

The Auditor-General
Audit Report No.26 2011–12
Performance Audit

Capacity Development for Indigenous Service Delivery

**Department of Families, Housing, Community Services and
Indigenous Affairs
Department of Education, Employment and Workplace Relations
Department of Health and Ageing**

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of Australia 2012

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Canberra ACT
9 February 2012

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Education, Employment and Workplace Relations and the Department of Health and Ageing with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Capacity Development for Indigenous Service Delivery*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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Abbreviations

ABS	Australian Bureau of Statistics
ACCHO	Aboriginal Community Controlled Health Organisation
AMS	Aboriginal Medical Service
ACSQHC	Australian Commission on Safety and Quality in Health Care
ANAO	Australian National Audit Office
AOT	Aboriginal Organisations Training Program
ARIA	Accessibility/Remoteness Index of Australia
ATSIC	Aboriginal and Torres Strait Islander Commission
AusAID	Australian Agency for International Development
CATSI Act	<i>Corporations (Aboriginal and Torres Strait Islander) Act 2006</i>
CBM	Common Business Model
CDEP	Community Development Employment Projects
CGC	Commonwealth Grants Commission
COAG	Council of Australian Government
DEEWR	Department of Education, Employment and Workplace Relations
DHAC	Department of Health and Aged Care
DoFD	Department of Finance and Deregulation
DoHA	Department of Health and Ageing
ECFIA	Executive Coordination Forum on Indigenous Affairs

EQHS	Establishing Quality Health Standards
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
GMS	Grants Management System
HORSCATSIA	House of Representatives Standing Committee on Aboriginal and Torres Strait Islander
IAA	Indigenous Affairs Arrangements
ICC	Indigenous Coordination Centre
IEP	Indigenous Employment Program
JCPAA	Joint Committee of Public Accounts and Audit
NACCHO	National Aboriginal Community Controlled Health Organisation
NFP	Not-for-profit
NIRA	National Indigenous Reform Agreement
OATSIH	Office of Aboriginal and Torres Strait Islander Health
OECD	Organisation for Economic Cooperation and Development
ORIC	Office of the Registrar of Indigenous Corporations
SES	Senior Executive Service
UNDP	United Nations Development Program

Glossary

Aboriginal Community Controlled Health Service	An Aboriginal Community Controlled Health Service (ACCHS) is a primary health care service initiated and operated by the local Aboriginal community to deliver holistic, comprehensive, and culturally appropriate health care to the community which controls it (through a locally elected Board of Management). An ACCHS may range from a large multi-functional service employing several medical practitioners and providing a wide range of services, to small services without medical practitioners, which rely on Aboriginal health workers and/or nurses to provide the bulk of primary care services, often with a preventive, health education focus.
Aboriginal Medical Service	An Aboriginal Medical (AMS) is a health service funded principally to provide services to Aboriginal and Torres Strait Islander individuals, however an AMS is not necessarily community controlled.
Building blocks	The building blocks are the seven strategic areas for action or platforms endorsed by the Council of Australian Governments (COAG) as part of its strategy for overcoming Indigenous disadvantage. The building blocks support the reforms aimed at Closing the Gap against six specific targets. The building blocks endorsed by COAG are: early childhood; schooling; health; economic participation; healthy homes; safe communities; and governance and leadership.

Capacity	The service delivery capacity of an organisation is its ability to deliver services or programs for which it is funded and at the required standards. In the context of this report, capacity includes the skills, structures, processes, resources, infrastructure and other factors within an organisation that enable it to consistently deliver services to required standards, meet reasonable funding obligations and achieve desired outcomes. Capacity is also influenced by the external environment an organisation operates in.
Capacity	Capacity development can be considered to be activities which promote growth in the service delivery capacity of organisations—either directly, within an organisation, or through influencing issues that arise from an organisation’s operating environment.
Closing the Gap	Closing the Gap is a commitment by all Australian governments to improve the lives of Indigenous Australians, and in particular provide a better future for Indigenous children. The commitment is supported by six targets that measure improvements in life expectancy, employment and education.
Executive Coordination Forum on Indigenous Affairs	The Executive Coordination Forum on Indigenous Affairs is chaired by the Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs and is responsible for coordination of cross-portfolio Indigenous policy, reporting and monitoring of the Closing the Gap targets, decision-making and overseeing overarching bilateral agreements to ensure high level Australian Government leadership and governance.

Grant Management System	The Grant Management System (GMS) is a management information system managed by Department of Families, Housing, Community Services and Indigenous Affairs and used by a range of Australian Government departments to record information about grants for Indigenous programs. GMS was established by the Aboriginal and Torres Strait Islander Commission to administer grants within Indigenous programs.
Indigenous	Indigenous is used as a general term to refer to both Aboriginal and Torres Strait Islander people, and when referencing other material. Where relevant, the term Aboriginal and/or Torres Strait Islander has been used.
Indigenous Coordination Centres	Indigenous Coordination Centres (ICCs) are Australian Government offices established to engage with Indigenous communities on a whole-of-government basis. There are 29 ICCs located across urban, regional and remote areas in all states and the Northern Territory. To support whole-of-government activities, ICCs may also host staff from various other Australian Government departments.
Indigenous organisation	An organisation that is Indigenous controlled, based-in, or primarily serving, Indigenous communities, initiated by an Indigenous community or group, and governed by an Indigenous body. This includes organisations registered under the <i>Corporations (Aboriginal and Torres Strait Islander) Act 2006</i> (CATSI Act), as well as organisations registered under other legislation such as federal or state/territory corporations or co-operatives legislation.
National Compact	The <i>National Compact: working together</i> is an agreement between the Australian Government and third sector organisations to guide how the two will work together. It was released in 2010 by the Australian Government.

National Indigenous Reform Agreement	Overarching agreement between the Australian and state/territory governments to give effect to the Closing the Gap policy commitment. Supported by a series of bilateral agreements with each state and territory government, and a range of national partnership agreements.
Not-for-profit sector	The not-for-profit sector in Australia is made up of entities that are established for a community purpose and operate outside of either the commercial or government sector. The organisations that make up the sector are diverse and operate in a range of areas.
Service Delivery Principles for Programs and Services for Indigenous Australians	Principles articulated in the National Indigenous Reform Agreement to guide the Council of Australian Governments in the design and delivery of programs and services provided to Indigenous people and the development and negotiation of National Partnership Agreements, National Agreements and reform proposals.
Service providers	Service providers are organisations that receive funding from the Australian Government for the delivery of programs and services.

Summary and Recommendations

Summary

Introduction

1. Improving government service provision is an important factor in achieving social and economic benefits.¹ A common feature of government service delivery, both within Australia and internationally, is the use of third party providers, many of whom are not-for-profit organisations, to deliver services on behalf of government departments. This can be associated with the greater role and expectations of government in funding services (since the 1970s), combined with the greater reliance on competitive mechanisms for driving efficiency and productivity.² With this being the case, attention is increasingly being paid to the role of this sector and how the government can better support the sector to work towards mutual outcomes.

2. The effective provision of accessible and appropriate services to Aboriginal and Torres Strait Islander people has been a long-term policy focus of governments. Aboriginal and Torres Strait Islander people are more likely to experience social and economic disadvantage, and at levels that are greater than the rest of the population. Accordingly, Australian Government policy focuses on closing the gap between Indigenous and non-Indigenous Australians across a range of key socio-economic indicators. Activities are broadly organised within seven integrated 'building blocks': early childhood, schooling, health, economic participation, healthy homes, safe communities, and governance and leadership.³

3. Significant financial investments are made by government to address Indigenous disadvantage: the total estimated Australian Government Indigenous Expenditure (AGIE) for 2010–11 was \$3.5 billion. Within this total, three departments were responsible for administering approximately \$3.3 billion of program funding: the Department of Families, Housing,

¹ Productivity Commission, *Report on Government Services*, Productivity Commission Research Report, Canberra, 2011, p. 1.4.

² Productivity Commission, *Contribution of the Not-for-Profit Sector*, Productivity Commission Research Report, Canberra, 2010, pp. 24–25.

³ Council of Australian Governments, [Internet], COAG, Canberra, 2008, p. 4, available from <http://www.coag.gov.au/coag_meeting_outcomes/2009-07-02/docs/NIRA_closing_the_gap.pdf> [accessed 24 January 2011].

Community Services and Indigenous Affairs (FaHCSIA); the Department of Education, Employment, and Workplace Relations (DEEWR); and the Department of Health and Ageing (DoHA). To facilitate the delivery of programs and services to Indigenous people, the Government and departments make use of a varied range of mechanisms, including National Partnership Agreements with state and territory governments, funding agreements with local government bodies, contracts with private sector entities and agreements with other third party organisations.

4. Within the third party service delivery model, Indigenous organisations play an important role by delivering programs and services to Aboriginal and Torres Strait Islander people, especially in remote communities. These can include programs and services directed towards aged care, child care, youth and family services, employment preparation, primary health care, legal aid, community development, family violence prevention, municipal services, sport and recreation, community safety, arts and cultural heritage services, and native title representations. The funding for these services is predominantly provided through grants from the Australian Government, as well as other tiers of government. In 2010–11, an estimated \$1.34 billion in grant funding⁴ was provided to Indigenous organisations through programs that are either Indigenous-specific or have a large Indigenous component administered by FaHCSIA, DEEWR and DoHA. Australian Government policy has also recognised the role that Indigenous organisations play in supporting, strengthening and sustaining communities, and contributing to improved outcomes more generally.

5. In broad terms, an Indigenous organisation is Indigenous controlled, based in, or primarily serving Indigenous communities, initiated by an Indigenous community or group, and governed by an Indigenous body.⁵ This includes organisations registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (CATSI Act), as well as organisations registered under other legislation such as federal or state/territory corporations or co-operatives legislation. Estimates on the number of Indigenous organisations in Australia

⁴ The total amount of funding delivered through Indigenous organisations is likely to be higher when funding mechanisms other than grants and other Australian Government departments are taken into consideration.

⁵ Based on definitions from the Office of the Registrar of Indigenous Corporations and the National Aboriginal Community Controlled Health Organisation.

vary, with up to 9000 organisations spread across Australia.⁶ Of these, about 2300 are currently registered as corporations under the CATSI Act.⁷ In many remote communities, these organisations may be the only service provider, while in urban and regional areas they may be preferred by Aboriginal and Torres Strait Islander people as they are considered to provide a more culturally appropriate service than non-Indigenous providers. In addition to government service delivery, Indigenous organisations can also be established as landholding bodies, business enterprises and, in some cases, for advocacy and representation.⁸

6. In 2008, the Council of Australian Governments (COAG) made commitments to investing in the service delivery capacity of Indigenous organisations under the National Indigenous Reform Agreement (NIRA). Under the Service Delivery Principles for Indigenous Programs and Services, articulated in the NIRA, investment in the capacity of organisations, and promoting opportunities for Indigenous service delivery, is linked with the long-term sustainability of programs and services.

7. In addition to providing services, Indigenous organisations are often a form of local level governance and can play important roles in developing social capital. To this end, the NIRA also identifies capacity development as contributing to outcomes under the building blocks of ‘governance and leadership’ and ‘economic participation’. Accordingly, developing the capacity of organisations to deliver programs and services is seen as important as both a means of achieving better outcomes, by facilitating effective service delivery, and as a policy outcome in itself.

8. International development experience suggests that the most successful capacity development approaches are systematic with a long-term outlook, flexible and suited to the circumstances or context, and address capacity at multiple levels.⁹ For non-government organisations, this includes strategies to

⁶ Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure*, [Internet], DoFD, Canberra, February 2010, p. 261, available from <http://www.finance.gov.au/foi/disclosure-log/2011/foi_10-27_strategic_reviews.html> [accessed 30 August 2011].

⁷ Office of the Registrar of Indigenous Corporations, *About the Public Register*, [Internet], ORIC, Canberra, available from <www.oric.gov.au> [accessed 27 September 2011].

⁸ Department of Finance and Deregulation, op. cit., p. 261.

⁹ Organisation for Economic Cooperation and Development, *The Challenge of Capacity Development, Working Towards Good Practice* [Internet], OECD, Paris, 2006, available from <<http://www.oecd.org/dataoecd/4/36/36326495.pdf>> [accessed 13 May 2011].

address capacity within organisations as well as factors in the external environment that influence capacity. Accordingly, capacity development can be considered to be activities which promote growth in the service delivery capacity of organisations—either directly, within an organisation, or through influencing issues that arise from an organisation’s operating environment. A further consideration for government is the development of program administration and management arrangements that enable organisations to best utilise available capacity for the delivery of programs and services.

9. Many of the capacity-related issues faced by Indigenous organisations have been identified previously in a range of reports, reviews and academic studies. Accordingly, policy commitments and specific initiatives relating to administrative streamlining and capacity development, particularly in the area of governance, have been a feature of the policy environment since the 1980s. However, it is apparent from more recent reports, such as the *Strategic Review of Indigenous Expenditure* (completed in February 2010), that the same general issues continue to occur.

10. The capacity of an individual organisation to deliver programs or services for which it is funded, and to the required standards, will have a strong influence on their subsequent effectiveness in meeting the outcomes sought by government. In turn, at a wider sectoral level, the capacity of organisations to deliver programs and services will also influence the effectiveness of the overall delivery model used by the Australian Government given the reliance on Indigenous organisations within that model. Where capacity constraints to service delivery exist, this presents risks to the achievement of outcomes and requires an appropriate response from government departments. In light of these potential risk factors, and the policy emphasis in the NIRA, this audit examines how FaHCSIA, DEEWR and DoHA seek to reduce the risks to service delivery outcomes posed by potential capacity constraints in Indigenous organisations.

Audit objective, criteria and scope

11. The objective of the audit was to assess the extent to which FaHCSIA, DEEWR and DoHA seek to reduce service delivery risks posed by capacity constraints in Indigenous organisations.

12. In order to reach a conclusion against the audit objective, the ANAO assessed:

- approaches taken by the three departments to identify and mitigate risks to outcomes posed by the capacity of an organisation to deliver services; and
- whether, in line with the COAG Service Delivery Principles for Programs and Services for Indigenous Australians, these three departments invested in the service delivery capacity of Indigenous organisations.

13. The scope of the audit encompassed the Indigenous-specific programs administered by FaHCSIA, DEEWR, and DoHA (with a focus on the Office of Aboriginal and Torres Strait Islander Health), and relevant processes and initiatives implemented or undertaken since 1 July 2007 in relation to programs funded by these departments. The audit has placed a particular focus on programs and service providers operating in remote areas because of the high number of Indigenous service providers and the nature of the service delivery environment.

