

Audit Report No.21 2011-12

Administration of Grant Reporting Obligations

Introduction

- 4.1 Prior to 2007, there was no official guidance to agencies relating specifically to the administration of grant programs.¹ In late 2007, Finance Minister's Instructions were issued providing information detailing reporting requirements for grant programs. In early 2008, a Strategic Review was undertaken, making recommendations to improve the grants process. The Government then revised the guidelines, with the new Commonwealth Grant Guidelines (CGGs) taking effect on 1 July 2009.²
- 4.2 The CGGs has two parts, one outlining the legislative and policy framework for grants administration including mandatory requirements, and the other providing guidance on sound practice in grants administration. The second part of the CGGs and the Australian National Audit Office's Better Practice Guide *Implementing Better Practice Grants Administration* are largely aligned.³

1 Department of Finance and Deregulation (Finance), *Submission 3*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 1.

2 Finance, *Commonwealth Grant Guidelines*, July 2009, <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/grants.html>

3 ANAO, *Implementing Better Grants Administration*, June 2010, <http://www.anao.gov.au/bpg-grantsadmin2010/index.html>.

4.3 The Joint Committee of Public Accounts and Audit's Report 423, included the review of Audit Report No. 03 2010-11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*. The Committee raised significant concerns about transparency with the decision-making process for selection of projects and commented that:

The Committee ...reiterates its ongoing concern with the recurring difficulties identified by the ANAO in grants administration more broadly.⁴

4.4 In Report 423, the Chair's Foreword noted the importance of agencies providing advice on the merits of proposed grants before any funding decisions are taken, and found in a previous inquiry that in circumstances where agencies have not met their obligation to provide such advice that Ministers should take the initiative to secure adequate advice.⁵

The ANAO Audit

Audit objectives and scope

4.5 The objective of the audit was to assess the implementation and effectiveness of the enhanced grants administration requirements for:

- reporting to the Finance Minister on the awarding of grants within their own electorate by Ministers who are Members of the House of Representatives;
- reporting to the Finance Minister on instances where Ministers have decided to approve a particular grant which the relevant agency has recommended be rejected; and
- the website reporting of grants awarded.⁶

4.6 As part of the audit, a survey was conducted by ANAO of all agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) to identify the grant programs that had been in operation since December 2007, when the first enhancements were made to the grants

4 Joint Committee of Public Accounts and Audit (JCPAA), *Report 423: Review of Auditor-General's Reports Nos 39 2009-10 to 15 2010-11*, p.49.

5 JCPAA, *Report 423: Review of Auditor-General's Reports Nos 39 2009-10 to 15 2010-11*, p. viii.

6 ANAO Audit Report No. 21 2011-12, *Administration of Grant Reporting Obligations*, pp. 13-14.

administration framework. Copies of all advice provided to relevant Ministerial decision-makers by agencies between 1 January 2009 and 30 June 2010 in which the Minister was asked to make a decision about whether or not to approve a grant were also requested. Based on the survey responses, ANAO examined some 800 Ministerial briefs relating to around 220 programs across 20 agencies. Examination of the quality of the agency assessments of individual proposed grants (in terms of the relevant program objectives and guidelines) undertaken to support the advice included in each brief was not within the scope of this audit.⁷

Overall audit conclusion

- 4.7 The ANAO noted that the grants administration framework progressively rolled out between December 2007 and July 2009 had the stated aim of improving public administration and ensuring taxpayers received the best possible outcomes for expenditure on Commonwealth grants. The framework focused on the establishment of transparent and accountable decision-making processes.⁸
- 4.8 The key underpinnings of the arrangements are that Ministers receive advice from agencies on the merits of a proposed grant before its approval by the relevant Minister, and that the Minister report to the Finance Minister when they approve grants that the agency recommends be rejected.⁹
- 4.9 The audit found that a significant portion of Ministerial briefs reviewed did not clearly identify that proposed grants be approved or rejected, with a clear recommendation not being provided in approximately 20 per cent of the programs reviewed. Further, in more than a third of the briefs examined, agencies failed to outline the Minister's decision-making and record keeping obligations.¹⁰
- 4.10 As a consequence, shortcomings in reporting to the Finance Minister have included that:
- while the incidence of Ministers approving grants within their own electorates is quite low, there were 33 instances in the briefs examined by ANAO where grants approved in a Minister's own electorate were

