REPORTING PROCESSES

6.6 For some of the programs we reviewed, the monitoring and evaluation framework was adequate and incorporated a range of mechanisms for ensuring that the agency was well informed regarding the performance of recipient organisations. These included the provision of:

- progress reports;
- reports on the success of the event/program;
- financial reports, audited or unaudited; and
- findings of evaluations aimed at assessing the success of the event/program.

6.7 However, we observed several instances where agencies had not monitored the level of compliance with accountability obligations by recipients in a timely manner. For example, in one case the second funding installment was paid without the first year's financial and evaluation report. The agency did not send its first reminder notice until May 2000 for a report that was due in November 1999. In another agency, despite several instances of the recipient failing to lodge reports within the required time frame, the agency had not withheld or withdrawn funding.

6.8 Recipients we interviewed were very positive regarding the responsiveness, professionalism and quality of advice provided by some agencies. It was apparent to us that those agencies had put much effort into developing an open relationship with grant recipients. Recipients did, however, indicate that they do not receive formal feedback regarding the agencies' assessment of either their progress or the quality of their evaluation/acquittal reports, apart from acknowledgement of receipt and/or requests for clarification or further detail. We **recommend** that agencies provide feedback to recipients on such aspects as the quality of accountability reports and the results of evaluation to assist improvement and further enhance relationships with recipients.

ASSESSMENT OF REPORTS PROVIDED

6.9 Although recipients generally prepare and provide monitoring reports on their performance, the information provided in relation to outputs or outcomes achieved is not independently verified by the funding agency. Examples of this shortcoming we identified included:

- A recipient claimed increased participation had resulted from the installation of lights at a tennis court, but no evidence was sought by the council to verify this claim;
- A recipient was required to provide an assessment of the strengths and weaknesses of an event, both in financial and artistic terms, after its completion. Apart from an audited financial statement, the recipient only provided the municipal council with a booklet of brochures and leaflets which advertised the event and no further action was taken by the council; and
- The extent to which staff monitor grants varied between the regional and metropolitan offices of one agency. To overcome this shortcoming, the agency is in the process of developing a checklist so staff can easily monitor the documentation requirements of projects.

6.10 We were advised by several agencies that there are informal processes in place that would assist in identifying any under or non-performing recipient, including frequent contact between the recipient and agency staff. However, our review of a sample of project files found only limited evidence of this process.

6.11 In some agencies formal monitoring was not undertaken at all. For example:

- In one municipal council, funding of \$800 000 was provided to a local tertiary institution for refurbishment of a hall over a 5 year period to 2000. However, there was no evaluation or feedback on an annual basis as to how these funds had been utilised or whether the outcomes had been achieved;
- In another municipal council, funding was provided to an art gallery to spend at its own discretion without any formal requirement to account for the expenditure to the council; and
- Instances were found where reporting requirements were not specified within agreements. In one example a one-off grant of \$150 000 was provided by a municipal council to a sporting club for junior development. However, the club was not required to confirm that the funding had been spent as intended. In another example, funding was provided by a council to a library for its services without requiring any formal reporting.

6.12 There were also issues in relation to the quality of some reports prepared by recipients. For example:

- In one agency, periodic management reports were prepared stating activities had commenced in line with the agreement and that targets would be achieved as required. However, we were advised by the agency's staff that such assertions were unreliable as they were often based on unsubstantiated data provided by recipients and manual, rather than computerised, calculations; and
- In some agencies, the monitoring reports did not address the performance of recipients in meeting project aims and objectives nor did they incorporate performance indicators to measure the efficient, economic and effective use of grant funds. We found that, of the recipients visited, most had utilised grant funds in an effective, efficient and economical manner. However, only limited use was made by recipients of bulk purchasing opportunities and as such a potential exists for non-government organisations to incur higher operating costs. By way of example cost savings were achieved in one council through the formation of an association to purchase such things as insurance, gardening, cleaning, food and supplies on behalf of 22 child care centres and kindergartens.