Overall conclusion

14. Indigenous organisations play a significant role in the delivery of programs and services to communities on behalf of the Australian Government, especially in remote areas. In 2010–11, the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), the Department of Health and Ageing (DoHA) and the Department of Education, Employment and Workplace Relations (DEEWR), administered grant funding with a combined estimated value of \$1.34 billion to approximately 900 Indigenous organisations.¹⁰ The average length of these grants was 15 months across the departments. By department, the grants were generally small and relatively short with median grant amounts and lengths of: \$55 000 and 12 months in FaHCSIA, \$151 301 and 15 months in DEEWR, and \$327 531 and 12 months in DoHA. Given the overall level of funding, the service delivery capacity of Indigenous organisations is an important element

¹⁰ In 2010–11, an estimated \$1.34 billion in grant funding was provided to Indigenous organisations through programs that are either Indigenous-specific or have a large Indigenous component.

in delivering government programs effectively and a relevant area for attention by these departments.

15. The service delivery capacity of an organisation is influenced by a range of factors. Some constraints on capacity, and the utilisation of capacity for service delivery, are influenced by aspects of government administrative frameworks. Currently, the large numbers of Indigenous programs across the departments subject to audit, and the high number of short-term and small value funding agreements can make it difficult for organisations to predict future funding, which has planning and resourcing implications. Further, the extent of administration that is associated with individual funding agreements—from the funding application process through to operational plans and reporting requirements—can create a high administration load for organisations, limiting the utilisation of existing capacity for the actual delivery of programs and services. Where organisations face capacity issues, and where the utilisation of existing capacity is constrained, these are likely to present risks to the achievement of service delivery and program outcomes—which need to be taken into account by the departments and addressed where possible.

16. The three Australian Government departments involved in this audit have developed approaches to assessing risk associated with the service delivery capacity of organisations, but these approaches have tended to focus on identifying and treating risks that are internal to organisations, such as financial management, governance and reporting performance. Less consideration has been given to assessing the risks to delivery that can originate from outside the organisations. Consequently, the common mitigation strategies developed by these departments are to increase the monitoring and reporting arrangements. Alone, these strategies indicate an approach focused on immediate risks, but which is unlikely to reduce risks to broader service delivery outcomes by developing organisational capacity. There are opportunities and benefits, within programs and also at a whole-of-government level, to develop strategies for the medium to longer-term that seek to reduce, or mitigate, risk by addressing issues that affect the service delivery capacity of organisations.

17. There have been some efforts by the departments to support and enable capacity in organisations. In relation to facilitating the utilisation of capacity, these departments have undertaken some reforms to address administrative burdens or red tape, although these efforts are not uniform across the departments and overall progress has been uneven. Similarly, the departments

are implementing a range of specific capacity development activities. However, none of the departments had an overarching policy which drew these efforts together or provided guidance for staff implementing the capacity development activities. This was also the case at a whole-of-government level where no overarching strategy for implementing a capacity development approach was in place. In the absence of an overall strategy, the impact of individual initiatives within programs is likely to be limited, and may lead to duplication in implementation or a piecemeal approach. While there are some examples of capacity development through reforms and program-based initiatives within these departments, given the longstanding nature of many constraints, more attention is required to give fuller effect to the National Indigenous Reform Agreement and better support service delivery capacity in Indigenous organisations.

18. The ANAO has made three recommendations to better position the three departments to invest in Indigenous organisations and hence to meet the capacity development intention of the National Indigenous Reform Agreement. The first and second recommendations relate to taking a longer-term view of service delivery outcomes and, where appropriate, factoring this into departmental program administration arrangements. The third recommendation relates to FaHCSIA leading the development of a specific capacity development strategy, and a supporting implementation approach, which could be applied across Australian Government departments to address common capacity issues.

Key findings by chapter

Influences on service delivery capacity

19. There is a level of awareness within the departments of the constraints experienced by service providers and how these constraints can impact on the achievement of outcomes, particularly for organisations operating in remote areas. Some of the capacity constraints that are variously recognised by the three departments include: access to and adequacy of funding, attracting and retaining suitable staff, establishing and maintaining strong governance, lack of management skills and structures, financial management issues, geographical factors, numerous program funding administration requirements, flexibility within funding arrangements, adverse community circumstances, and inadequate resources and infrastructure. In the remote service delivery environment, these constraints can be exacerbated by additional challenges such as the generally higher levels of disadvantage

experienced, community expectations on local organisations, and the cost and resource implications of reaching remote locations.

20. The Australian Government funds a large number of Indigenous-specific programs spread across multiple departments. In general, these are characterised by relatively small program values, annual administration arrangements and grant relationships with service provider organisations. For service providers, this often leads to funding under multiple programs and departments, many short-term funding agreements, and small amounts of funding.

21. The Australian Government's Grant Management System (GMS), administered by FaHCSIA, indicates that over the period since July 2007, funding to Indigenous organisations was administered under 84 different programs, and most funding agreements with Indigenous organisations were worth less than \$60 000 and were for periods of less than 12 months. In addition, the 820 Indigenous organisations identified in the GMS were required to submit a significant number of reports in this period. The high number of short-term and small value grant funding agreements can make it difficult for organisations to predict future funding, in turn, making it difficult for organisations to attract staff and plan, as well as creating a high administration load for organisations and departments.

22. These issues, and their implications both for service delivery capacity and the capacity of organisations more broadly, have been well-documented in many previous reports to government as early as the 1980s and as recently as 2010 in the *Strategic Review of Indigenous Expenditure*. There is scope for the departments to consider the impact of their funding arrangements on service providers so that barriers to either strengthening, or utilising the service delivery capacity of organisations, are addressed.

Risk management for program and service delivery outcomes

23. The departments audited have established risk management processes that are focused on assessing risks within organisations. The most common risks identified by these departments related to performance reporting, financial management/reporting and governance. Common risk mitigation strategies adopted by the departments included regular reporting, monitoring and linking payments with milestones. While more comprehensive reporting was often a mitigation strategy, the ability of an organisation to comply with reporting requirements was also a common risk identified by these departments. Reporting-related issues were the cause of non-compliance in

98 per cent of funding agreement breaches, which indicates that the existing mitigation strategies are not generally reducing reporting risk, potentially because of the high volume of reporting required. While a level of reporting is appropriate, it should also be commensurate with the actual level of risk and needs to capture information necessary to inform program performance.

24. The departments' risk management processes were less focused on the external influences on service delivery capacity. Given many constraints are influenced by factors outside an organisation's control, for example, geography and funding, there is the potential that the existing approaches may not capture, and subsequently address, the associated risks. Further, the existing mitigation strategies, such as increased reporting requirements, can divert resources away from the actual delivery of services and programs. There is scope to broaden existing approaches to risk management by considering the wider sources of risk associated with capacity and employing strategies to change the likelihood of the identified risks occurring. A more strategic approach to risk management would give greater emphasis to managing risks emerging from outside the Indigenous service delivery organisations—including the influences of the remote service delivery environment and aspects of government funding administration.

Investment to support capacity for Indigenous service delivery

25. Policy commitments by the Australian Government indicate a renewed focus on effectively engaging with service provider organisations and investment in Indigenous organisations. Based on the capacity constraints experienced by Indigenous organisations, investment to support capacity and its utilisation needs to occur at multiple levels. For departments, there are two key approaches needed to implement these policies—ensuring their administrative arrangements do not unduly impact on the utilisation of capacity for service delivery, and working actively with individual organisations to develop internal capacity.

26. Efforts to reform administrative arrangements have been pursued in different ways within and across the departments, and have included some funding agreement reforms. However, these reforms are relatively recent in their implementation and have not always been sustained or achieved the desired intentions. Given the history of reviews that have pointed to the influence of government administration in driving some of the constraints, overall progress by the three departments to address issues of administrative burden has been slow.

27. The departments identified a number of approaches and individual activities that they were pursuing to build internal capacity of organisations for nearly 50 per cent of programs surveyed in the audit. While not all programs or providers need capacity development, service providers which sought support generally found it difficult to access appropriate support, resources or activities that were tailored to the needs of their organisations. This indicates that despite the activities that are occurring, more formal and coordinated efforts are required by the departments.

28. Within the three departments, there are mixed views about whether government has a responsibility to assist in developing capacity in organisations. This is reflected in the limited guidance, and subsequent formal activities, within these departments to implement capacity development efforts. In addition, there is no framework across Australian Government departments to guide the implementation at a whole-of-government level of the relevant National Indigenous Reform Agreement service delivery principles covering investment in the capacity of Indigenous organisations. Many funding agreements with organisations are of relatively small value, and pose lower risk to government. This also means there is more limited scope for investing in capacity development at an individual organisation level. However, when considered from a whole-of-government perspective, the aggregate levels of funding, and the large number of agreements involved, highlights the benefits of developing a stronger sectoral approach across government to the development of capacity within the organisations that comprise the Indigenous service delivery model.

Summary of the departments' responses

Department of Families, Housing, Community Services and Indigenous Affairs

29. A summary of FaHCSIA's response to the report, dated 20 January 2012, is reproduced below.

FaHCSIA welcomes the ANAO audit report on the Capacity Development for Indigenous Service Delivery. As the report makes clear, the issues associated with developing the capacity of Indigenous organisations are complex and further complicated in many instances by the multitude of issues that confront Indigenous organisations operating in remote and very remote areas of Australia.

The Department notes the significant work being undertaken by the Office of the Registrar of Indigenous Corporations in assisting Indigenous organisations under the Corporations (Aboriginal and Torres Strait Islander) Act 2006 (the CATSI Act) to assist 2,300 Indigenous organisations with their business planning and corporate governance requirements. The incorporation of Indigenous organisations under the CATSI Act remains key government policy and one that seeks to ensure strong and effective governance of Indigenous organisations with goes directly to the capacity of the organisations themselves.

Indigenous organisations are, as with non-Indigenous organisations, at various levels in terms of their size, scope of interests, expertise and access to experienced staff, and sources and levels of funding. Many organisations that receive funding from the Commonwealth (sometimes from multiple sources) also receive funding from other State Government Departments and the private sector. In this context it is important to recognise that the organisation itself has a significant role to play in understanding the context within which it operates, the compliance requirements for funding it has received and the need to ensure sufficient regard has been given to organisational capacity.

Clearly, there is more that can be done to streamline funding arrangements and manage the risks associated with this funding in considering how the capacity of Indigenous organisation can be increased over time.

Department of Education, Employment and Workplace Relations

30. A summary of DEEWR's response to the report, dated 20 January 2012, is reproduced below.

The Department of Education, Employment and Workplace Relations (DEEWR) is committed to improving outcomes for Indigenous Australians and to working with other agencies and organisations to achieve this goal.

The recommendations in this report are supportive of a whole-of-government approach aimed at continuous improvement strategies to assist Indigenous organisation's capacity development.

The Department will continue to work collaboratively with Australian Government agencies to further support service delivery arrangements by Indigenous organisations who deliver services on behalf of Government.

Department of Health and Ageing

31. A summary of DoHA's response to the report, dated 21 January 2012, is reproduced below.

The Department is generally supportive of the audit report and its recommendations. The Department notes that most of the coverage of the audit in the Department related to the Department's Office of Aboriginal and Torres Strait Islander Health (OATSIH).

The Department advises that since the audit commenced in July 2010, OATSIH has introduced a number of strategies to improve the capacity of Aboriginal and Torres Strait Islander Community Controlled Organisations (ACCHOs) including an agreement with the National Aboriginal Community Controlled Health Organisation (NACCHO), the industry peak body, to develop a program of governance and capacity building which will be undertaken by the sector for the sector.

This initiative has been developed in response to the Aboriginal and Torres Strait Islander community controlled health sector's claim that, for the sector to improve its performance, governance and management, it has to own the process and should undertake the reforms itself. While the ANAO report advocates that the Commonwealth should do more to assist, the sector also argues that the responsibility for improvement lies within the sector. The Department considers capacity building to be a shared responsibility of the sector and the Commonwealth.

Recommendations

Recommendation 1 **Paragraph 2.38**

To ensure funding arrangements adequately support the achievement of desired policy outcomes, the ANAO recommends that the departments review their current funding approaches and supporting arrangements, and where appropriate, consider other options to achieve program deliverables such as longer-term partnerships or core support.

FaHCSIA's response: Agreed.

DEEWR's response: Agreed.

DoHA's response: Agreed.

Recommendation 2 **Paragraph 3.45**

To support service delivery arrangements and the achievement of desired policy outcomes in the longer-term, the ANAO recommends that the departments take a more strategic approach to risk management that gives greater consideration to the broader operating environment, and balances compliance requirements with the actual level of risk and the achievement of outcomes.

FaHCSIA's response: Agreed.

DEEWR's response: Agreed.

DoHA's response: Agreed.

Recommendation 3
Paragraph 4.51

To implement the capacity development elements of the National Indigenous Reform Agreement the ANAO recommends that FaHCSIA, through the Executive Coordination Forum on Indigenous Affairs, facilitates the development of a whole-of-government strategy and an implementation approach to provide a long-term, integrated and consistent approach to capacity development across Australian Government departments.

FaHCSIA's response: Agreed.

Audit Findings

1. Background and Context

This chapter provides background to issues relating to the capacity of Indigenous service delivery organisations and the context for government policies and programs in this area. It also includes the audit objectives, scope, and methodology.

Introduction

1.1 Improving government service provision is an important factor in achieving social and economic benefits.¹¹ A common feature of government service delivery, both within Australia and internationally, is the use of third party providers, many of whom are not-for-profit organisations, to deliver services on behalf of government departments. This can be associated with the greater role and expectations of government in funding services (since the 1970s), combined with the greater reliance on competitive mechanisms for driving efficiency and productivity.¹² With this being the case, attention is increasingly being paid to the role of this sector and how the government can better support the sector to work towards mutual outcomes.

1.2 The effective provision of accessible and appropriate services to Aboriginal and Torres Strait Islander people has been a long-term policy focus of governments. Aboriginal and Torres Strait Islander people are more likely to experience social and economic disadvantage, and at levels that are greater than the rest of the population. Accordingly, Australian Government policy focuses on closing the gap between Indigenous and non-Indigenous Australians across a range of key socio-economic indicators. Activities are broadly organised within seven integrated 'building blocks': early childhood, schooling, health, economic participation, healthy homes, safe communities, and governance and leadership.¹³

1.3 Significant financial investments are made by government to address Indigenous disadvantage: the total estimated Australian Government

¹¹ Productivity Commission, *Report on Government Services*, Productivity Commission Research Report, Canberra, 2011, p. 1.4.

¹² Productivity Commission, *Contribution of the Not-for-Profit Sector*, Productivity Commission Research Report, Canberra, 2010, pp. 24–25.

¹³ Council of Australian Governments, *National Indigenous Reform Agreement*, [Internet], COAG, Canberra, 2008, p. 4, available from <http://www.coag.gov.au/coag_meeting_outcomes/2009-07-02/docs/NIRA_closing_the_gap.pdf> [accessed 24 January 2011].