7 ANAO Audit Report No. 21 2011-12, p. 14.

8 ANAO Audit Report No. 21 2011-12, p. 19.

9 ANAO Audit Report No. 21 2011-12, p. 15.

10 ANAO Audit Report No. 21 2011-12, p. 15.

not reported to the Finance Minister (indicating an underreporting in the relevant period of some 38 per cent); and

- there have only been a very small number of instances reported to the Finance Minister as involving a Minister approving a grant that the relevant agency had 'recommended be rejected'. A key factor in this outcome has been the practice of agency briefings not clearly identifying the grants the agency recommends be approved, and those that it recommends be rejected (including where more applications are assessed as being meritorious than can be accommodated within the available funding).¹¹

4.11 The ANAO found that Finance could:

- better engage agencies to promote improvements in grants administration, including reiterating agency obligations and minimum standards expected when advising ministers; and
- improve and streamline public reporting of grants by agencies, aligning the three separate grant reporting regimes (where practical) to promote more accurate, timely and complete reporting.¹²

11 ANAO Audit Report No. 21 2011-12, p. 16.

12 ANAO Audit Report No. 21 2011-12, pp. 16-18.

ANAO recommendations

Table 3 ANAO recommendations, Audit Report No. 21 2011-12

1.	<p>ANAO recommends that agencies review the Ministerial briefing practices used in the administration of grant programs to ensure that Ministers are provided with comprehensive advice on:</p> <ul style="list-style-type: none">• the policy and statutory framework that applies to such decisions; and• the merits of individual proposed grants, including a clear recommendation as to whether each grant should be approved or rejected having regard to the program objectives and available funding. <p>All responding agencies: <i>Agreed.</i></p>
2.	<p>To further improve the grants administration framework, ANAO recommends that the Department of Finance and Deregulation pursue opportunities to:</p> <ol style="list-style-type: none">a) improve the clarity and utility of the requirements set out in the Commonwealth Grant Guidelines and associated guidance relating to agencies advising Ministers on proposed grants, and the recording of reasons in circumstances where agency recommendations are not accepted by Ministers; andb) actively encourage improvements in agency practices in respect to important aspects of grants administration. <p>All responding agencies: <i>Agreed.</i></p>
3.	<ul style="list-style-type: none">• ANAO recommends that the Department of Finance and Deregulation, in consultation with agencies and other key stakeholders, examine opportunities for improving the accuracy, completeness and cost-effectiveness of public reporting on grant programs and the awarding of individual grants, including by seeking to align reporting requirements (where this is practical) in a way that will not diminish the quality of the reported information. <p>All responding agencies: <i>Agreed.</i></p>

The Committee's review

4.12 The Committee held a public hearing on Wednesday 14 March 2012, with the following witnesses:

- Australian National Audit Office
- Department of Finance and Deregulation.

4.13 The Committee took evidence on the following issues:

- progress towards the implementation of ANAO recommendations
- advice provided by agencies to Ministers
- competitive grants processes
- the role of Finance's Grants Framework Unit
- non-compliance with guidelines
- reporting deficiencies.

Progress towards the implementation of ANAO recommendations

4.14 In its appearance before the Committee, Finance advised that it had already begun to act on the recommendations of the ANAO and had also taken other proactive steps to address the deficiencies in agency practice identified in the audit report. Finance stated that the Secretary of the Department wrote to all portfolio Secretaries in January 2012 drawing their attention to the findings of the audit, and noting their obligations. Finance also reported that they had commenced briefings of Chief Financial Officers and expected to roll out further information activities over time.¹³

4.15 When asked whether Finance expected to see cultural change in agencies in regard to compliance with grant reporting obligations, the Department replied that agency decision-makers ultimately drove change from within. However, Finance sought to inform agencies of their obligations and to support agency skill development, articulating its role as follows:

...we can be active upfront in terms of specifying what people should do; we can be active in terms of helping build skills and practice, and we will do that; and we can and do monitor trends over time in terms of being able to identify compliance levels and

13 Mr Stein Helgeby, Finance, *Committee Hansard*, Canberra, 14 March 2012, p. 2.

whether breaches are tracking down over a period of time, which we do through a public document [Certificate of Compliance] each year.¹⁴