6.13 We **recommend** that agencies ensure adequate processes are in place for undertaking monitoring activities, specifically:

- verifying outputs or outcomes achieved;
- documenting the details of discussions and meetings held with recipients; and
- specifying reporting requirements within agreements including performance indicators to measure the efficient, economic and effective use of grant funds.

LINKING PAYMENTS TO THE SUPPLY OF TIMELY REPORTS

6.14 The payment of funding was generally linked to the receipt of reports from recipients specifying they had met their obligations. If these obligations had not been met, the funding (or part of it) was withheld. For example, in one agency the funding was directly linked to the delivery of outputs and achievement of outcomes. We noted one case where the recipient organisation did not fully meet the performance requirement of employing 150 people, and consequently the funding agency determined, with the relevant Minister's approval, to provide a grant proportional to the number of people actually employed.

6.15 Nevertheless, withholding funds until projects have been delivered is only possible when a grant recipient is financially able to carry out the project or program in advance of the funding. In some instances, agencies may also provide funding prior to the project or program commencing. For example, one agency recently changed its method of funding and provided funds prior to an event as this better satisfied the cash flow requirements of the recipient. In this case, the recipient had been funded for the past 10 years and had met all of its requirements. As a safeguard, the contract was amended to provide for repayment of the grant if the relevant performance indicators were not met.

6.16 Exceptions to the approach of linking payments to timely reporting did occur. For example, monitoring processes within one agency were not timely:

- Recipients were unable to provide quarterly updates in relation to their requirement to achieve a specified level of contact with students. This was due to the limitations of the software used for the collation of data which in essence, only allowed this after the completion of the funding period. As a result, the funding agency cannot progressively assess performance against student contact hour targets; and
- Quarterly payments were approved by regions through their grants management system and then paid to recipients through Head Office's financial system. To ensure the approved claims have been paid, the 2 systems are reconciled each month. We were informed by the regions that, due to limited staffing, their reconciliations were not always conducted on a monthly basis.

6.17 Increasingly in the Commonwealth and other State jurisdictions, funding of grant recipients is moving to a system of payments linked to the achievement of performance milestones, reflecting actual service criteria and delivery of outputs. We **recommend** agencies explore such arrangements.

ACQUITTAL PROCESSES

6.18 Acquittal is the process by which a recipient demonstrates to the funding agency that it has expended the grant funds in accordance with the terms and conditions of the funding agreement. Administrative procedures to acquit grants on a regular basis are an important management control, although the stringency of such procedures should be balanced against the assessed level of risk and take into account the cost of compliance for recipients.

6.19 In line with best practice, upon completion of the project the grant recipient should provide:

- a certificate or statement acknowledging that grant funds were spent in accordance with the terms and conditions of the grant on an authorised project and that the project is operating as planned; and
- a certified statement of expenditure signed by a responsible officer covering the period of the grant.

6.20 For larger, recurrent or more sensitive grants, more detailed evidence may be necessary, together with an effective review or audit of acquittal documentation to ensure that funds have been used for approved purposes.

6.21 We found that only a few of the agencies required grant recipients to formally acquit their grants through the provision of an acquittal statement. These statements committed recipients to assure the agency that funds were only spent on the funded project within the terms and conditions of the agreement. Rather, the prime requirement of recipients to acquit grant funding was through the presentation of financial statements (annual and project specific).

6.22 Some of the deficiencies found related to:

- Funding agreements not incorporating clear and appropriate acquittal requirements;
- Failure to follow-up unacquitted funds. For example, a capital works project involving funding of \$700 000 was completed in June 1999, but the agency had failed to seek acquittal for the funds at mid-2000; and
- Instances where acquittal was not undertaken on a timely basis. In some agencies, acquittal did not occur until several months after the completion of the agreement. Thus, the agency did not allow itself sufficient time to exercise control over grant recipients who breached their agreement or to amend the following year's funding.