Indigenous Expenditure (AGIE) for 2010–11 was \$3.5 billion. Within this total, three departments were responsible for administering approximately \$3.3 billion of program funding: the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); the Department of Education, Employment, and Workplace Relations (DEEWR); and the Department of Health and Ageing (DoHA). To facilitate the delivery of programs and services to Indigenous people, the Government and departments make use of a varied range of mechanisms, including National Partnership Agreements with state and territory governments, funding agreements with local government bodies, contracts with private sector entities and agreements with other third party organisations.

1.4 Within the third party service delivery model, Indigenous organisations play an important role by delivering programs and services to Aboriginal and Torres Strait Islander people, especially in remote communities. These can include programs and services directed towards aged care, child care, youth and family services, employment preparation, primary health care, legal aid, community development, family violence prevention, municipal services, sport and recreation, community safety, arts and cultural heritage services, and native title representations. The funding for these services is predominantly provided through grants from the Australian Government, as well as other tiers of government. In 2010–11, an estimated \$1.34 billion in grant funding¹⁴ was provided to Indigenous organisations through programs that are either Indigenous-specific or have a large Indigenous component administered by FaHCSIA, DEEWR and DoHA. Australian Government policy has also recognised the role that Indigenous organisations play in supporting, strengthening and sustaining communities, and contributing to improved outcomes more generally.

1.5 In broad terms, an Indigenous organisation is Indigenous controlled, based in, or primarily serving, Indigenous communities, initiated by an Indigenous community or group, and governed by an Indigenous body.¹⁵ This includes organisations registered under the *Corporations (Aboriginal and Torres*

¹⁴ The total amount of funding delivered through Indigenous organisations is likely to be higher when funding mechanisms other than grants and other Australian Government departments are taken into consideration.

¹⁵ Based on definitions from the Office of the Registrar of Indigenous Corporations and the National Aboriginal Community Controlled Health Organisation.

Strait Islander) Act 2006 (CATSI Act), as well as organisations registered under other legislation such as federal or state/territory corporations or co-operatives legislation. Estimates on the number of Indigenous organisations in Australia vary, with up to 9000 organisations spread across Australia.¹⁶ Of these, about 2300 are currently registered as corporations under the CATSI Act.¹⁷

1.6 In many remote communities, these organisations may be the only service provider, while in urban and regional areas they may be preferred by Aboriginal and Torres Strait Islander people as they are considered to provide a more culturally appropriate service than non-Indigenous providers. In addition to government service delivery, Indigenous organisations can also be established as landholding bodies, business enterprises and, in some cases, for advocacy and representation.¹⁸ The Registrar for Indigenous Corporations estimates that over half of Indigenous corporations operate in remote or very remote parts of Australia. Many are not-for-profit and receive government funding to deliver essential services and infrastructure, such as medical clinics and power generation, while others provide important community economic activity, such as art and craft centres. These organisations themselves are also a form of local level governance and can play important roles in developing social capital in communities.

1.7 Remote communities are characterised by ‘small populations, a less-developed market economy, physical isolation from major service centres, a lack of infrastructure, and few opportunities for investment.’¹⁹ In 2006, 1187 discrete Indigenous communities were identified, and 93 per cent of these communities are classified as either remote or very remote by the Australian Bureau of Statistics.²⁰ Of the 1187 discrete Indigenous communities, almost

¹⁶ Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure*, [Internet], DoFD, Canberra, February 2010, p. 261, available from <http://www.finance.gov.au/foi/disclosure-log/2011/foi_10-27_strategic_reviews.html> [accessed 30 August 2011].

¹⁷ Office of the Registrar of Indigenous Corporations, *About the Public Register*, [Internet], ORIC, Canberra, available from <www.oric.gov.au> [accessed 27 September 2011].

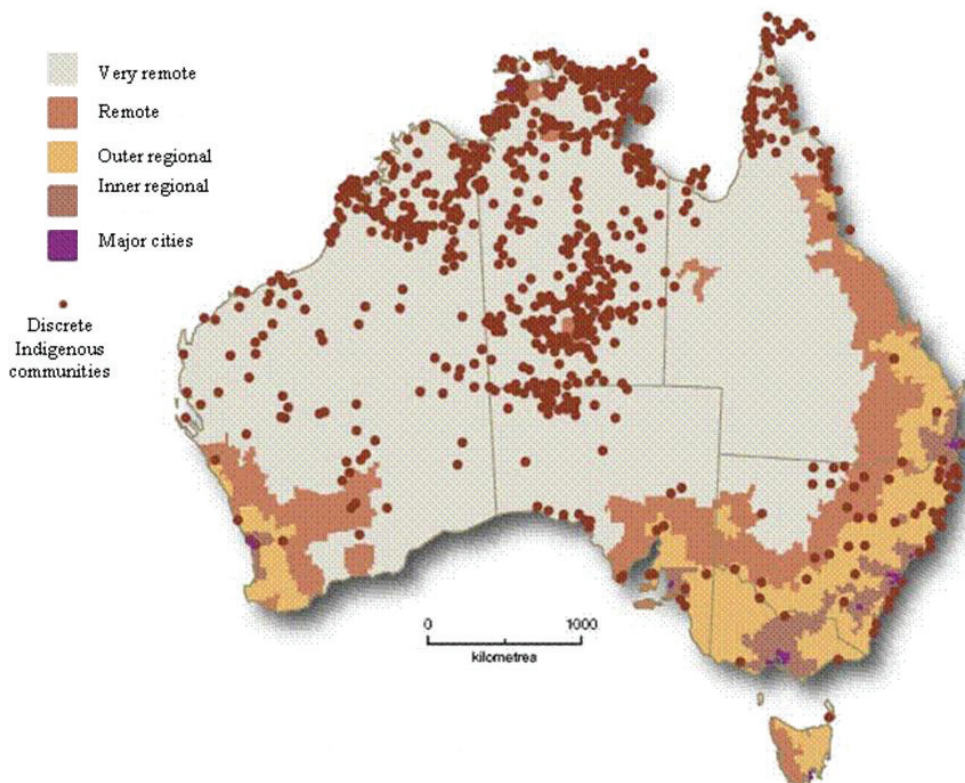
¹⁸ Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure*, [Internet] DoFD, Canberra, February 2010, p. 261, available from <http://www.finance.gov.au/foi/disclosure-log/2011/foi_10-27_strategic_reviews.html> [accessed 30 August 2011].

¹⁹ Office of Evaluation and Audit (Indigenous Programs), *Evaluation of Service Delivery in Remote Indigenous Communities*, Department of Finance and Deregulation, Canberra, April 2009, p. 2.

three quarters had a population of less than 50 people, and only 17 Indigenous communities had a reported population of 1000 people or more.²¹ Figure 1 is a map of discrete Indigenous communities by remoteness areas.

Figure 1

Discrete Indigenous communities by remoteness areas



Source: Based on Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, ABS, Canberra, Map 3, Cat. No. 4710.0, 2006 (reissue 20 August 2007).

1.8 While 75 per cent of the Indigenous population lives in non-remote areas, the levels of disadvantage experienced by Indigenous people in remote areas are generally greater than that of people living in regional and urban

²⁰ Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities* [Internet], ABS, Canberra, Cat. No. 4710.0, 2006 (reissue 20 August 2007), p.17, available from [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E4705677FB7487A2CA2572BF001962CE/\\$File/47100_2006%20\(Reissue\).pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E4705677FB7487A2CA2572BF001962CE/$File/47100_2006%20(Reissue).pdf) [accessed 19 July 2011].

²¹ *ibid*, p. 16.

areas.²² For Indigenous people living in remote areas, there are many barriers to accessing mainstream services. These barriers were typically more pronounced for people living in remote and very remote areas which is likely to place extra pressure on available services. Because of the barriers to accessing mainstream services, Indigenous-specific services often end up being expected to do more than they are designed and funded to achieve.²³

Service delivery capacity of Indigenous organisations

1.9 The capacity of an individual organisation to deliver programs or services for which it is funded, and to the required standards, will have a strong influence on their subsequent effectiveness in meeting the outcomes sought by government. In turn, at a wider sectoral level, the capacity of organisations to deliver programs and services will also influence the effectiveness of the overall delivery model used by the Australian Government given the reliance on Indigenous organisations within that model.

1.10 Some of the factors within organisations that influence capacity to deliver programs and services include the strength of governance structures, sophistication of operational systems and processes such as financial management, level of infrastructure (such as information and communications technology), amount of resources, and staff skills. External factors that influence an organisation emerge from its operating environment such as location and geography, overall funding patterns and approaches, the presence (or lack of) other services, community circumstances, and the availability or ability to attract and retain suitable staff. A further relevant consideration is that even where a level of service delivery capacity exists, the best utilisation of capacity may be constrained in cases where overly complex funding agreement requirements have been put in place by departments. In this respect, attention to questions of administrative red tape can also be relevant strategies to enable better service delivery capacity.

1.11 In remote areas some additional challenges include poor communications, limited transport, unpredictable funding, uncertainty in the reliability of supply and demand for services, access and availability of infrastructure and resources, access to business know-how and training,

²² Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2011*, Productivity Commission, Canberra, 2011, pp. 3.5–3.6.

²³ Commonwealth Grants Commission, *Report on Indigenous Funding*, CGC, Canberra, 2001, p. 45.

securing staff including volunteer staff, identifying and developing new leaders, and meeting the requirements of funding bodies.²⁴ Where these challenges are present, it not only makes it harder for organisations to meet their obligations under funding agreements, there is also a real chance that the achievement of service delivery outcomes may be compromised.

1.12 International development experience suggests that the most successful capacity development approaches are systematic with a long-term outlook, flexible and suited to the circumstances or context, and address capacity at multiple levels.²⁵ For non-government organisations, this includes addressing capacity factors within the organisation and factors in its external environment. Accordingly, capacity development can be considered to be activities which promote growth in the service delivery capacity of organisations—either directly, within an organisation, or through influencing issues that arise from an organisation’s operating environment.

1.13 Capacity development has been a longstanding focus of bilateral aid agencies and multilateral bodies such as the Organisation for Economic Cooperation and Development, the World Bank and the United Nations as a means of achieving long-term and sustainable development outcomes. These international organisations emphasise a principles-based approach to capacity development that includes: a long-term focus, goals, understanding of strengths and constraints, building on existing capacities, respect for values, locally driven approaches, local ownership, high-level leadership and commitment and fostering change of structural inhibitors.²⁶ Capacity development requires consideration of the interrelated aspects of capacity, and how capacity can be strengthened and maintained over a period of time.²⁷

²⁴ Office of Registrar of Indigenous Corporations, *Interview with the Registrar - improving governance in Aboriginal and Torres Strait Islander corporations* [Internet], ORIC, Canberra, February 2008, available from <http://oric.gov.au/html/aboutUs/Interview-with-Registrar_Feb2008.pdf> [accessed 20 May 2011].

²⁵ Organisation for Economic Cooperation and Development, *The Challenge of Capacity Development, Working Towards Good Practice* [Internet], OECD, Paris, 2006, available from <<http://www.oecd.org/dataoecd/4/36/36326495.pdf>> [accessed 13 May 2011].

²⁶ United Nations Development Program, *Capacity Development: A UNDP Primer* [Internet], UNDP, New York, 2009, available from <<http://www.undp.org/capacity/publications.shtml>> [accessed 17 May 2011].

Organisation for Economic Cooperation and Development, *The Challenge of Capacity Development: Working Towards Good Practice* [Internet], OECD, Paris, 2006, available from <<http://www.oecd.org/dataoecd/4/36/36326495.pdf>> [accessed 13 May 2011].

²⁷ *ibid.*

Importantly, capacity development also entails recognising and enhancing existing capabilities and assets.

1.14 Many of the capacity related issues faced by Indigenous organisations have been identified previously in a range of reports, reviews and academic studies. Accordingly, policy commitments and specific initiatives relating to administrative streamlining and capacity development, particularly in the area of governance, have been a feature of the policy environment since the 1980s. However, it is apparent from more recent reports, such as the *Strategic Review of Indigenous Expenditure* (completed in February 2010), that the same general issues continue to occur.

Service delivery capacity of the broader not-for-profit sector

1.15 The delivery of programs and services through Indigenous organisations fits within the much broader role of the not-for-profit sector in service delivery. Direct funding by government of the not-for-profit sector in Australia is estimated to be greater than \$25 billion annually and growing, particularly in regards to the delivery of government-funded services.²⁸ Third sector or non-government organisations have a long history of delivering services on behalf of governments, often to marginalised and disadvantaged groups in society. While the sector is diverse, generally, organisations are driven by their mission or community purpose, with a focus on outcomes for their clients and members, rather than the pursuit of profits.²⁹

1.16 The importance of the third sector was formally recognised by the Australian Government in 2008 through its social inclusion agenda where emphasis was placed on the role of the sector as part of building a socially inclusive society. In 2010, the Australian Government released the *National Compact: working together* as a framework to guide relations with the third sector. In recognition of the joint role in tackling social challenges and supporting those who experience disadvantage and are vulnerable, the National Compact is a commitment by both the Australian Government and the third sector to work together to ‘improve social, cultural, civic, economic,

²⁸ Productivity Commission, *Contribution of the Not-for-Profit Sector*, Productivity Commission Research Report, Canberra, 2010, p. 72 and 279.

²⁹ *ibid.* pp. 15–17.

and environmental outcomes'.³⁰ To implement the compact and work towards a more sustainable sector, the priority areas for action included strengthening the capacity of the sector, improved information sharing, reducing red tape and streamlining reporting, simplifying financial arrangements across jurisdictions, and improving funding and procurement processes.³¹ The Government also specifically noted working in 'real partnership' with Aboriginal and Torres Strait Islander community organisations to support aspirations for greater engagement and consultation.³²

1.17 In assessing the contribution of the not-for-profit sector, the Productivity Commission concluded that the efficiency and effectiveness of delivery of services by not-for-profit organisations on behalf of the government is adversely affected by inadequate contracting processes, including overly prescriptive requirements, increased micro-management, requirements to return surplus funds, and inappropriately short-term contracts.³³ The report also identified four main sources of constraints on not-for-profits' ability to grow and develop as: regulatory constraints; contracting constraints; funding and financing constraints; and skills constraints.³⁴

1.18 In a different context, reviews of international aid donor relationships with civil society organisations have highlighted similar issues. Providing funding to civil society organisations for discrete projects has been noted to lead to high transaction costs in relation to applying for funding and reporting on its use, and a tendency to fund organisations for the project only with limited consideration of funding overheads. A project-specific approach has also been observed to result in little investment in the capacity of an organisation.³⁵ In 1997, the Australian Agency for International Development

³⁰ Australian Government, *National Compact: working together* [internet], Australian Government, Canberra, 2010, p. 1, available from <http://www.nationalcompact.gov.au/wordpress/wp-content/uploads/Nat_compact.pdf> [accessed 9 March 2011].