- 4.16 The Committee noted the Certificate of Compliance reporting, and enquired whether the non-compliance reported by the ANAO had been picked up through Finance's internal review and reporting systems. Finance replied that the compliance certificate process tracked non-compliance with the FMA Act and this system generally reported on decisions being made by people without the appropriate authority, and failure to report grants on agency websites within the required timeframe. Finance also acknowledged the ANAO findings relating to best practice issues between departments and Ministers, noting that this information was not readily available to the Department.¹⁵
- 4.17 When asked about trends in compliance with grant reporting guidelines identified in the Certificate of Compliance process over the course of time, Finance advised that in 2009-10 there were 3,533 identified instances of reported non-compliance reducing to 1,972 instances in 2010-11, a decrease of 44 per cent.¹⁶
- 4.18 The Committee asked Finance about actions taken to monitor, evaluate and improve grant guidelines when problems were identified by the Department. Finance advised that the Certificate of Compliance process and queries from agencies were the main drivers, and that where the Department had identified issues, they sought to improve the regulations of the FMA Act and release revised guidance.¹⁷
- 4.19 In its appearance before the Committee, Finance gave an example of steps it had undertaken to reach out to agencies to ensure they better met their obligations:

Back in July last year, we released a whole series of model CEIs, which are chief executive instructions, to try and make it easier for agencies to better comply with and better meet their obligations. One of those CEIs in our model set was on grants. It summarises, if you like, the core requirements of the grants guidelines. Our goal there was really to try and reach out to agencies in a way that they could rapidly take into their internal processes, simplify their processes of compliance and spread best practice. That is

14 Mr Helgeby, *Committee Hansard*, Canberra, 14 March 2012, p. 2.

15 Mr Lembit Suur, Finance, *Committee Hansard*, Canberra, 14 March 2012, p. 4.

16 Finance, *Submission 3*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 2.

17 Finance, *Submission 3*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 4.

something that we have done over and above this and in advance of an eventual government response to this report. We have also done at least one finance circular, in March 2011, which went to further explain people's obligations here.

So it does take a little while for these sorts of pieces of advice or information or reinforcement to work their way through the system, but we think that in particular the model CEIs approach is one which gets sooner to practice, because it is really practice that you have to try to influence. If we can get that practice across departments to be a little more robust and a little easier for people to undertake, we will get traction sooner.¹⁸

4.20 Finance reported to the Committee that they were targeting their support to agencies:

It is probably only in the last 12 or 18 months or so where we have actually looked at differentiating a lot more in our response. We are undertaking work with small agencies, for example. For an agency that has three staff or 100 staff, the way you would respond is quite different to an agency that has 7,000 staff. We have a small agency forum where we target small agencies. We are building more of a community of practice so that agencies that might have, say, one person who does all of their financial management, all of their grants management and all of their procurement has a lot more support more broadly from Finance and also from people who have similar roles in other agencies. We are differentiating based upon the size of the agency and we have been targeting some workshops based upon some areas we have identified in the certificate of compliance and some feedback from those agencies. So we have differentiated in that way.

Similarly, when we receive grants guidelines we work more closely with those agencies where we have identified significant problems or where there are a lot of new programs occurring. We work more closely with agencies where there might be higher risks, for example, and we often go and visit them. ... we do have a kind of differentiated approach based on size of agency and also the risks involved more broadly.¹⁹

18 Mr Helgeby, *Committee Hansard*, Canberra, 14 March 2012, p. 3.

19 Ms Kerri Markoulli, Finance, *Committee Hansard*, Canberra, 14 March 2012, p. 8.

- 4.21 Finance also noted that once the CGGs had been revised they would run information sessions for agencies to advise them of revisions to the guidelines.²⁰

Advice provided by agencies to Ministers

- 4.22 The audit found that a significant issue was agencies departing from the public guidance made available by Finance to accurately assess and recommend grants for approval and rejection. As noted above, the Committee has previously examined this issue, and has encouraged Ministers to seek better quality briefs before making decisions relating to grants when briefs do not conform with the CGGs; specifically where briefs do not contain a clear recommendation as to whether or not the grant should be approved under the relevant program guidelines.²¹
- 4.23 The ANAO found in some cases that the advice provided to Ministers was insufficient to allow a Minister to make a fully informed decision. There could be several reasons for this to occur, from oversight and inexperience in preparing briefs, to departments being reluctant to make a clear recommendation to a Minister to avoid providing a recommendation the Minister may not necessarily agree with. This point was explored further by the ANAO at its appearance before the Committee:

[Agency briefings] are not giving Ministers recommendations for Ministers to disagree with. This is the inherent flaw in the arrangement.