6.23 We **recommend** that agencies determine the acquittal process to be followed throughout large multi-year grants or upon completion of projects. This process should be formalised in policies and procedure guidelines, be included in agreements and implemented.

RECOVERY OF GRANT FUNDS

6.24 Recovery of grants in whole or in part may be appropriate in a number of circumstances, particularly where the conditions of the funding agreement have been breached or unplanned surpluses occur. Grant programs should provide for funds to be recovered in proportion to the degree to which benefits have not been delivered or the funding is not fully expended.

6.25 Only a small number of grant programs we reviewed had in place formal policies or procedures to provide guidance on how funds were to be recovered or written-off. In the event of a recipient not complying with the funding conditions, and where there is an absence of adequate recovery policies and procedures, agencies may be exposed to the risk of not recovering public funds. In one agency, the agreements for high value grants require the recipient to refund the grant, either in full or part together with penalty interest, if the agreement is breached.

6.26 In another example, a municipal council provided \$45 000 to co-fund a feasibility study with another agency that provided \$27 000. At the completion of the study, the recipient organisation held \$38 000 of unspent funds, which the council gave verbal approval to be carried over for use on a suitable project. As a formal agreement was not prepared regarding usage of the funds, potential exists for the surplus funds to be used on a project that may not necessarily align with the council's wishes, or not be recovered.

6.27 Where funding agreements are breached or unplanned surpluses occur, we **recommend** agencies administering grant programs have in place documented strategies and procedures to facilitate the timely recovery or redirection of grant funding.

RECORDS MANAGEMENT AND FILE DOCUMENTATION

6.28 Record management systems provide the mechanism for ensuring the maintenance of complete and accurate documentation, which is readily accessible for both internal and public scrutiny.

6.29 An effective accountability process requires the community to be provided with complete, understandable and reliable information on how an agency carried out its activities and arrived at its decision. In this regard, documentation supporting conclusions and substantiating the extent and nature of work performed forms an important part of the agency's records.

6.30 Working papers prepared by agency staff should be complete, accurate, clear, concise, legible, relevant, organised, able to be easily reviewed and stand alone without the need for further explanation. Details of matters discussed or observed should be carefully documented along with the date, time and purpose and attached to the file.

6.31 Apart from a few exceptions that we identified at 2 agencies, we found that files were well maintained and contained all pertinent information relating to the awarding and payment of the grant. Nevertheless, documentation on files could be improved in cases where the process has involved interviews with recipients or physical observations such as site visits or attendance at events. We **recommend** agencies maintain such documentation.