³¹ *ibid.*, p. 6.

³² *ibid.*, p. 5.

³³ Productivity Commission, *Contribution of the Not-for-Profit Sector*, Productivity Commission Research Report, Canberra, 2010, p. XXIV.

³⁴ *ibid.*, pp. 25–26.

³⁵ AusAID, *Working Paper: Good Practice Donor Engagement with Civil Society* [Internet], report prepared by J Hall, Office of Development Effectiveness, AusAID & J Howell, Centre for Civil Society, London School of Economics, Canberra, June 2010, p. 12, available from <http://www.ode.ausaid.gov.au/current_work/documents/donor-engagement2010.pdf> [accessed 30 November 2011].

(AusAID) commenced reforms to its contracting processes with non-government organisations in response to similar issues raised in a number of reviews and audits.

1.19 Similar developments have occurred in relation to not-for-profit organisations in other countries, such as the United Kingdom and New Zealand, with these governments focusing on reforms to contracting procedures. In the United Kingdom, a 2002 review by HM Treasury found that the voluntary and community sector (or third sector) brought substantial benefits to service delivery (including sustainability and improved services), but that the delivery of public services was constrained by a lack of capacity in the sector.³⁶ Accordingly, a number of programs were developed to build the capacity of this sector. The influence of government was also recognised in regards to the paperwork and administrative requirements imposed. Subsequently, guidance was developed to ensure that arrangements with third sector organisations are appropriate, offer value for money, and accountability requirements are proportionate to the risks and benefits involved. This included reducing red tape and ‘intelligent monitoring’ which emphasises putting the principles of good monitoring into practice (and avoiding the pitfalls of poor monitoring).³⁷ For funders, good monitoring and reporting arrangements help to ensure value for money, show how the recipient spends the money, and demonstrate the impact of the funding.³⁸ For funded organisations, good monitoring and reporting arrangements help to showcase the work they are doing, as well as helping them to learn and develop.³⁹

1.20 These trends indicate an increasing awareness of, and commitment to, the role of government in establishing appropriate arrangements for interacting and engaging with organisations that are funded to deliver government programs and services so as to enable more efficient service delivery.

³⁶ HM Treasury, *The Role of the Voluntary and Community Sector in Service Delivery: a cross cutting review*, HM Treasury, London United Kingdom, September 2002, available from <<http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/CCRVolSec02.pdf>> [accessed 4 April 2011].

³⁷ National Audit Office, *Practical Guidance on Implementing the Principles of Proportionate Monitoring* [Internet], NAO, London, June 2009, available from <http://www.nao.org.uk/guidance_and_good_practice/toolkits/intelligent_monitoring.aspx> [accessed 20 May 2011].

³⁸ *ibid.*, p.25.

³⁹ *ibid.*

Capacity development for Indigenous service delivery

1.21 Within Indigenous affairs, specific commitments to capacity development and investing in service delivery capacity have also been made at a high level. Recurring themes in COAG discussions and agreements have focused on improving program and service delivery outcomes, developing appropriate service delivery arrangements for Indigenous affairs and strengthening leadership and governance in Indigenous organisations. Within these themes, there have been a number of developments that have been particularly relevant to the role of Indigenous organisations in service delivery, and supporting capacity development within Indigenous organisations. These are described below.

National Commitment to Improved Outcomes in the Delivery of Programs and Services for Aboriginal Peoples and Torres Strait Islanders, 1992

1.22 In December 1992, at its first meeting, COAG endorsed the 'National Commitment to Improved Outcomes in the Delivery of Programs and Services for Aboriginal Peoples and Torres Strait Islanders'. This was the first agreement at this level to target Indigenous issues and recognise the need to achieve greater coordination of the delivery of programs and services by all levels of government.⁴⁰ This agreement identified the need to address the fundamental and underlying causes of disadvantage and inequality, and developed an overall framework for improving outcomes which was made up of a series of national objectives, principles, roles and responsibilities of governments, and reporting and review mechanisms. Amongst other things, the commitment emphasised that Aboriginal and Torres Strait Islanders should receive the same level of services as other Australians and that service delivery should be flexible and adaptable in relation to differing circumstances. It also recognised a preferred role for Aboriginal and Torres Strait Islander organisations in the delivery of programs and services.⁴¹

⁴⁰ Council of Australian Governments, *National Commitment to Improved Outcomes in the Delivery of Programs and Services for Aboriginal People and Torres Strait Islanders* [Internet], Australian Local Government Association, Canberra, 1992, available from <http://www.alga.asn.au/policy/indigenous/nationalCommitment.php> [accessed 28 January 2011].

⁴¹ *ibid.*

National Framework of Principles for Government Service Delivery to Indigenous People, 2004

1.23 In 2004, COAG committed to cooperative approaches on policy and service delivery between departments and to maintaining and strengthening government effort to address Indigenous disadvantage.⁴² The principles address sharing responsibility, harnessing the mainstream, streamlining service delivery, establishing transparency and accountability, developing a learning framework and focusing on priority areas.⁴³ Governments committed to Indigenous participation at all levels and a willingness to engage with representatives, adopting flexible approaches and providing adequate resources to support capacity at the local and regional levels.⁴⁴

Service Delivery Principles for Programs and Services for Indigenous Australians, 2008

1.24 The National Indigenous Reform Agreement (NIRA), agreed to in 2008, includes a set of principles to ensure consistency across national partnerships and guide COAG reforms—the Service Delivery Principles for Programs and Services for Indigenous Australians.⁴⁵ These principles draw on the service delivery principles agreed by COAG in 2004. The principles are to inform the design and delivery of Indigenous-specific and mainstream government programs and services provided to Indigenous people, as well as the development and negotiation of national partnership agreements and reform proposals.⁴⁶ The principles are outlined in Table 1.1.

⁴² Council of Australian Governments, *Council of Australian Governments' Meeting 25 June 2004 Communiqué* [Internet], COAG, 2004, p. 3, available from <http://www.coag.gov.au/coag_meeting_outcomes/2004-06-25/index.cfm#indigenous> [accessed 11 October 2010].

⁴³ *ibid.*

⁴⁴ *ibid.*

⁴⁵ Council of Australian Governments, *National Indigenous Reform Agreement* [Internet], COAG, Canberra, 2008, p. 5, available from <http://www.coag.gov.au/coag_meeting_outcomes/2009-07-02/docs/NIRA_closing_the_gap.pdf> [accessed 24 January 2011].

⁴⁶ Council of Australian Governments, 'Schedule D, Service delivery principles for programs and services for Indigenous Australians' in *National Indigenous Reform Agreement* [Internet], COAG, Canberra, 2008, p. D-75, available from <http://www.coag.gov.au/coag_meeting_outcomes/2009-07-02/docs/NIRA_closing_the_gap.pdf> [accessed 24 January 2011].

Table 1.1

Service Delivery Principles for Programs and Services for Indigenous Australians

Principle	Description
Priority principle	Programs and services should contribute to Closing the Gap by meeting the targets endorsed by COAG while being appropriate to local community needs.
Indigenous engagement principle	Engagement with Indigenous men, women and children and communities should be central to the design and delivery of programs and services.
Sustainability principle	Programs and services should be directed and resourced over an adequate period of time to meet the COAG targets.
Access principle	Programs and services should be physically and culturally accessible to Indigenous people recognising the diversity of urban, regional and remote needs.
Integration principle	There should be collaboration between and within governments at all levels and their agencies to effectively coordinate programs and services.
Accountability principle	Programs and services should have regular and transparent performance monitoring, review and evaluation.

Source: Council of Australian Governments, *National Indigenous Reform Agreement*, 'Schedule D, Service Delivery Principles for Programs and Services for Indigenous Australians'.

1.25 Developing the capacity of Indigenous organisations and services is given clear emphasis under the Sustainability principle, which specifies that attention is to be given to:

(c) building the capacity of both Indigenous people and of services to meet the needs of Indigenous people, particularly:

(i) developing the skills, knowledge and competencies, including independence and empowerment of Indigenous people, communities and organisations;

(ii) supporting Indigenous communities to harness the engagement of corporate, non-government and philanthropic sectors;

(iii) building governments' and service delivery organisations' capacity to develop and implement policies, procedures, and protocols that recognise Indigenous people's culture, needs and aspirations;

(iv) ensuring that programs and services foster and do not erode capacity or capability of clients; and

(v) recognising when Indigenous delivery is an important contributor to outcomes (direct and indirect), and in those instances fostering opportunities for Indigenous service delivery.⁴⁷

1.26 In addition to the service delivery focus, Indigenous organisations are often a form of local level governance and can play important roles in developing social capital as well as contributing to improved outcomes more broadly. To this end, capacity development was also identified in the NIRA as contributing to outcomes under the building blocks of ‘governance and leadership’ and ‘economic participation’.⁴⁸ Accordingly, developing the capacity of organisations to deliver services is seen as important as both a means of achieving better outcomes, by facilitating effective service delivery, and as a policy outcome in itself.

Previous reviews and reports

1.27 In parallel to the policy developments that have occurred through COAG, the subject of capacity development for Indigenous organisations and issues affecting capacity in service delivery organisations has been the focus of a number of reviews and reports for and by governments. These include:

- Report of the Royal Commission into Aboriginal Deaths in Custody, 1989–1991;
- Commonwealth Grants Commission, *Report on Indigenous Funding*, 2001;
- House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Many Ways Forward: Report of the inquiry into capacity building and service delivery in Indigenous communities*, June 2004;
- *Overcoming Indigenous Disadvantage: Key Indicators 2011* and previous *Overcoming Indigenous Disadvantage* reports commissioned by heads of governments since 2002;
- *A Red Tape Evaluation in Selected Indigenous Communities*, 2006, commissioned by the Office of Indigenous Policy Coordination, in FaHCSIA;

⁴⁷ *ibid.*, p. D-77.

⁴⁸ Council of Australian Governments, *National Indigenous Reform Agreement*, pp. 6–7.

- Select Committee on Regional and Remote Indigenous Communities, committee reports from 2008 to 2010.
- *Evaluation of Service Delivery in Remote Communities*, Office of Evaluation and Audit (in the Department of Finance and Deregulation), April 2009;
- *The Overburden Report: Contracting for Indigenous Health Service Delivery*, released by the Cooperative Research Centre for Aboriginal Health, 2009, and a follow-up report *Aboriginal Community Controlled Health Service Funding: Report to the Sector 2011*, 2011, released by the Lowitja Institute and Flinders University;
- the *Strategic Review of Indigenous Expenditure*, 2009;
- reports by the Coordinator-General for Remote Indigenous Services, 2009 onwards; and
- Social Justice Reports released by the Aboriginal and Torres Strait Islander Social Justice Commissioner.

1.28 Although these reports have been commissioned or undertaken for different purposes and for different audiences, they have generally been consistent in identifying the desirability of investing in, and strengthening Indigenous organisations, and reducing some of the administrative burden placed on organisations by government requirements.

Audit objective, criteria, scope and methodology

1.29 The objective of the audit was to assess the extent to which the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), the Department of Education, Employment and Workplace Relations (DEEWR), and the Department of Health and Ageing (DoHA) seek to reduce the service delivery risks posed by capacity constraints in Indigenous organisations.

1.30 In order to reach a conclusion against the audit objective, the ANAO assessed:

- approaches taken by the three departments to identify and mitigate risks to outcomes posed by the capacity of an organisation to deliver services; and
- whether, in line with the COAG Service Delivery Principles for Programs and Services for Indigenous Australians, these three

departments invested in the service delivery capacity of Indigenous organisations.

1.31 The scope of the audit encompassed the Indigenous-specific programs administered by FaHCSIA, DEEWR, and DoHA with a focus on the Office of Aboriginal and Torres Strait Islander Health, and relevant processes and initiatives implemented or undertaken since 1 July 2007 in relation to programs funded by these departments. The audit has placed a particular focus on programs and service providers operating in remote areas because of the high number of Indigenous service providers and the nature of the service delivery environment.

1.32 In conducting the audit, the ANAO commissioned a survey of Senior Executive Staff and program managers in the three departments. The survey covered 125 staff⁴⁹ and 56 separate Indigenous programs. The survey asked a series of questions to ascertain the program operating environment with regard to: program details; funding processes; risk management practices; implementation of the program; and whether any activities were incorporated into the program to improve the service delivery capacity of Indigenous organisations.

1.33 The audit team also interviewed Australian Government staff from the three departments, service providers operating in remote areas, and other stakeholders such as peak bodies. Case studies were undertaken of selected programs with specific capacity development elements. Funding agreement and risk assessment data was drawn from department databases and analysed. Information was also sourced from publicly available documentation and previous reports or reviews that were relevant.

1.34 The audit was conducted in accordance with the ANAO auditing standards at a cost of \$664 873.

⁴⁹ 25 SES officers, 19 from national office and 6 from state offices; 56 program managers from national office; and, 44 staff from state, territory and regional offices.

Acknowledgements

1.35 The ANAO would like to express its appreciation to the management and staff of the service providers interviewed during the course of the audit. The ANAO would also like to express its appreciation to the management and staff of FaHCSIA, DEEWR and DoHA for their assistance in the conduct of this audit.

2. Influences on Service Delivery Capacity

This chapter considers the extent to which the departments identify service delivery capacity issues in Indigenous organisations and the influences on service delivery capacity in organisations.

Introduction

2.1 The delivery of government services through third sector or non-government organisations is common in many countries across a range of sectors, and these organisations play an important role in contributing to policy outcomes. As noted in Chapter 1, not-for-profit organisations play a significant role in the delivery of Australian Government-funded programs and services. With regard to Indigenous programs, the Council of Australian Governments (COAG) and the Australian Government have also specifically recognised the importance of investing in the service delivery capacity of Indigenous organisations. Recognising the place of Indigenous organisations in the service delivery model, and in order to give effect to this policy direction, it is important that departments identify the constraints on service delivery capacity that can occur in Indigenous organisations, the sources of these constraints, and the extent to which program and service delivery outcomes can be affected.

2.2 To assess the extent to which the three departments identify service delivery capacity issues in Indigenous organisations, the ANAO considered the capacity issues or constraints that occur in Indigenous organisations as identified in survey responses by departmental staff from the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Health and Ageing (DoHA), and by service providers. This chapter also considers the influences contributing to the service delivery capacity constraints identified.

Nature of service delivery capacity constraints in Indigenous organisations

Departmental views on capacity constraints in Indigenous organisations

2.3 To assess the overall prevalence of delivery problems perceived to be caused by limitations in capacity, Senior Executive Service (SES) officers surveyed were asked to indicate how often in the previous two years they had observed an organisation, funded by the program or service(s) they were responsible for, have difficulties in delivering the funded program or service as a result of constraints within the organisation. Table 2.1 presents the views of the 25 SES respondents.