...the agencies job is to say, 'Here are the best ones'. If the Minister disagrees for whatever reason - and it is the Minister's right to disagree - then they should record why they are overruling their department...²²

- 4.24 The ANAO expressed concern that departments may be unwilling to make recommendations to avoid their recommendation being overruled by a Minister, or that agencies might seek to amend the recommendation following a Ministerial decision:

From our perspective, it is much better for a Minister if he or she reaches a different view to clearly record that rather than have the

20 Finance, *Submission 3*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 6.

21 ANAO Audit Report No. 21 2011-12, pp. 51-53.

22 Mr Brian Boyd, ANAO, *Committee Hansard*, Canberra, 14 March 2012, p. 6.

department change its advice to give the Minister what he or she might be looking for.²³

Competitive grants processes

- 4.25 The CGGs outline that, unless specifically agreed otherwise, competitive, merit-based selection processes where all proposals are assessed against the same criteria should be used in the grant assessment process. Finance agrees that this process represents best practice. However, the ANAO found that only 37 per cent of grant selection processes were competitive, against 63 per cent which were not.²⁴
- 4.26 When asked to explain why the number of grant programs being assessed through a competitive, merit-based process was so low, the ANAO advised that a significant proportion of program guidelines did not require competitive processes, and that a related audit on the development and approval of grant program guidelines was scheduled for tabling during the 2012 Budget sittings.²⁵
- 4.27 The ANAO advised that through the course of the audit currently being conducted, Finance had been working with the ANAO to determine ways in which the grants administration framework could be enhanced to increase the number of grant programs that are conducted using competitive processes.²⁶

The role of Finance's Grants Framework Unit

- 4.28 Following the Strategic Review in 2008, an appropriation was made to establish a Grants Framework Unit (GFU) within Finance as part of the Financial Framework Division. The unit was expected to play an active and ongoing role in assisting agencies to understand and implement the new framework, and to act as a single point of contact.²⁷
- 4.29 Over the course of the audit, Finance advised the ANAO that the actual resources made available to the GFU were less than had been provided for by appropriation and the level of activity for the unit had therefore been less than that envisaged. In the first two years of the operation of the

23 Mr Boyd, *Committee Hansard*, Canberra, 14 March 2012, p. 6.

24 ANAO Audit Report No. 21 2011-12, pp. 54-55.

25 Mr Boyd, *Committee Hansard*, Canberra, 14 March 2012, pp.2-3.

26 ANAO, *Submission 2*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 1.

27 ANAO Audit Report No. 21 2011-12, pp. 69-70.

CGGs the staffing level of the unit was nearly three quarters lower than budgeted.²⁸

4.30 When asked about this at its appearance before the Committee, Finance replied:

The allocation in a sense is still applied to the issues and applied in different places and in different ways. For example, we have people who work on the framework more generally and the framework more generally impacts on grants in a quite significant way.

...the broader picture is not simply how many people are working in a designated unit; the broader picture is what is the level of activity the department has applied and continues to apply to things that relate to grants.²⁹

4.31 Looking forward, Finance noted that in light of the audit's findings more resources had been put at the disposal of GFU to follow up on the issues raised by the ANAO, and to implement the ANAO's recommendations.³⁰

4.32 The ANAO agreed that when agencies foreshadow resource requirements to take on additional functions, that they are necessarily estimates, and it is not unusual that some variation between estimates and actual resourcing or expenditure may occur.³¹

4.33 Finance further explained its situation in an answer to a question on notice, noting the Parliament had delegated the management of departmental budgets to each agency Chief Executive. Some of the funding initially made available to GFU was directed towards examination of the overall financial framework within which the grants framework sits.³²

Non-compliance with guidelines

4.34 Finance was asked whether mechanisms existed to address non-compliance with the CGGs, including systemic non-compliance. The Department indicated that while agencies were ultimately responsible for ensuring their own compliance, it was important to improve compliance

28 ANAO Audit Report No. 21 2011-12, *Administration of Grant Reporting Obligations*, p. 70.

29 Mr Helgeby, *Committee Hansard*, Canberra, 14 March 2012, p. 7.

30 Mr Suur, *Committee Hansard*, Canberra, 14 March 2012, p. 7.

31 Mr McPhee, *Committee Hansard*, Canberra, 14 March 2012, p. 7.

32 Finance, *Submission 3*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 2.

and general practice by improving the set of rules presented to agencies through the CGGs.³³