Part 7

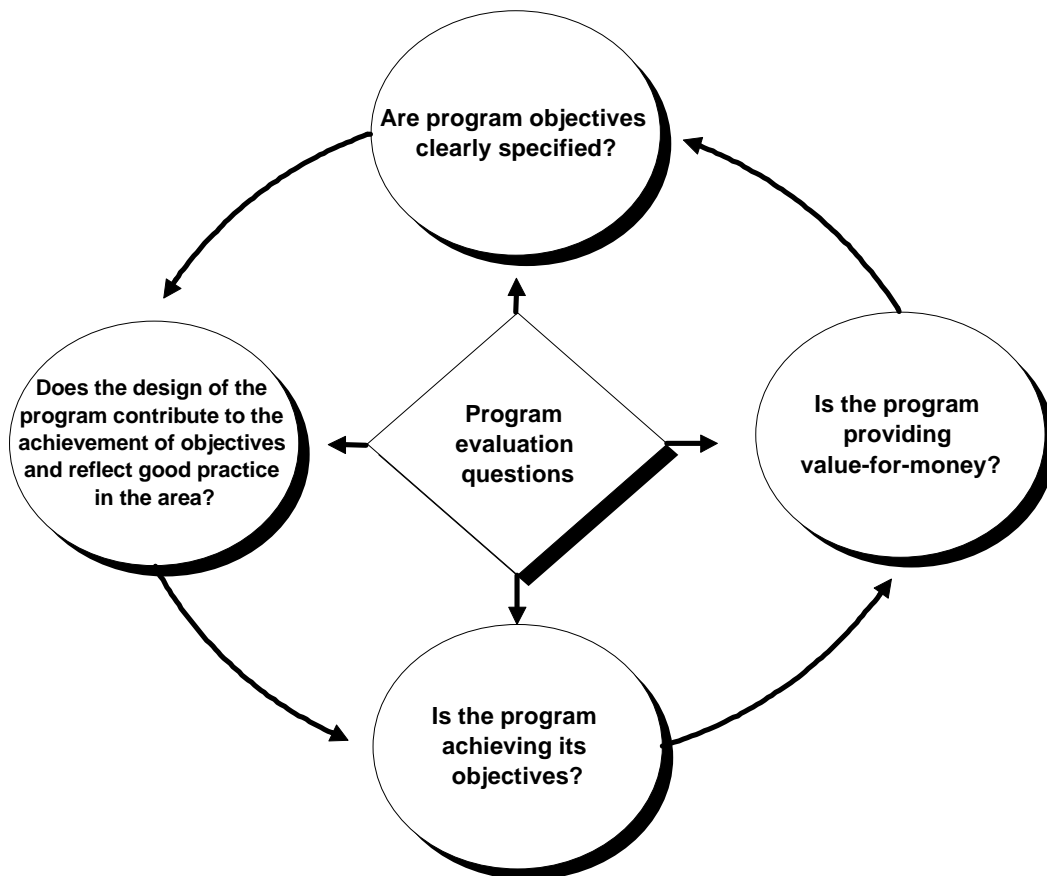
Outcome of grant programs

INTRODUCTION

7.1 Where grants form part of a program, periodic evaluations can contribute to improved grant program management, greater accountability, more informed decision-making, better use of resources and refined objectives. The evaluation process should form part of the strategic planning and resource management processes of the grant program, capturing information on program-wide outcomes which is fed back into grant program planning.

7.2 In assessing the extent to which a program has achieved its aims and objectives, a number of questions would need to be answered by the evaluation. Chart 7A sets out some of the questions that should be considered when evaluating a program.

**CHART 7A
PROGRAM EVALUATION QUESTIONS**



DEFICIENCIES IN EVALUATION PROCEDURES

7.3 We found that although a number of agencies had evaluated individual projects, some program evaluations had been conducted on an *ad hoc* basis. Few agencies had formally evaluated each program regularly or upon its completion in terms of efficiency of operations (e.g. cost per grant dollar), efficiency of program (e.g. grant cost of outputs/outcome obtained) and effectiveness of program (e.g. ability to meet the program's aims).

7.4 Some deficiencies we identified included:

- An inadequate level of resources allocated to evaluation;
- The absence of specific procedural guidelines for the conduct of evaluations;
- The lack of clear definition of program objectives and criteria to evaluate programs;
- Variable validity of evaluation data. For example, one agency had collected data from recipients by questionnaire at the time of grant application and then a follow-up questionnaire 12 and 24 months after the completion of the project. However, we found that the information collected by the agency was not up-to-date or exhaustive due to the low response rates to the surveys by recipients; and
- Inappropriate evaluation techniques. Some recipients indicated that they thought evaluation instruments used by agencies were too general and simplistic, e.g. tick the box surveys with little direct observation.

7.5 As evaluations had generally not been performed on all significant programs, agencies found it difficult to determine whether grant programs were:

- achieving the stated objectives;
- achieving value for money; and
- delivered in the most cost-effective manner.