Table 2.1

SES views on occurrence of service delivery capacity issues in Indigenous organisations

	Never	Rarely	Sometimes	Usually	Often
Occurrence					
Per cent (%)	0	28.0	60.0	8.0	4.0
Actual	0	7	15	2	1

Source: ANAO surveys of SES officers at the national and regional level.

Notes: The response rates varied between the national and regional offices.

2.4 Staff involved more directly in day-to-day program management were also surveyed. Survey respondents at the respective national offices were asked if any organisational capacity issues had arisen that impacted on service providers' ability to deliver the services they were funded for. The results, which covered 56 programs, indicated that in just over half of the programs (29 programs), program managers had observed the existence of capacity issues that had caused service delivery difficulties. The remaining 27 of the 56 program managers covered in the survey indicated that no capacity issues had arisen that they were aware of. At the state and territory office level, 43 out of 44 respondents identified common issues that have affected the organisations they interact with. While the survey is not a representative sample that can necessarily be generalised across the Indigenous organisation sector, the results indicate that capacity issues tend to be a relatively common occurrence across programs.

2.5 Survey respondents were asked to describe up to five capacity issues that had commonly occurred in their experience. The 29 program manager

respondents at the national level identified 76 separate issues. For the state and territory survey, 183 issues were identified by these 43 respondents. The issues identified by both these groups are summarised by category in Table 2.2, in order of frequency.

Table 2.2

Summary of capacity issues identified in ANAO survey

Summary of issues identified	
Category (from most common to least common)	
Workforce	<ul style="list-style-type: none"> Availability/shortage of skilled, qualified and/or suitable staff Ability to recruit and retain suitable staff Delays in recruiting staff, at all levels in organisations Inability to recruit and retain suitably qualified staff Internal staffing issues, including staff turnover or poor attendance Take up of employment opportunities by local people and finding local staff with the skills and capability to meet the job requirements Workforce capacity issues Lack of, or limited, accommodation for staff Lack of staff with skills in administration, project management, reporting and other areas to meet accountability requirements Limited training opportunities for up-skilling Lack of appropriate support mechanisms in place to retain Indigenous staff Language and literacy issues
Governance	<ul style="list-style-type: none"> Consortia management issues (where a number of organisations are involved) Poor governance structures, including financial, performance, recordkeeping and other accountability systems and management Lack of clarity around roles and responsibilities within organisations Low levels of skills in people on boards Lack of support from board and CEO Policy and procedures not in place, such as risk management plans Limited experience and exposure to governance methods Clash between family or cultural responsibilities and board responsibilities Conflict with traditional concepts of governance and governance principles Lack of early intervention or governance support from government Limited understanding of contract or program requirements by board Limited guidance, support or resourcing from funding agencies Poor community governance

Summary of issues identified	
Service delivery	<ul style="list-style-type: none"> Difficulties in delivering clinical care Inability of provider to deliver contracted services Problems establishing programs in new locations Organisational capacity to provide required services, including issues around governance and financial accountability Poor adherence to funding agreement requirements Poor achievement of program outcomes Ability of providers to understand their obligations in relation to funding agreements and contractual requirements Weak collaboration between Indigenous and non-Indigenous providers Dependence on advice from government agencies Taking on more in relation to programs than the organisation is set up for Timeliness of service delivery
Financial management	<ul style="list-style-type: none"> Poor financial controls with potential for fraud, misappropriation of funds or poor management of funds Financial failure of organisations leading to administration Financial management structures and processes Financial viability Repeated under expenditure
Geography	<ul style="list-style-type: none"> Limited geographical coverage of services and capacity to reach all clients Logistics of providing cost-effective services in remote communities Cost and travel requirements of delivering remote services High costs of remote service delivery Isolation and lack of supporting services Small populations Severe weather Limited transport infrastructure
Cultural, family or community circumstances	<ul style="list-style-type: none"> Pressure from community to provide other information and services they are not funded to deliver (especially when it is a local organisation) Relationships between family groups Conflict within towns/communities and community unrest Cultural obligations Deaths in communities Dysfunction in the community, including living conditions and other factors Humbugging on local staff Lack of trust in service provider Lack of cultural awareness from non-Indigenous staff Managing services where decisions can cause conflict within the community such as reporting someone for non-attendance

Summary of issues identified	
Resources, infrastructure and equipment	<ul style="list-style-type: none"> A lack of readily available and appropriate infrastructure Buildings in disrepair or unsuitable for the delivery of the service Difficulties in completing capital works for required infrastructure Lack of infrastructure/equipment Lack of physical resources to deliver the program Inadequate information and communication technology and systems including limited internet access Interruptions to electricity supply Lack of funding flexibility Land tenure issues which prevent construction of new facilities Limited funding and funding flexibility to respond to demand Poor maintenance of facilities and housing due to lack of funds Availability of funding for trial projects Expectation by government agencies that Indigenous bodies have the proper and necessary resources and capacity to deliver a range of services Facilities that do not meet the needs of the community
Administration and reporting	<ul style="list-style-type: none"> Lack of comprehension around reporting requirements Late and insufficient progress or financial reporting Poor quality of reporting on outcomes regarding funding agreement Timeliness of reporting Administrative load associated with reporting, in smaller organisations especially High levels of compliance requirements such as audits, returns and acquittals Lack of financial contribution from government to cover operational and administrative loads associated with delivering projects or services Multiple funding agreements with many different agencies Availability and retention of staff with administrative skills
Government	<ul style="list-style-type: none"> Poor consultation and communication within and between agencies, especially about funding initiatives and outcomes Lack of clarity of roles and responsibilities between levels of government Staff turnover within departments Machinery of government changes Changes in policies or directions Funding decisions made without sufficient consideration of programs and communities Multiple program management approaches within and across agencies Programs and services not costed for remote environment or demand Limited knowledge of communities Short-term funding and length of time taken to make funding decisions Poor service coordination leading to gaps or duplications

Summary of issues identified	
Other	Lack of focus on all client groups Availability of service providers Client awareness of, and access to programs Disconnect between government's expectation and organisation's understanding of contract requirements Risk to service provider organisations, when funding models are based on attendance or retention of participants Lack of professional support and networks Belief by Indigenous organisations that government services will always be there to sustain the organisation

Source: ANAO analysis of survey responses from program managers and state, territory and regional officers.

2.6 The responses to the survey, outlined in Table 2.2 illustrate the complexity of service delivery capacity and the range of challenges that can be experienced by organisations, as perceived by survey respondents. The responses also highlight the many different factors that can impact on the service delivery capacity of an organisation.

2.7 National office staff were then asked to rate the impact on service delivery outcomes of the capacity issues they identified. These ratings are presented in Table 2.3.

Table 2.3

Impact of organisational capacity issues on service delivery outcomes by department

	Very high	High	Medium	Low	Very low	Unrated	Total
Department							
FaHCSIA	1	8	8	5	1	-	23
DEEWR	4	6	5	2	-	-	17
DoHA	6	9	16	3	-	2	36
Total issues	11	23	29	10	1	2	76
Total issues (%)	14.5	30.2	38.2	13.2	1.3	2.6	100.0

Source: ANAO survey of program managers.

2.8 Based on the survey responses, 45 per cent of issues were considered by departments to have a high or very high impact on service delivery outcomes, with a further 38 per cent having a medium impact. While workforce and governance issues attracted the highest concern, other issues regularly rated as having a very high impact included: financial management, service delivery

capacity issues and a lack of national consistency in service delivery. Some circumstances that were specific to individual programs were also identified as high impact.

2.9 From the data presented in tables 2.1, 2.2 and 2.3, it is apparent that there is a level of recognition in departments about capacity issues and how these can affect service delivery outcomes. The results show the multiplicity of issues that can affect service providers and departmental-level awareness of the potential impact on service delivery outcomes.

Service providers' views of capacity issues

2.10 In addition to seeking the views of departmental staff, the ANAO also interviewed a sample of service providers operating in remote or very remote areas of Western Australia, Northern Territory, South Australia and Queensland. The providers interviewed were involved in a variety of service delivery areas and were funded by different departments. From interviews with service providers, some of the major factors affecting organisations' capacity when delivering services included:

- internal management and governance;
- lack of staff and human resources;
- funding issues such as uncertainty around funding, lack of funding and accessing funding opportunities;
- lack of capital and infrastructure, relating to a lack of funding in these areas;
- difficulties associated with the service delivery environment such as transport, infrastructure, and travel time, to other service centres;
- community circumstances and cultural considerations;
- policy and program directions that may not be suitable to communities or that communities have not been engaged in the design or development of, as well as constant changes, in program requirements;
- difficulties engaging with departments; and
- meeting administrative and reporting requirements.

2.11 For remote service delivery, constraints commonly applying can be exacerbated by challenges associated with location, typically small populations, limited resources within communities, availability of housing, communications, transport, infrastructure and accessibility issues. These

factors are likely to present challenges for organisations involved in service delivery.⁵⁰ The typically small populations of remote areas are also likely to have implications for the capacity of organisations with a limited local workforce. Within the local workforce, literacy and numeracy is likely to be lower and the level of either school or non-school educational attainment is lower than that of people living in non-remote areas.⁵¹ Some specific examples identified by service providers interviewed by the ANAO included the difficulties of fixing equipment (because of the time it takes to travel to the nearest service centre for repairs), unreliable internet connections, and the impact of changes in the price of fuel. These factors will affect the cost of delivering services leading to varying costs between regions.

2.12 There is some consistency between the issues raised by providers and those identified by departmental staff, suggesting that there is some shared recognition within both the funded organisation and the funding department of the types of challenges faced in service delivery. For example, both groups identified staffing and human resources as key issues. However, service providers emphasised funding, infrastructure, reporting and difficulties engaging with government as key issues and, while these were noted by some departmental respondents, they were generally not identified as major issues affecting capacity, or its utilisation.

2.13 The range of issues identified by departmental staff and service providers can be broadly characterised as stemming either from within the organisation, or from factors outside the organisation. In many cases the influence of internal risks is specific to individual organisations and would need to be addressed in that context. However, grants to Indigenous organisations are generally of a small value and, as such, provide limited opportunities within an agreement for significant efforts to be made by either the organisation or the funding department to address major risks. This is even more the case in relation to external risks where service providers will have

⁵⁰ Office of Registrar of Indigenous Corporations, *Interview with the Registrar - improving governance in Aboriginal and Torres Strait Islander corporations* [Internet], ORIC, Canberra, February 2008, p. 2, available from <http://oric.gov.au/html/aboutUs/Interview-with-Registrar_Feb2008.pdf> [accessed 20 May 2011].

⁵¹ Australian Bureau of Statistics, *The Health and Welfare of Australia's Aboriginal and Torres Strait Islander Peoples* [internet], ABS, Canberra, Cat. No. 4704.0, October 2010, available from <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/productsbyCatalogue/2AFBAD91D361725ACA2577D80012373E?OpenDocument>> [accessed 3 February 2011].

limited ability to influence matters. In some situations, funding departments will also have a limited ability to influence external risk factors.

2.14 When a whole-of-government perspective is taken, and funding to Indigenous organisations is considered in its aggregate as a service delivery model, some factors external to organisations become relevant areas for government departments to address. In particular, government departments are well positioned to address how funding is provided for programs and services, the types of relationships departments enter into with service providers and the administrative requirements that are established within these relationships to manage funding and deliver outcomes.

Influence of program arrangements on service delivery capacity and utilisation

2.15 The overarching delivery framework for Indigenous programs is complex and dispersed. The total number of programs is high, for example, the *Strategic Review of Indigenous Expenditure*, undertaken in 2009, identified 232 separate funding items, worth \$3.5 billion in 2008–09. This expenditure was delivered by over 50 government departments with most of the programs identified having expenditure less than \$5 million per annum. In 2010, over 100 separate commitments in support of the Closing the Gap initiative were funded by the Australian Government. Analysis of Australian Government Portfolio Budget Statements for 2010–11 indicated that across all portfolios there were over 100 different Indigenous-related objectives and over 200 related deliverables and indicators that could be identified.

2.16 The pattern of many programs of small value is also reflected at the service delivery level, where grant funding is dispersed over a large number of organisations. Under the Commonwealth Grant Guidelines, departments are required to publish on their websites information on individual grants provided.⁵² Table 2.4 summarises the grant information relating to Indigenous programs publicly reported by FaHCSIA, DEEWR and DoHA.

⁵² Department of Finance and Deregulation, *Commonwealth Grant Guidelines* [Internet], DoFD, Canberra, 2009, p.12, available from <http://finance.gov.au/publications/fmg-series/docs/FMG23_web.pdf> [accessed 29 June 2011].

Table 2.4**Estimates of grants to Indigenous organisations through Indigenous-specific programs by FaHCSIA, DEEWR and DoHA (2010–11)**

	FaHCSIA	DEEWR	DoHA
Total grant funding to Indigenous organisations	\$483 786 866	\$102 342 725	\$752 129 510
Number of organisations funded	430	253	225
Number of grants	832	374	1003
Average number of grants per organisation	2	1.5	4.5
Average grant amount	\$581 474	\$273 643	\$749 879
Average grant length (months)	14	19	12
Median grant amount	\$55 000	\$151 301	\$327 531
Median grant length (months)	12	15	12

Source: Published grant reports on FaHCSIA, DEEWR and DoHA websites.

Notes: Information is for the period 1 July 2010–30 June 2011. The data was limited to programs or outcomes that are either Indigenous-specific or have a large Indigenous component. The total amount of funding to Indigenous organisations is likely to be higher when mainstream programs and other funding mechanisms are taken into consideration. FaHCSIA and DEEWR grant amounts relate to multiple program outcomes. DoHA grant amounts relate to program outcome 8.1.

2.17 Some key features emerge from Table 2.4. The three departments funded a large number of Indigenous organisations in 2010–11, with over 2000 separate funding agreements in place. Each of these agreements would generally include at least an annual reporting requirement and often quarterly financial and performance reporting as well. Over the course of a single year, this would result in several thousand separate reports being prepared. This impacts on the capacity of organisations to undertake the activities for which they have been funded but it also places an administrative burden on the government departments to assess the information received.

2.18 To provide an additional perspective over a longer timeframe in relation to grants to Indigenous organisations, the ANAO also considered data

from the Australian Government's Grant Management System (GMS)⁵³ administered by FaHCSIA. FaHCSIA has the largest Australian Government Indigenous Expenditure and provides funding to a large number of Indigenous organisations. Accordingly, while data from GMS does not cover all funding to Indigenous organisations the level of coverage within GMS of funding agreements is sufficient to provide a broad illustration of issues.