- 4.35 Finance highlighted the need to support the development of the skills of staff within agencies to ensure they fully understood their obligations. In addition, the Department identified communication mechanisms, such as Chief Executive Instructions and the correspondence between the Secretary and portfolio Secretaries, to improve compliance rather than punishing non-compliance.³⁴
- 4.36 The Committee asked Finance why it was necessary to tailor reporting guidelines through Chief Executive Instructions, inquiring as to whether it would be more effective to apply the same guidelines to all agencies.
- 4.37 Finance explained that the CGGs contain mandatory reporting requirements for all agencies, and provide the framework through which Chief Executive Instructions can be issued on specific agency requirements and processes, such as record keeping. The Department also noted that agencies were encouraged to use the model set of Chief Executive Instructions developed by Finance.³⁵
- 4.38 The Committee sought further information on consequences for non-fraudulent non-compliance with the guidelines. In an answer to a question on notice, Finance stated:

Finance, in its role of collating and reporting the annual Certificate of Compliance results to Parliament and promoting compliance with the financial management framework, follows up significant non-compliance issues identified by agencies to ensure that agency Chief Executives have implemented appropriate remediation strategies.³⁶

Reporting deficiencies

- 4.39 The CGGs require a Minister who is a Member of the House of Representatives to advise the Finance Minister if they are approving funding for a grant application based in their own electorate. The audit found that there had been underreporting of own-electorate grant approval during the audit period, with Finance noting that there was

33 Mr Helgeby, *Committee Hansard*, Canberra, 14 March 2012, pp.4-5.

34 Mr Helgeby, *Committee Hansard*, Canberra, 14 March 2012, pp. 4-5.

35 Finance, *Submission 3*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 3.

36 Finance, *Submission 3*, (Review of Auditor-General's Reports Nos. 1 to 23 (2011-12)), pp. 5-6.

merit in reviewing these arrangements to advise the Finance Minister of any opportunities for improvement.³⁷

- 4.40 The audit found that there were 77 instances in which a Minister awarded a grant in their own electorate, 33 of which were not correctly reported to the Finance Minister, an underreporting of 38 per cent.³⁸
- 4.41 In its appearance before the Committee, the ANAO noted this underreporting of grants was across a range of agencies or decision-makers.³⁹ A document detailing the specific grants was made publicly available following the Committee's public hearing.
- 4.42 The audit also determined that there were 11 instances in which Ministers acted contrary to the recommendation provided by an agency. The ANAO noted that this number appeared to be surprisingly small, attributing the problem to the quality of briefings provided by agencies (an issue explored above):

It was around one in 2,000 grant decisions. We looked at that sceptically, saying that it cannot be right if the system is working correctly. If a Minister is simply agreeing every time with the recommendation, why have a Minister making the decision? Let the agency make it. That is our point. It gets back to the quality of the agency briefings. They are not giving Ministers recommendations for Ministers to disagree with.⁴⁰

- 4.43 The ANAO noted that the website reporting arrangements for grants was intended to play an important role in promoting a 'pro-disclosure culture' in Commonwealth granting activity. However, the audit found that public reporting of grants was inconsistent across agencies. For example more than 30 per cent of agencies that had administered one or more grants in 2009-10 didn't include a list of grant programs in their annual reports.⁴¹
- 4.44 The ANAO noted in a response to a question on notice that through the course of the audit a number of agencies experienced difficulties in identifying and confirming the grant programs they administered, and on occasion this was because such information was not held centrally within the agency. The ANAO also identified instances in which agency focuses

37 ANAO Audit Report No. 21 2011-12, pp. 81-82.

38 ANAO Audit Report No. 21 2011-12, p. 81.

39 Mr Boyd, *Committee Hansard*, Canberra, 14 March 2012, p. 5.

40 Mr Boyd, *Committee Hansard*, Canberra, 14 March 2012, pp. 5-6.

41 ANAO Audit Report No. 21 2011-12, pp. 101-106.

were on programs as defined in the context of the budget, rather than recognising each individual grant program.⁴²