7.6 One agency recognised the importance of evaluating its grant programs and had recently established an evaluation unit for assessing each individual project and the grant program as a whole. The results of these evaluations will be used for such things as program planning and decision-making, resource allocations and the development of best practice. In developing the evaluation methodology, the agency had also established important liaisons with a similar interstate agency, which had a comprehensive evaluation methodology in place.

7.7 This agency recognised the value of evaluating certain longer-term programs prior to their conclusion as such action can assist in refining or refocusing the program and ensuring value for money is achieved. In a recent program, the agency had established an ongoing evaluation framework including the development of program aims and objectives, and its ongoing operation. This level of evaluation will provide feedback into the operation of the program and allow for changes to be progressively implemented. Where grant programs are ongoing, we **recommend** that agencies consider conducting systematic evaluations to ensure that programs evolve with changing community needs and changing environments.

UTILISATION OF EVALUATION INFORMATION

7.8 It is important that the results of grant program evaluations be incorporated into program planning processes in order to improve their effectiveness.

7.9 We found that, where agencies had conducted an evaluation, the extent to which the results were utilised varied from agency to agency. For example, in one agency a grant program evaluation identified recipient dissatisfaction with the current reporting system. Recipients indicated that they were under constant pressure to provide reports on their activities in extremely intricate detail, including one who stated:

“Given that a worker in our region is funded for only 8-10 hours a week, I believe other reporting mechanisms need to be put in place to minimise the reporting requirements of the program. Regular face-to-face meetings and contact with agency regional managers could provide a solution to this problem. This will allow workers more time to spend on program and community support projects”.

7.10 Another recipient commented on the need for the agency to demonstrate greater consistency in the reporting structure and provide clearer descriptions of objectives. This recipient stated that *“current reporting is too lengthy and time consuming”*.

7.11 As a result of the evaluation, the funding agreements were altered to include clearer and more concise objectives and reporting was streamlined and given a more qualitative focus. Our discussions with recipients revealed that they were satisfied with the new reporting structure as it was easier to follow and identified more useful information.

7.12 Notwithstanding the above example, we also found several instances of underutilisation of the data obtained from a grant program evaluation. For example, in one agency there was very little evidence that recommendations from an evaluation conducted over 12 months ago had been adopted, partly due to limited resources. In other cases, recipients commented on the failure of agencies to adequately report the results of evaluations. Indeed many recipients indicated that there was a need to disseminate evaluation results, as some of this information may also be useful for them.

7.13 We **recommend** that agencies should develop a plan to review the results and implement the recommendations of evaluations in a timely manner and ensure they are published (e.g. in their annual report) and brought to the attention of relevant bodies.

Appendix A

Grant programs examined by audit

GRANT PROGRAMS

Information on various grant-funded programs administered by State and local government agencies during 1999-2000 and reviewed by audit is detailed below.

VICTORIAN HEALTH PROMOTION FOUNDATION

<i>Name of Program</i>	<i>(\$)</i>
Sport and Recreation Program	7 847 000
Research Program	4 366 500
Community and Arts Program	3 389 600
Health and Education Program	4 373 900

The Sport and Recreation Program provides sports sponsorship to organisations and events that offer innovative opportunities for communication of health messages and create environments that are conducive to health.

The Research Program provides a mix of investigator-led, strategic and evaluation research to build evidence for health promotion interventions and aims to improve or establish new means for translating research knowledge into practice.

The Community and Arts Program aims to make a contribution to population health through the provision of sponsorships and community grants to organisations and events to promote participation in the arts, communicate health messages and provide environments that are conducive to health.

The Health and Education Program seeks to fund innovative approaches to health promotion, such as projects which influence organisational policies and practices to promote health and initiatives which aim to change community attitudes and behaviours and create environments that are conducive to health.

INDUSTRY VICTORIA

<i>Name of Program</i>	<i>(\$)</i>
Industry Grants Program	25 154 000

The Industry Grants Program aims to attract export-focused investment, boost business activity and encourage employment creation.