2.19 Data in the GMS produced the following information about grants administered to Indigenous organisations since July 2007⁵⁴:

- funding was disbursed through 84 different programs;
- 820 Indigenous organisations received funding;
- the number of funding agreements was 3665 and number of activities funded was 2323 (the same activity can have more than one funding agreement);
- average agreement length was 426 days;
- median agreement length was 343 days;
- average funding approval was \$704 252;
- median funding approval was \$58 153;
- average number of funding agreements per organisation was 4.5;
- the organisation with the most funding agreements had 55 funding agreements, and the top ten organisations by number of funding agreements ranged from 55 agreements to 27 agreements; and
- the 820 Indigenous organisations funded were required to submit 20 671 performance, financial and acquittal reports⁵⁵.

⁵³ GMS is an information management system managed by FaHCSIA and used by Australian Government departments to record information about grants for Indigenous programs. GMS was established by the Aboriginal and Torres Strait Islander Commission (ATSIC) to administer grants within Indigenous programs. FaHCSIA also has another system, FaHCSIA's Online Funding Management System (FOFMS) that assists in the management of funding agreements. The ANAO restricted data collected to GMS as it relates specifically to Indigenous programs. FaHCSIA advised that there are other departments using GMS. However, the majority of funding in GMS is administered by FaHCSIA.

⁵⁴ FaHCSIA advised that GMS records a range of funding agreement data on programs and services, as well as funding for events such as NAIDOC, workshops and meetings.

⁵⁵ As noted, these reports are classified in the GMS as either performance, financial or financial acquittal reports. FaHCSIA advised that the reporting functionality in GMS records the individual reporting items in the system and these are compiled from both individual and omnibus reports.

2.20 In addition to considering the administrative work associated with grants, the type of relationship a department has with an organisation should ideally be aligned to, and consistent with, the overall objective of the program. For example, annual grants might be appropriate where a program is dealing with ad hoc or minor community specific initiatives. Where there is an established need for an ongoing level of service delivery, or where the program is seeking to achieve a long-term developmental outcome, it may be more appropriate to use longer-term arrangements. Table 2.5 identifies the main selection methods for service providers, across the 56 programs surveyed in the three departments.

Table 2.5

Selection method for service providers

	Number of responses	Per cent of responses (%)	Total program funding 2009–10 (\$m)	Per cent of funding (%)
Selection method				
Direct source	31	51.7	282	21.0
Grant process	19	31.7	908	68.0
Open tender	10	16.7	154	11.0
Totals	60	100.0	1344	100.0

Source: ANAO survey.

Notes: 'Other' was also an option for survey respondents. A number of respondents indicated 'other' to represent multiple selection methods. Where this occurred, the methods were reallocated to the individual selection methods. This accounts for the higher number of methods than survey responses. The total program funding amount only represents programs covered in the ANAO survey.

2.21 Direct sourcing of service providers had the largest number of responses with program managers responding that over 51 per cent of programs used direct source to select service providers. However, this represented only 21 per cent of the total funding allocated. Direct sourcing was common in programs where the service provider was specific, such as a health or aged care provider, and alternative service providers were unlikely to exist. In some of these cases, the department is likely to have had a long-standing relationship with the service provider where the same Indigenous organisations have been funded to deliver services for many years, some dating back to the 1980s. In other cases, the service provider was specialised but there was not necessarily a longstanding relationship.

2.22 Commonly, where the relationship was likely to be ongoing and long-term, service providers were still funded through an annual arrangement. While there will be some instances where an annual funding approach is appropriate, there is also scope for departments to establish arrangements that take a longer-term approach to relationships with service providers, recognising this needs to be managed in the context of the Government's budget framework.

2.23 The predominant use of grants as a funding mechanism, in terms of the volume of funding, has implications for the capacity of organisations. Significant amounts of time and resources go into a funding round—on behalf of both the government in assessing, processing, approving applications, and the service provider in preparing applications. As shown in Table 2.4, the average length of funding agreements across the three departments in 2010–11 was 15 months, with medians of 12, 15 and 12 months for FaHCSIA, DEEWR and DoHA respectively. This has several implications. Firstly, it means that service providers and departments are required to regularly invest resources into an intensive administrative process. Secondly, annual funding reduces predictability for organisations and reduces their ability to plan and manage anything on more than a 12-month basis. Thirdly, in some cases, an organisation may choose not to pursue a particular funding opportunity which could benefit its community because of the effort involved. For example, some Indigenous organisations expressed the view that applying for small grants was not worth the effort.

2.24 Uncertainty and short-term funding is also likely to contribute to an organisation's ability to attract and retain staff—a key constraint identified by government and service providers. Organisations cannot recruit until funding is guaranteed and then recruitment can take time, particularly in remote areas. This can be further complicated by the availability of accommodation for prospective staff. Also, staff cannot always wait for the outcomes of funding decisions when deciding on future employment directions. Related to this is the capacity of organisations to employ people outside of direct service delivery positions. This issue has been raised previously, for example in 2004, Indigenous organisations informed the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs:

...that [it] is of crucial importance to Indigenous organisations that they have the capacity to employ people in planning and management positions. The stability of core funding to cover such roles would ensure that Indigenous organisations are able to deliver consistent, quality services.⁵⁶

2.25 The difficulties associated with funding processes can be exacerbated for service providers when they are dealing with multiple departments. For example, providers identified that it can be time consuming and difficult finding funding opportunities as opportunities are advertised in different places, and application process requirements varied. Once agreements are entered into, organisations can have multiple contact persons within the same department.

2.26 In 2004, reforms to the administration of Indigenous affairs involved the implementation of a whole-of-government approach to service delivery to address issues associated with the lack of coordination across the various departments administering Indigenous programs.⁵⁷ At the regional and local levels, Indigenous Coordination Centres (ICC) were established, staffed by the various service delivery departments, and a common program application

⁵⁶ House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Many Ways Forward: Report of the inquiry into capacity building and service delivery in Indigenous communities*, HORSCATSIA, Canberra, June 2004, pp. 57-59, available from <<http://www.aph.gov.au/house/committee/atsia/indigenouscommunities/report.htm>> [accessed 6 June 2010].

⁵⁷ Australian Government, *Government Response to Many Ways Forward: Capacity building and service delivery in Indigenous communities (Report of the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs)*, Australian Government, Canberra, August 2006, p. 5, <<http://www.aph.gov.au/house/committee/atsia/indigenouscommunities/govresp.pdf>> [accessed 15 July 2011].

form and single funding agreement were introduced to reduce the administrative burden relating to multiple funding sources and reporting requirements on community organisations.⁵⁸ However, over time departments have moved away from the ICC model, with fewer programs being delivered through the ICC model and common funding processes.

2.27 The amount of funding provided for the delivery of services has a strong influence over the capacity of the service delivery organisation to deliver services and the extent to which services meet community needs. At a general level, in its report on the contribution of the not-for-profit (NFPs) sector, the Productivity Commission reported that: there are 'widespread indications that many government-funded services provided by NFPs are not sufficiently funded to cover the cost of service provision' (based on provider views); and that 'a number of government departments admitted to making a contribution to contracted service delivery, rather than providing full funding'⁵⁹. The Productivity Commission recommended broader use of robust costing of funded activities, with cost estimates that are consistent, appropriate and comprehensive to cover all the direct and indirect costs of the funded service or activity.⁶⁰ Where services or programs are not sufficiently resourced, it is likely that service providers' capacity will be affected and, potentially, outcomes will be compromised.

2.28 Funding approaches in relation to Indigenous organisations have been raised in previous government reviews. For example, the Commonwealth Grants Commission noted that the cost of delivering services varies between regions, and considered that if these costs are outside the control of the provider or any of the funding departments, a clear case exists for compensating for the higher costs.⁶¹ The House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs specifically identified inequitable funding between Indigenous and non-Indigenous

⁵⁸ *ibid.*, p. 8.

⁵⁹ Productivity Commission, *Contribution of the Not-for-Profit Sector*, Productivity Commission Research Report, Canberra, 2010, p. 280.

⁶⁰ *ibid.*, p. 282.

⁶¹ Commonwealth Grants Commission, *Report on Indigenous Funding*, CGC, Canberra, 2001, p.45.

organisations providing equivalent services and noted that organisations providing similar services should receive equitable funding.⁶²

2.29 The ANAO was informed by a number of service providers of their perceptions that there was little room for negotiating the terms of the funding agreement as the outcomes and budgets were mostly predetermined by funding departments. If this is the case, Indigenous organisations are unlikely to be able to effectively negotiate prior to agreeing to service delivery contracts.

2.30 In light of the overall reliance on grant funding for the delivery of Indigenous programs and services, there are further considerations for agencies in relation to grants administration. In general, there are many aspects of current grants administration practice that resemble commercial arrangements such as competitive funding rounds, the level of prescription in requirements and the degree of control exercised by the funding department. However, in contrast with commercial arrangements, organisations are also required, consistent with current legislation, to return any unspent funds under the funding agreement. In other cases, funding is provided for a discrete project with limited consideration of supporting an organisation's overheads. The Productivity Commission noted that:

Contracts requiring the return of any surplus mean little funding is available for investment to improve effectiveness or efficiency, such as in information technology... This presents problems for NFPs, many of which find it difficult to access finance, or to build a surplus to fund investment.⁶³

2.31 One implication is that these arrangements can make it challenging for organisations to invest in their own capacity. Constraints associated with contracting and grants were also identified as one of four main sources of constraints by the Productivity Commission, along with regulatory constraints, funding and financing constraints and skill constraints.⁶⁴ Overall, there are a number of tensions between the existing practices and the principles of grants

⁶² House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Many Ways Forward: Report of the inquiry into capacity building and service delivery in Indigenous communities*, HORSCATSIA, Canberra, June 2004, p. 237, available from <<http://www.aph.gov.au/house/committee/atsia/indigenouscommunities/report.htm>> [accessed 6 June 2010].

⁶³ Productivity Commission, *Contribution of the Not-for-Profit Sector*, Productivity Commission Research Report, Canberra, 2010, p. XXXII.

⁶⁴ *ibid.*, pp 25-26.

administration specified in the Commonwealth Grants Guidelines, in particular, the collaboration and partnership.⁶⁵

2.32 The extent to which program objectives are achieved depends not just on a service provider and their funding arrangements, but also on the social and economic circumstances in which a program is operating and the presence (or lack of) of other related programs.⁶⁶ Delivering services in remote areas presents particular challenges for both government and service providers. While the location of communities is outside government control, service delivery in remote areas does present different considerations when engaging service providers.

2.33 Many of the capacity constraints, and underlying influences, have been identified previously in a range of reports to governments. To date, there have been a number of reports that, while focused on different issues, reflect considerations for government departments funding Indigenous organisations. Some of the issues identified in reports affecting the capacity of Indigenous organisations included short-term funding arrangements, adequacy of funding, lack of resources and infrastructure, complex and burdensome reporting requirements, internal governance and procedures, skills, and staffing. Subsequently, at a whole-of-government and department level, some reforms and initiatives have been introduced to improve administration. However, the *Strategic Review of Indigenous Expenditure*, finalised in February 2010, was critical of Indigenous expenditure arrangements and characterised arrangements as unduly complex and confusing, with gaps between policy and implementation.

Conclusions

2.34 There is a level of awareness within the departments of the constraints experienced by service providers and how these constraints can impact on the achievement of outcomes, particularly for organisations operating in remote areas. Some of the capacity constraints that are variously recognised by the three departments include: access to and adequacy of funding, attracting and retaining suitable staff, establishing and maintaining strong governance, lack

⁶⁵ Department of Finance and Deregulation, *Commonwealth Grant Guidelines* [Internet], DoFD, Canberra, 2009, p. 14, available from <http://finance.gov.au/publications/fmg-series/docs/FMG23_web.pdf> [accessed 29 June 2011].

⁶⁶ Commonwealth Grants Commission, *Report on Indigenous Funding*, CGC, Canberra, 2001, p.52.

of management skills and structures, financial management issues, geographical factors, numerous program funding administration requirements, flexibility within funding arrangements, adverse community circumstances, and inadequate resources and infrastructure. In the remote service delivery environment, these constraints can be exacerbated by additional challenges such as the generally higher levels of disadvantage experienced, community expectations on local organisations, and the cost and resource implications of reaching remote locations.

2.35 The Australian Government funds a large number of Indigenous-specific programs spread across multiple departments. In general, these are characterised by relatively small program values, annual administration arrangements and grant relationships with service provider organisations. For service providers, this often leads to funding under multiple programs and departments, many short-term funding agreements, and small amounts of funding or partial funding of services.

2.36 The Australian Government's Grant Management System (GMS), administered by FaHCSIA, indicates that over the period since July 2007, funding was administered to Indigenous organisations under 84 different programs, and most funding agreements with Indigenous organisations were worth less than \$60 000 and were for periods of less than 12 months. In addition, the 820 Indigenous organisations identified in the GMS were required to submit a significant number of reports in this period. The high number of short-term and small value grant funding agreements can make it difficult for organisations to predict future funding, in turn, making it difficult for organisations to attract staff and plan, as well as creating a high administration load for organisations and departments.

2.37 These issues, and their implications both for service delivery capacity and the capacity of organisations more broadly, have been well-documented in many previous reports to government as early as the 1980s and as recently as 2010 in the *Strategic Review of Indigenous Expenditure*. There is scope for the departments to consider the impact of their funding arrangements on service providers so that barriers to either strengthening, or utilising the service delivery capacity of organisations, are addressed.

Recommendation No.1

2.38 To ensure funding arrangements adequately support the achievement of desired policy outcomes, the ANAO recommends that the departments review their current funding approaches and supporting arrangements, and

where appropriate, consider other options to achieve program deliverables such as longer-term partnerships or core support.

Departments' responses

FaHCSIA's response

2.39 Agreed. FaHCSIA makes the following comments:

Indigenous organisations have a critical role in driving the closing the gap reforms and reducing levels of Indigenous disadvantage. The effective governance and administration of these organisations is directly related to their ability to both work with communities and governments in tackling Indigenous disadvantage.

Information from the Grants Management System (GMS) indicates that Indigenous service provision is managed through funding relationships with around 7,000 organisations (Indigenous organisations represented less than 8 per cent of these in 2010-11) in the main community based, not for profit organisations through a network of over 50 FAHCSIA offices spread across Australia, including National Office, State Offices and 30 Indigenous Coordination Centres.

The nature of these funding relationships is diverse, ranging from small scale funding for specific activities that do not lend themselves to the consideration of organisational capacity through to more significant funding agreements for the delivery of programs and services.

The subject of capacity development for Indigenous organisations and issues affecting capacity in service delivery organisations has been the focus of a number of reviews and reports. A number of these reviews have included recommendations which have resulted in the implementation of a considerable number of policy, administrative and program responses targeted at developing the capacity of Indigenous organisations.