- 4.45 The Committee asked why reports to the Finance Minister were not publicly reported in a consolidated table annually. Finance replied that the CGGs required that all grants be publicly reported on agency websites, detailing the portfolio, agency name, program title, program component, recipient, purpose, value, approval date, grant term, grant funding location, and postcode. Electorate details were not specifically required, but were able to be determined using the grant location and postcode details.⁴³

Committee comment

- 4.46 Grants administration continues to be a high priority for the JCPAA. Noting the billions of dollars of public money involved with grant funding, transparent and accountable decisions are to be rightly expected. The Committee welcomes the ANAO's focus on this issue both in the audit of individual programs and, as in the case of this audit, the broader grants framework.
- 4.47 In the review of this overarching grants audit, the Committee was primarily concerned that:
- agencies have been providing insufficient advice on the merits of grant proposals to Ministers;
 - there have been a range of issues related to non-compliance with the CGGs, as well as a lack of adherence to best practice principles outlined in the guidelines; and
 - Finance's Grants Framework Unit has not been adequately resourced despite funding being available.
- 4.48 Finance's opening statement and subsequent evidence provided the Committee with the 'bigger picture' of progress in addressing the ANAO recommendations, but there was a lack of concrete information – for example there was no firm date provided for the expected revision and release of the updated Commonwealth Grants Guidelines.

42 ANAO, *Submission 2*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 2.

43 ANAO, *Submission 2*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 5.

Ministerial advice

- 4.49 From a public administration standpoint, the Committee was concerned to hear that Ministerial briefs in relation to funding for grant proposals were, in many cases, inadequate or incomplete. It is the role of agencies to provide full and considered briefs to Ministers, and to provide 'frank and fearless' advice to enable Ministers to make decisions with a clear understanding of all competing factors.
- 4.50 Further, that briefs were provided to Ministers without a clear recommendation fails one of the basic requirements of grant administration. The Committee does not speculate as to the reasons why this has occurred, but it will be interested to see if this improves over time.
- 4.51 As the ultimate decision-maker, a Minister has every right to approve a grant contrary to departmental advice if the Minister sees fit. Ministers should be encouraged to refuse to consider any brief that does not contain clear recommendations.

Recommendation 5

That the Department of Finance and Deregulation strengthen the advice within the revised Commonwealth Grant Guidelines and related material to ensure that a clear recommendation to approve or reject a grant application is to be made on every Ministerial brief presented for consideration.

Commonwealth Grant Guidelines – best practice

- 4.52 The Committee was surprised to see that only 37 per cent of grants examined over the course of the audit used competitive processes. While the desktop review conducted by the ANAO didn't examine every grant program administered by the federal government, the finding from the audit sample that only one third of grants schemes were conducted on a competitive basis is of significant concern.
- 4.53 As assessing grants on a competitive basis constitutes best practice, more should be done by Finance to promote this approach, including: encouraging agencies to develop a culture of competitive, merit-based assessment; and to familiarise agencies with the content of the CGGs and related guidance.
- 4.54 The Committee welcomes advice from Finance and the ANAO foreshadowing several potential changes, including the provision of

additional guidance to agencies, and potentially requiring agencies to explain why they have not chosen to use a competitive, merit-based process for the grant assessment process (as already exists under the Commonwealth Procurement Guidelines).⁴⁴

- 4.55 In this light the Committee hopes that Finance's response to the upcoming audit report examining the development and approval of grant program guidelines is pro-active along the lines foreshadowed above.

Commonwealth Grant Guidelines – non-compliance

- 4.56 The Committee notes and endorses the mechanisms to punish fraudulent non-compliance, but was interested to discover that there seemed to be no significant consequences for non-fraudulent non-compliance within the CGGs. While encouraged to hear that Finance followed up any significant identified non-compliance with agency chief executives, the Committee is of the view that more needs to be done to expose agencies that are not complying with the guidelines.
- 4.57 The failure of Ministers to advise the Finance Minister of the approval of own-electorate grants, in accordance with the CGGs, is another issue requiring attention.
- 4.58 It is clear to the Committee that the system may not be fully effective, partly due to the practical difficulties some Ministers faced in determining what should and should not be reported to the Finance Minister. This is evident from several Ministers making personal explanations in the House of Representatives detailing their reasons why such grants were not reported to the Finance Minister.
- 4.59 Claims included that: the grants being approved were to nation-wide bodies;⁴⁵ a Parliamentary Secretary was not the ultimate decision-maker;⁴⁶ a Minister was not the ultimate decision-maker in the grants process as responsibility had been delegated;⁴⁷ as well as an instance where the non-reporting had been an oversight which was later rectified.⁴⁸
- 4.60 The Auditor-General responded in writing to the Ministers and Parliamentary Secretaries who had made personal explanations. These

44 ANAO, *Submission 2*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 2.

45 The Hon Anthony Albanese MP, H. R. Deb 21 March 2012, p. 57, the Hon Tony Burke MP, H. R. Deb 23 March 2012, pp. 61-62.