ADULT COMMUNITY AND FURTHER EDUCATION

<i>Name of Program (a)</i>	<i>(\$)</i>
Access and Vocational Program	14 477 900
Development of Adult Education in the Community Program	1 828 500
Special Initiatives Program	689 500
Other Grant Programs	5 599 000

(a) Amount allocated in 1999 calendar year.

The Access and Vocational Program aims to ensure equality of access to people without post-school qualifications. The specific purpose of the funding is the delivery of a broad range of access and vocational education programs in community providers and Adult Multicultural Education Services centres for a diversity of students.

The Development of Adult Education in the Community Program provides funding for the support and development of adult education in the community, including support for general adult education, the development of new providers, product and curriculum development.

The Special Initiatives Program provides funding to support the work of community-based providers in areas such as professional development activities and regional special projects.

Adult, Community and Further Education also administers other grants allocated for Commonwealth equipment, State works and services, in addition to Australian National Training Authority adult literacy grants.

SPORT AND RECREATION VICTORIA

<i>Name of Program</i>	<i>(\$)</i>
Access for All Abilities Program	2 220 600
State Sporting Association Development Program	1 185 000
Regional Sports Assemblies and Older Adult Recreation Networks Program	980 500
Better Pools Program	5 777 400
Community Facilities Program (major facilities)	5 063 200
Community Facilities Program (minor facilities)	2 697 600
Life Saving into the 21 st Century Program	1 652 200
Major Projects Program	3 674 100

The Access for All Abilities Program aims to facilitate the development of sustainable community-based sport and recreation opportunities for people with disabilities through regionally-oriented providers.

The aim of the State Sporting Association Development Program is to improve the capacity of peak sporting associations to provide proper, affordable access to all Victorians for sport participation opportunities.

The Regional Sports Assemblies and Older Adult Recreation Networks Program aims to develop mainstream sport and recreation at the grass roots level.

The Better Pools Program aims to increase the quality and range of sport and recreation opportunities through the planned development of aquatic leisure facilities across the State.

The Community Facilities Program contributes to the provision of high-quality and accessible community sport and recreation facilities across Victoria.

The Life Saving into the 21st Century Program focuses on the improvement of life saving club facilities.

The Major Projects Program aims to support the planning, development and operation of major State, national and international level sporting facilities and events, and to promote Victoria as a training and competition destination for international athletes.

ARTS VICTORIA

<i>Name of Program</i>	<i>(\$)</i>
Arts and Professional Development Program	724 200
International Program	825 400
Regional Arts Development Program	1 460 000
Regional Arts Infrastructure Program	7 600 000
Touring Victoria Program	803 300
Festival and Event Program	4 840 300
Organisations Development Program	12 592 100
Artists in Schools Program	94 000
Digital Media Program	243 600
Victoria Commissions Program	525 000
Arts Facilities Development Program	427 300
Cultural Exhibitions and Fine Arts Indemnification Program	98 600

The Arts and Professional Development Program is aimed at supporting artists, producers and presenters in the design of artistic programs, development of new works and participation in professional development activities.

The International Program gives funding for export and international touring of Victorian arts projects and for projects aimed at enhancing Victoria’s international cultural relations in priority destinations such as Italy, Japan, China and Greece.

The Regional Arts Development Program is aimed at providing improved development opportunities for regionally-based artists and organisations, supporting the development of new art works in regional areas, and ensuring that regional communities have access to high quality arts and cultural programming.

The Regional Arts Infrastructure Program involves the provision of funding to assist the development of networks of arts organisations and arts facilities throughout regional Victoria.

The Touring Victoria Program is aimed at building a strong and sustainable environment for arts touring activity throughout Victoria and improving access to presentations, performances, exhibitions and festivals for audiences in outer metropolitan and regional Victoria.

The Festival and Event Program provides financial support for major and local festivals and the development of the festivals and event sector.