As the lead agency in Indigenous service delivery FaHCSIA has worked through the Cross Agency Working Group on Indigenous Funding and Governance Reform to improve consistency in accountabilities across Indigenous funded programs and to improve standardisation of funding agreements while also reducing unnecessary administrative burden placed on organisations moderated by risk-based reporting and monitoring requirements.

The revised Standard Terms and Conditions for Funding Agreements, implemented in 2009, have been considerably streamlined to reduce impost on organisations by aligning reporting dates and ensuring that only required information is collected.

The FaHCSIA Common Business Model was introduced in 2009 to provide greater consistency in applying funding management processes. This is achieved with flexibility across programs and funding recipients/service providers, applying a differentiated approach to controls (i.e. funding agreements, selection, acquittals, monitoring and reporting), which are determined by the level of risk assessed for the program, provider and for service delivery.

DEEWR's response

2.40 Agreed.

DoHA's response

2.41 Agreed. The Department agrees with the recommendation, noting that since the commencement of the audit in 2010, OATSIH health programs have been consolidated into seven themes, streamlining the policy outcomes, and simplifying administration and funding arrangements. The flexibility provided by the new, three year Head Agreement enables the Department and the sector to target emerging priorities, over a longer period of time, while reducing the burden of reporting and 'red tape' for the funded Aboriginal and Torres Strait Islander health organisations. The Head Agreement replaces the multiple funding agreements these organisations had with the Department previously and provided reduced, but better targeted, reporting requirements. In order to promote ACCHO sector stability and administrative efficiency, OATSIH is currently undertaking a review of funding model approaches. The aim of the review is to develop options for a more equitable and transparent distribution of primary healthcare funding grants to the sector.

3. Risk Management for Program and Service Delivery Outcomes

This chapter examines the three departments' approaches to assessing and managing risk relating to service delivery capacity of Indigenous organisations, with particular consideration of the extent to which risk assessments and mitigation strategies comprehensively cover the range of risks to service providers' capacity.

Introduction

3.1 Engaging a third party in the delivery of programs and services on behalf of the government presents potential risks that require consideration and ongoing management by departments.⁶⁷ Managing risks can take the form of actions to address the immediate likelihood and impact of risks as well as actions and strategies developed to reduce the medium to long-term likelihood of particular risks emerging. Where organisations are relied on to deliver services and achieve outcomes, it is incumbent upon government to ensure there are adequate risk management arrangements as government retains ultimate responsibility for service delivery and outcomes.⁶⁸ Accordingly, where the achievement of outcomes is linked with the capacity of service providers to deliver a program or services, it is important that the funding departments understand any risks that might be associated with the capacity of the providers and these risks are managed to support achievement of the service delivery outcomes.

3.2 A sound risk management framework provides 'the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.'⁶⁹ The quality of the risk management process is critical for the effective control of risks to program outcomes and service delivery, and risk

⁶⁷ ANAO Better Practice Guide—*Implementation of Programme and Policy Initiatives*, October 2006, Canberra, p. 19-21.

⁶⁸ *ibid.*, p. 19-21.

⁶⁹ Standards Australia and Standards New Zealand, *AS/NZS ISO 31000:2009 Risk Management—Principles and Guidelines*, Standards Australia, Sydney, & Standards New Zealand, Wellington, 2009, p. 2.

management is an integral part of effective public administration.⁷⁰ Approaches to assigning and managing risks should ideally take a comprehensive view of risks associated with service providers' capacity, and the ability of providers to best utilise their capacity.

3.3 The ANAO considered the frameworks that are in place in the three departments for assessing and managing risk associated with service provider capacity. Particular consideration has been given to the risk ratings given to Indigenous organisations and the key risks identified formally within existing business processes. This chapter also considers the mitigation strategies that have been developed by the departments and the extent to which their mitigation strategies comprehensively cover the range of risks relating to service provider capacity.

Risk management frameworks

3.4 The risk management framework of a department provides guidance for staff in assessing risk and managing risks identified, and each of the three departments has established risk management policies. Within the frameworks established by the departments, there are differences in the approaches taken and the focus of risk assessments and mitigation strategies.

3.5 In order to assess how risk management frameworks relate to the identification and management of risks associated with the capacity of Indigenous service providers, the ANAO surveyed departmental staff and considered other available data. To provide additional information about the treatment of risk, the ANAO also considered risk data obtained from the Grants Management System (GMS) administered by Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).

Overview of risk management in FaHCSIA

3.6 FaHCSIA's risk management approach is guided by the Common Business Model (CBM). The CBM is a framework for grants management across FaHCSIA that includes three tools to identify risk: the Program Design Risk Assessment Tool; the Provider Capacity Risk Assessment Tool; and the Service Delivery Risk Assessment Tool. The three risk tools help identify risks

⁷⁰ ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra, p. 87.

in five key areas defined by the department: governance, financial management, viability, issues management, and performance management.

3.7 FaHCSIA requires risk assessments of service providers to be undertaken either during the selection process, when renewing or renegotiating existing funding arrangements, or when the occurrence of a non-compliance event requires a risk assessment. Based on the risk assessed across the five key areas, a set of recommended control strategies is developed for different issues such as funding agreements, selection, acquittals, reporting, and monitoring (with the treatment options to be based on the FaHCSIA Accountability Framework). The risk levels and treatments are then included in the service providers' funding agreements.

3.8 Service delivery risk assessments are also undertaken six months after the start of a funding agreement with a focus on a service providers' compliance with the terms and conditions of the funding agreement. Table 3.1 presents risk ratings from the GMS which have been assigned to Indigenous organisations.

Table 3.1

Risk ratings of Indigenous organisations in the Grants Management System administered by FaHCSIA

	Number	Per cent (%)
Risk rating		
Extreme	87	10.9
High	158	19.7
Medium	262	32.7
Low	294	36.7
Total	801	100.0
Not assessed	1	–

Source: ANAO analysis of data from GMS.

Notes: The data reflected was drawn from the Grants Management System which is administered by FaHCSIA. While FaHCSIA advised that other agencies use GMS, the majority of funding agreements relate to FaHCSIA.

3.9 Overall, Table 3.1 indicates that approximately one in three Indigenous organisations is considered to be a high or extreme risk, with the remainder to be a low or medium risk.

3.10 The risk controls in the CBM are largely based on compliance; with required documentation, monitoring and review activity generally increasing as risk increases. Examples of control strategies in the CBM include more

frequent reporting obligations, increased assurance documentation and delaying milestone payments. Some control strategies have also been developed which focus on providing support to an organisation, such as assisting service providers to access specialist financial management skills, governance training and mentoring opportunities. In some cases, FaHCSIA may make this a requirement of funding.

Overview of risk management in DEEWR

3.11 The Department of Education, Employment and Workplace Relations (DEEWR's) Risk Management Framework outlines the department's approach to managing risk at a strategic, organisational and operational level. At the operational level, DEEWR's policy is that a risk management plan must be completed for all identifiable DEEWR activities. Common guidance has also been developed for contract management (including grants) which covers all aspects of the contract management process from the initial development of requirements through to management, monitoring, evaluation and conclusion (including risk management). The approach to managing risk associated with service providers within DEEWR has evolved from a number of discrete policies and systems that existed in the previous portfolios that now make up DEEWR.

3.12 Under DEEWR's current model the risk assessment process is mostly done by state and territory offices. As such, various systems exist within DEEWR to address specialised requirements within portfolios or areas. While there are varied approaches to assessing risks with individual service providers, the department advised that the risk considerations for individual projects in DEEWR are similar.

3.13 DEEWR mostly undertakes risk assessments at the program level (rather than a risk assessment of individual service providers), and does not allocate an individual risk rating to service organisations. DEEWR assesses the service provider's performance after completion of the service agreement and prior to entering into new agreements. For example, risk assessments of service providers are not conducted within DEEWR's Office of Early Childhood Education and Childcare. However, before the funding agreements expire, DEEWR will evaluate service providers' performance against the funding agreements and advise the service provider of future funding opportunities if relevant.

3.14 There are examples of programs within DEEWR that undertake risk assessments at the provider level. This risk assessment process is managed by

the DEEWR state or territory offices and retained in the relevant office. There is no overall rating for each provider, but the risk assessment is intended to highlight key project risks which result in risk ratings by issue of low, moderate, high or extreme. This information is used to assist in determining the level of reporting, and payment structure of the contracts. For example, a provider deemed a higher risk than normal may be paid a lower amount on the signing of the agreement, and further payments released as they meet contractual milestones.

3.15 DEEWR also seeks to minimise risks through existing monitoring arrangements. The Indigenous Employment Program (IEP) also uses a Financial Viability and Credentials Checking process to determine organisational capacity. Following this process, Financial Viability Risk Ratings are assigned to service providers and IEP contracts developed, managed and monitored in accordance with the financial viability ratings provided.

3.16 While areas of DEEWR approach the risk assessment of service providers differently, risk management plans are required to be developed for all contracts. Some common examples of risk control strategies include requirements for project plans and reports, regular contact or monitoring by the department, and linking payments to defined deliverables and performance measures to ensure receipt of performance and financial reporting from service providers.

Overview of risk management in OATSIH within DoHA

3.17 The Office of Aboriginal and Torres Strait Islander Health (OATSIH) considers that an organisations' corporate governance framework is the key mechanism for directing, controlling and managing risks within an organisation. Accordingly, OATSIH has developed a risk assessment framework that is based on a service provider's governance structure and internal risk management system to deliver services and manage key risks. The risk assessment framework used by OATSIH was developed with reference to the Royal Australian College of General Practitioners and Quality Improvement Standards to provide consistency between risk management and relevant health standards.

3.18 Risk assessments by OATSIH are undertaken in accordance with the provisions of standard funding agreements and are specifically related to funding provided under standard agreements. The particular aspects of a service provider's corporate governance framework examined by OATSIH

include the organisation’s management structure, management standards, monitoring and reporting systems, and accountability arrangements. A risk rating is developed for service providers and this is used to assist in the administration and monitoring of service agreements with service providers. The duration between OATSIH risk assessments is largely dependent on previous risk appraisals, with those organisations assessed as high or extreme needing to undertake risk assessments at least yearly. Some organisations may undergo a number of risk assessments if they receive funding from other areas of the Department of Health and Ageing (DoHA) as these areas also undertake risk assessments related to their programs and which may focus on different matters. Table 3.2 outlines the risk ratings that have been assigned by OATSIH to the Indigenous organisations that it funds.

Table 3.2

Risk ratings of Indigenous organisations funded by OATSIH

	Number	Per cent (%)
Risk rating		
Extreme	13	6.1
High	14	6.6
Medium	86	40.8
Low	98	46.5
Total	211	100.0
Not assessed	5	-

Source: ANAO analysis of data from OATSIH.

3.19 Based on the risk ratings in Table 3.2, Indigenous organisations are primarily rated as low or medium risk by OATSIH. However, when organisations are assessed as high or extreme, OATSIH advised that staff consult and discuss the weaknesses and possible remedial actions available to manage the risk with the service provider. Risk management strategies can also include supporting service providers to control service delivery risk through strengthening organisational management structures, standards and processes. Since OATSIH commenced three-year funding agreements on 1 July 2011, another risk management strategy is to move organisations that are rated as either high or extreme onto 12-month funding agreements.

Risks and mitigation strategies identified by departments

3.20 To understand what departments generally identify as the main risks in relation to service delivery, the ANAO surveyed senior program staff at

national and regional, state and territory offices. The survey asked staff to list up to five risks that they had identified when assessing the capacity of Indigenous service providers to deliver the program (either at the program implementation stage or as part of funding decisions). In total, 210 risks were identified by national, state and territory office staff across the three departments. Table 3.3 details the risks identified in survey responses by category.

Table 3.3

Risks associated with service provider capacity by department and category

	FaHCSIA	DoHA	DEEWR	Total	Per cent (%)
Risk category					
Financial management/reporting	6	4	25	35	16.7
Performance reporting	21	20	15	56	26.7
Infrastructure	1	11	5	17	8.1
Governance	20	27	8	55	26.2
Other	20	19	8	47	22.4
Total	68	81	61	210	100.00

Source: ANAO analysis of responses to ANAO survey of national and state and territory program officers.

3.21 In terms of overall risk perceptions, Table 3.3 highlights that departments considered the most common risks as relating to performance reporting, governance, and then financial management/reporting. Overall, Table 3.3 illustrates that reporting (financial management/reporting and performance) accounts for 44 per cent of all risks identified by surveyed staff of the three departments.

3.22 Nearly a quarter of all risks that were identified fell into the 'other' category. The most common risk in the 'other' category related to workforce issues, and the ability of an organisation to recruit and retain suitable staff. Other risks identified included: capacity of the service provider to deliver the program after reforms were introduced; service provider's knowledge of remote communities or acceptance in the Indigenous community, potentially leading to low utilisation of the service; difficulties developing necessary partnerships and gaining the support of key stakeholders; lack of program responsiveness to the needs of both government and target groups, resulting in criticism of the success of the program; viability of the organisation; and delays in procurement processes.

3.23 When responses are broken down by department, some differences emerge in the emphasis given by the different departments. For example, DEEWR responses identified financial reporting as a very common risk, while OATSIH and FaHCSIA indicated this was a much less common concern. The responses for the three departments indicated that common risks related to meeting performance reporting requirements, while OATSIH saw infrastructure and governance as typically important, which is likely to reflect the influence that infrastructure has on health services and the focus given by OATSIH generally to governance in an organisation.

3.24 After identifying potential risks, staff were then asked to rate the likelihood of risks eventuating and the impact if this occurred. Based on the responses, the risks most likely to occur with the greatest impact related to governance and performance reporting. Financial reporting risks were generally considered to be moderate or very low.

Risk mitigation strategies

3.25 Once risks are identified, risk treatments or controls should then be developed dependent on the departments' risk tolerance levels. Australian risk management standards note that risk treatment options can generally include: avoiding the risk, taking or increasing the risk to pursue an opportunity, removing the source, changing the likelihood or consequences, sharing or transferring the risk, and retaining the risk.⁷¹ As part of the survey, the ANAO asked program staff to identify the control strategies developed to address the risks they had identified. The mitigation strategies identified in survey responses have been broadly categorised by the ANAO and are represented in Table 3.4.

⁷¹ Standards Australia and Standards New Zealand, *AS/NZS ISO 31000:2009 Risk Management—Principles and Guidelines*, Standards Australia, Sydney, & Standards New Zealand, Wellington, 2009, p.19.