46 The Hon Laurie Ferguson MP, H. R. Deb 23 March 2012, pp. 62-63.

47 The Hon Jenny Macklin MP, H. R. Deb 23 March 2012, p. 61.

48 The Hon Jenny Macklin MP, H. R. Deb 23 March 2012, p. 61.

responses have been made public by the Committee in support of the principle of transparency.

- 4.61 In both the original audit report and in providing documents detailing the under-reporting to the Committee, the Auditor-General noted that these instances represented administrative oversights on the part of agencies:

Clearly there is an important role for agencies to play in respect to being vigilant in accurately identifying all such instances, and preparing for their Minister the relevant report to the Finance Minister.⁴⁹

Revision of the CGGs and active engagement from Finance

- 4.62 The Committee believes the revision of the CGGs recommended by the ANAO presents an important opportunity to rectify issues that have been identified with the guidelines. The CGGs are a valuable piece of the governance framework and the Committee strongly encourages any improvements that can be made. Robust revision should ensure that the guidelines continue to improve the quality of agency reporting as well as public administration more broadly.
- 4.63 However, the need for an ongoing commitment to agency support beyond preparing the updated guidelines cannot be overstated.
- 4.64 It is acknowledged that there may be variation between the planning stage and the actual implementation of a new responsibility. However, the ANAO finding that over the first two years of the GFU's operation it was understaffed by almost 75 per cent of what was initially planned⁵⁰ constitutes a management redirection decision of some magnitude.
- 4.65 The Committee accepts Finance's view that a department may within reason reallocate resources to the areas of most need, but it is unfortunate that Finance did not maintain the momentum of the GFU beyond the initial policy development. The Department missed an opportunity to play a pivotal role in providing ongoing support to agencies to ensure compliance with the mandatory requirements of the CGGs, as well as promoting best practices.
- 4.66 The Committee welcomes advice from Finance that work is underway to support agencies. Notably, model Chief Executive Instructions have been developed to assist agencies in preparing agency-specific grants guidance and meet their obligations under the FMA Act; and resourcing for the

49 ANAO, *Submission No. 1*, (Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)), p. 2.

50 ANAO Audit Report No. 21 2011-12, p. 70.

GFU has been resumed to the levels originally anticipated in the Budget appropriation.

4.67 The Committee also welcomes advice that Finance is now targeting their support to other agencies and differentiating between small and large agency needs. It is also welcome that Finance is running associated workshops and that training plans have been considered to support the release of the revised CGGs. To ensure greater interaction between Finance and agencies, the Committee suggests the engagement of Finance's Agency Advice Units to promulgate advice and refer agencies to the GFU if needed.

4.68 The Committee notes the following comment made by Finance in its public hearing when asked if substantial change could be expected to be seen within a year:

I think there would be significant improvements in terms of how the expectations are articulated and significant improvements in terms of the level of understanding of what all of those things are.⁵¹

4.69 The Committee looks forward to the tabling of the next ANAO audit examining the development and approval of grant program guidelines. For the future, the Committee hopes to see improvements in the administration of grant reporting obligations through the implementation of both the JCPAA and the ANAO's recommendations.

Recommendation 6

That the Department of Finance and Deregulation prioritise the revision and release of enhanced Commonwealth Grant Guidelines.

51 Mr Helgeby, *Committee Hansard*, Canberra, 14 March 2012, p. 3.

Recommendation 7

That the Department of Finance and Deregulation report in writing to the Joint Committee of Public Accounts and Audit within six months of the tabling of this report on the implementation of the ANAO's recommendations and improvements made to the Commonwealth Grant Guidelines (and related Finance initiatives) - specifically addressing: initiatives to improve the quality of Ministerial briefs; and mechanisms for reporting of non-compliance and reporting of own-electorate grants.

Robert Oakeshott MP
Committee Chair
May 2012