The Organisations Development Program involves annual and triennial funding for non-government arts organisations to support operating costs associated with delivering high quality arts programs and/or services to the arts sector.

The Artists in Schools Program is funded by the Department of Education, Employment and Training and managed by Arts Victoria. The Program provides grants for professional artists to work in Victorian schools for up to 20 days.

The Digital Media Program is aimed at encouraging projects that further the application, usage and understanding of digital media within the non-government arts sector.

The Victoria Commissions Program is intended to assist with commissioning new art for installation, presentation and distribution in Victoria.

The Arts Facilities Development Program provides funding assistance for the acquisition and upgrade of capital infrastructure, including information technology, for arts facilities.

The Cultural Exhibitions and Fine Arts Indemnification Program provides indemnity cover for exhibitions involving the display of material culture for the benefit of Victorians.

MAROONDAH CITY COUNCIL

<i>Name of Program</i>	<i>(\$)</i>
Community Program	94 900
Funding Assistance for Community Groups Program	66 600
Committees of Management Support Program	37 600
Other Grant Programs	88 200

The Community Program is to assist incorporated, not-for-profit community groups in enhancing lifestyle choices for Maroondah residents.

The Funding Assistance for Community Groups Program provides capital assistance for organisations to improve existing facilities or to develop new facilities within the municipality.

The Committees of Management Support Program provides a resource program to assist and support Maroondah City Council's Special Committees of Management. Funding is provided for capital improvements or facility planning for specific reserves or facilities.

The Council also provides other grants, such as performance grants and cultural grants.

CITY OF MELBOURNE

<i>Name of Program</i>	<i>(\$)</i>
Cultural Development Program	3 400 500
Community Services Program	914 100
Small Business Development Program	431 500
Other Grant Programs	3 080 900

The Cultural Development Program aims to:

- increase support for contemporary arts practice by encouraging emerging artists and collaboration between art forms;
- increase support for the development and presentation of works for young audiences; and
- strengthen innovation through all funding programs by emphasising the City of Melbourne's commitment to legitimate risk-taking and developing new ideas and forward-looking activities.

The Community Services Program aims to provide a range of programs or projects which focus on participation, preventative and community building measures for young people and ensure that quality Children's Services are available on an equitable basis for families who live, work and study in the municipality.

The Small Business Development Program aims to encourage the formation of new innovative small businesses, support the growth and creativity of existing businesses and attract innovative small businesses to the City of Melbourne.

The Council also provides other grants, for a number of other projects such as incentive packages to attract targeted businesses and organisations and major events like the Australian F1 Grand Prix.

CITY OF GREATER GEELONG

<i>Name of Program</i>	<i>(\$)</i>
Community Development and Arts Program	668 200
Community Development Grants to Neighbourhood Houses Program	67 200
Community Leisure Incentive Program	14 600
Major Events Program	351 200
Councillor Contingency Program	76 500
Other Grant Programs	903 600

The Community Development and Arts Program aims at increasing the involvement and effectiveness of community-based groups in identifying the needs of local community, and meeting those needs in diverse and creative ways.

The Community Development Grants to Neighbourhood Houses Program aims to increase the involvement and effectiveness of Neighbourhood Houses in identifying the needs of the local community and meeting those needs.

The Community Leisure Incentive Program provides grants to establish new clubs and groups wishing to provide activities not currently available in the community.

The Major Events Program aims to attract new major events.

The Councillor Contingency Program allocates funding to each councillor for sponsorships or grants to be provided at their discretion.

The Council also provides other grants for a number of projects, including Corporate Grants, Arts Grants, Community Festivals and Events, and Recreation and Sponsorship Grants.

WODONGA RURAL CITY COUNCIL

<i>Name of Program</i>	<i>(\$)</i>
Community Program	16 800
Other Grant Programs	870 800

The Community Program provides financial assistance to community groups.

The Council also provides a range of other grants for a variety of purposes.