Table 3.4**Risk mitigation strategies identified by survey respondents**

	Per cent (%)
Risk mitigation strategy	
Monitoring, reporting and communication arrangements	34.9
Engagement of suitable organisations through appropriate selection processes and relevant background checks	20.0
Provision of training, mentoring, support services or other specific capacity development support	13.6
Ensure appropriate governance structures and arrangements	8.9
Requirements for, or assistance with, staff recruitment and retention	6.8
Collaboration with other departments or providers	3.8
Consultation and engagement with communities or other key stakeholders	3.8
Funding support	3.8
Flexibility in funding or services	2.6
Other	1.7
Total	100.0

Source: ANAO analysis of responses to ANAO survey of national, state and territory officers.

Risk mitigation data from GMS

3.26 The ANAO also examined risk mitigation strategies entered in the GMS to assess the extent to which these reflected the strategies identified in survey responses. Analysis of GMS data shows there are 356 different mitigation strategies identified in the system. Not all fields were completed in the data, but where mitigation strategies were included the most common strategy was to increase field visits and other monitoring activities. Other common strategies included increasing financial monitoring, reporting and periodical desktop reviews. As noted in Chapter 2, this set of strategies led to reporting requirements of 20 671 performance, financial and acquittal reports across 820 Indigenous organisations.⁷² The development of a capacity building plan for the organisation was also identified as a mitigation strategy in some cases, but this was often in conjunction with other monitoring and reporting obligations.

⁷² FaHCSIA advised that the reporting functionality in GMS records the individual reporting items in the system and these are compiled from both individual and omnibus reports.

3.27 The GMS data indicated that there were examples of funded organisations with an ‘extreme’ risk rating where no mitigation strategies had been identified. There were also some organisations where no funding had been approved with a mitigation strategy of ‘risk too high negotiate with other service providers’—this included organisations with ratings of extreme and high, as well as moderate and low.

3.28 The ANAO also compared the data from GMS for organisations rated as extreme and low risk. Table 3.5 details the comparison between FaHCSIA funding agreements for organisations with current activities and either an extreme risk rating or a low risk rating within GMS.

Table 3.5

Comparison of data for extreme risk and low risk organisations

	Organisations currently rated as extreme risk	Organisations currently rated as low risk
Number of organisations	59	287
Length of funding agreements		
Average agreement length (days)	454	320
Median agreement length (days)	276	198
Requested funding amounts		
Total requested amount	\$637 million	\$216 million
Average requested amount	\$10.8 million	\$751 000
Median requested amount	\$100 000	\$16 500
Approved funding amounts		
Total approved amount	\$100 million	\$226 million
Average approved amount	\$1.7 million	\$787 000
Median approved amount	\$100 000	\$17 500
Reporting requirements		
Average number of reports	23	19

Source: ANAO analysis of GMS data 1 July 2007 – 16 February 2011.

Notes: This data is for those organisations with current risk appraisal of extreme or low with activities relevant to that current risk appraisal. Some organisations counted in Table 3.5 do not have a relevant activity.

3.29 Table 3.5 shows that low risk organisations generally had shorter agreements and smaller average and median funding amounts than extreme risk organisations. This could be due to the specific nature of the grant, however, based on the average number of reports required, the reporting

requirements for organisations rated as extreme and low risk were very similar despite the use of reporting as a common risk mitigation strategy. As noted earlier, in OATSIH the risk rating of an organisation informs decisions such as the length of funding agreement. In DEEWR, a consideration of project risk ratings informs the funding amount and payment structure.

3.30 The funding outcomes and mitigation strategies used by the three agencies indicate that while reporting requirements are a common mitigation strategy, the reporting requirements are generally not differentiated according to the risk profile of the organisation. When considered in relation to service delivery capacity in organisations, unnecessary reporting requirements will affect an organisation's utilisation of its available service delivery capacity. Other mitigation strategies such as short-term funding and smaller and delayed payments, while offering departments some benefits in terms of control and accountability, can also affect capacity.

Funding/service agreement breaches

3.31 In order to provide an indication of the effectiveness of the risk management approaches, the ANAO considered data from GMS relating to funding/service agreement breaches. A breach is recorded in GMS when a non-compliance event occurs, which may range from a minor infringement, such as not meeting a reporting deadline (in the majority of cases), to a major breach of the terms of a funding agreement. While this is not a definitive indicator, the occurrence of a funding agreement breaches represents a management capacity issue that has escalated to a non-compliance event at a particular point in time.

3.32 Breaches within the GMS can fall into four categories: system-generated breach; general terms and conditions breach; program-specific terms and conditions breach; or other. The GMS is designed to record a system-generated breach as a warning to Project Officers and Delegates that a report is overdue. The other categories relate to administrative breaches which indicate a more serious issue of non-compliance has occurred. The majority of breaches (97 per cent) were system-generated, indicating only minor infringements. The remaining three per cent of breaches were administrative falling into the general terms and conditions or other category, and only 0.05 per cent in the program-specific terms and conditions category. Table 3.6 details the breach types for Indigenous organisations from GMS.

Table 3.6**Service agreement breach types for Indigenous organisations**

Number of breaches	
Breach types	
Performance information report not received	4249
Periodic financial statement not received	4035
Acquittal documentation not received	2445
Other monitoring report not received	531
CDEP report (SAW) not received	198
Audited financial statement unsatisfactory	104
Periodic financial statement (PFS) unsatisfactory	90
Other	80
Certification requirements not met	54
Performance reporting unsatisfactory	42
Activities cannot be accounted for separately	9
Budgeting guidelines not followed	8
Variation not approved	8
Wages funding used for other purposes	3
Funds not used for approved objectives	2
Surplus not repaid	2
Approved leave and/or training not defined	1
Asset register not maintained	1
Assets used for other purposes	1
Interest and self-generated funds not used for approved purpose	1
Performance report not submitted	1
Sale of asset or use of proceeds not approved	1
Staff or office bearer ineligible	1
Total	11 867

Source: ANAO analysis of data from the GMS for the period 1 July 2007–16 February 2011.

3.33 Overall, the number of breaches to service agreements during this period was 11 867⁷³ which related to 746 organisations (out of approximately

⁷³ Service agreement breach data covers 1 July 2007–16 February 2011.

820 funded organisations), and covered 3665 funding agreements and 2323 activities⁷⁴. Table 3.6 highlights that 11 604 breaches or 98 per cent of the total breaches within GMS related to reporting issues; most of these breaches are system-generated (automatic) relating to a report not being received by the due date, with the breach cleared on receipt of the overdue report. The data also highlighted that 91 per cent of organisations received a breach at some point, and there were approximately five breaches per activity.

3.34 A small number of breaches were related to other issues concerning the use or disposal of assets, surplus funds not being repaid, and variations to the funding agreements not being approved. Overall, serious issues of non-compliance are not commonly reported in GMS and most breaches relate to meeting the administrative requirements of funding agreements. The breach data also indicates that the use of reporting as a mitigation strategy does not appear to be reducing risks associated with reporting.

Risk mitigation strategies and service delivery capacity constraints

3.35 As noted in paragraph 3.25, the Australian standards for risk management identify the options for treating risks as: avoiding the risk, taking or increasing the risk to pursue an opportunity, removing the source, changing the likelihood or consequences, sharing or transferring the risk, and retaining the risk.⁷⁵ There are a number of considerations when determining appropriate treatment strategies and this involves balancing the costs and efforts of implementation against benefits.⁷⁶ Further, where it is appropriate, risk management strategies would ideally weigh up the relative merits of considering risk in an immediate timeframe, such as in the life of a funding cycle or over a longer timeframe.

3.36 Addressing Indigenous disadvantage has been acknowledged by government as a long-term initiative requiring a sustained and integrated approach across multiple strategic platforms in partnership with Indigenous

⁷⁴ An activity can have more than one funding agreement.

⁷⁵ Standards Australia and Standards New Zealand, *AS/NZS ISO 31000:2009 Risk Management—Principles and Guidelines*, Standards Australia, Sydney, & Standards New Zealand, Wellington, 2009, p.19.

⁷⁶ *ibid.*

communities.⁷⁷ The National Indigenous Reform Agreement has explicitly identified developing Indigenous service delivery capacity as an important element of this long-term strategy and it is clear, based on current expenditure levels, that Indigenous organisations play an important role in the overall Australian Government service delivery model for Indigenous programs and services. With this being the case, taking a longer-term view on the nature of potential risks to service delivery and seeking to address these so that, over time, these risks may reduce, would be an appropriate strategy for government departments.

3.37 As discussed in Chapter 2, the departments generally have a well-developed understanding of the issues that can impact on the service delivery capacity of Indigenous organisations. The most common capacity issues with the biggest impact were identified as workforce and staffing, governance, specific service delivery issues, and financial management. Other issues, that weren't as commonly identified by the departments included: geography; cultural, family or community circumstances; resources, infrastructure and equipment; administration and reporting; and factors relating to government, such as poor consultation with communities, staff turnover and lack of clarity around roles and responsibilities, multiple program management arrangements, and short-term funding. Service providers also emphasised constraints relating to reporting and administration associated with funding agreements, complexity in dealing with government departments, and geography-related issues.

3.38 The most common risks identified by department staff included financial management/reporting, performance reporting, and governance. Based on department risk management frameworks and the survey responses, in general, the most common risk mitigation strategies that the departments put in place are to increase reporting (such as performance and financial reporting), increase monitoring, and to seek to select experienced service providers. This is also reflected in the data from the GMS. Risks related to an organisation's governance issues, such as management structures and standards, also rated highly in identified risks, with control strategies such as governance training and consultations noted as key mitigation strategies.

⁷⁷ Council of Australian Governments, *National Indigenous Reform Agreement* [Internet], COAG, Canberra, 2008, pp. 4–8, available from <http://www.coag.gov.au/coag_meeting_outcomes/2009-07-02/docs/NIRA_closing_the_gap.pdf> [accessed 24 January 2011].

3.39 Reporting and monitoring arrangements are a part of any funding agreement and when done well, in line with principles of intelligent monitoring, offer benefits to both the funding and funded organisation.⁷⁸ Tightening reporting requirements as a control strategy for risks associated with reporting however is unlikely to mitigate reporting-related risk. Based on data from the GMS, by organisation, the average number of reports required from organisations was 25, with one organisation required to submit 275 reports. As noted in paragraph 3.33, most non-compliance events are caused by failure to submit reports on time. When an organisation has to dedicate more resources to meeting reporting requirements, this can reduce the extent to which existing capacity can be utilised for on-the-ground service delivery. Where this is the case, increasing reporting requirements to manage capacity risks can have the opposite effect and create additional risks to the achievement of desired outcomes.

3.40 The selection of experienced, qualified and appropriate service providers, when entering into service or funding agreements, rated highly as a control strategy used by the departments when assessing the risk of capacity of service providers to deliver the program. This control strategy however may be difficult to implement when there is a limited number of service providers to select from, as is the case in a number of remote communities. Also, remote organisations can experience a number of difficulties in relation to staffing. The generally lower levels of education and smaller pool of people in remote areas places limits on the extent to which an organisation can obtain skills locally and there are barriers to attracting staff from other areas and retaining them, due to such matters as the availability of housing. Furthermore, funding uncertainty, which arises from the use of short-term funding agreements, limits the ability of organisations to attract qualified staff. While it is important to ensure an organisation has appropriate and qualified staff, it is likely to be difficult to use this as an effective mitigation strategy when there is a limited pool to choose from and delays to funding can further reduce an organisation's ability to attract staff.

3.41 Overall, there is some alignment between the broad set of capacity issues acknowledged by departments and the risks identified through formal

⁷⁸ National Audit Office, *Practical Guidance on Implementing the Principles of Proportionate Monitoring* [Internet], NAO, London, June 2009, available from <http://www.nao.org.uk/guidance_and_good_practice/toolkits/intelligent_monitoring.aspx> [accessed 20 May 2011].

business processes. However, in light of the capacity constraints experienced by organisations, the mitigation strategies identified tended to be short-term in nature and focused on compliance activities and these are less likely to treat the risk posed by the constraints. Risk management also tends to focus on accountability of funding, and compliance with the terms and conditions of funding agreement. Mitigation strategies that transfer risk to the service provider—such as delaying payments and or requiring recipients to bear cost increases—are an option for agencies, but the appropriateness of this approach needs to be considered in terms of the capability of the recipient to manage the risk.⁷⁹ Also, while these approaches may mitigate risk to government, the effectiveness of these strategies need to be commensurate with the actual level of risk and balanced with the achievement of outcomes.⁸⁰

3.42 An effective approach to risk management that takes a broad approach to considering risks will better support the achievement of outcomes. While most public sector departments recognise ‘that risk management is a necessary element of departmental approaches, there is a risk that it is treated as a tick the box exercise’.⁸¹ Increasingly, as service delivery has been outsourced, relationships between departments and service providers have been dominated by legal and contractual obligations, creating a strong compliance or control relationship relying on extensive checking and verifying that terms of the contract have been met. This can be time consuming and may not be commensurate with the level or risk or proportionate to the amount of funding involved. Where appropriate, there is scope for the departments to move away from a largely contract management and compliance-focused approach to greater align their mitigation activities with the principles for grant management, which emphasise an outcomes orientation, proportionality, and collaboration and partnership.⁸² There is also scope for the agencies to consider broader strategies and controls, where appropriate, such as accepting risks or

⁷⁹ ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra, p. 88.

⁸⁰ *ibid.*

⁸¹ McPhee, Ian 2011, *Effective Risk Management* [Internet], Presentation to the Department of Parliamentary Services, ANAO, Canberra, 17 February 2011, p.8, available from <<http://www.anao.gov.au/~media/Uploads/Documents>> [accessed 28 April 2011].

⁸² Department of Finance and Deregulation, *Commonwealth Grant Guidelines* [Internet], DoFD, Canberra, 2009, available from <http://finance.gov.au/publications/fmg-series/docs/FMG23_web.pdf> [accessed 29 June 2011].

mitigating risks in the medium to longer-term by addressing the underlying issues.

Conclusions

3.43 The departments audited have established risk management processes that are focused on assessing risks within organisations. The most common risks identified by these departments related to performance reporting, financial management/reporting and governance. Common risk mitigation strategies adopted by the departments included regular reporting, monitoring and linking payments with milestones. While more comprehensive reporting was often a mitigation strategy, the ability of an organisation to comply with reporting requirements was also a common risk identified by these departments. Reporting-related issues were the cause of non-compliance in 98 per cent of funding agreement breaches, which indicates that the existing mitigation strategies are not generally reducing reporting risk, potentially because of the high volume of reporting required. While a level of reporting is appropriate, it should also be commensurate with the actual level of risk and needs to capture information necessary to inform program performance.

3.44 The departments' risk management processes were less focused on the external influences on service delivery capacity. Given many constraints are influenced by factors outside an organisation's control, for example, geography and funding, there is the potential that the existing approaches may not capture, and subsequently address, the associated risks. Further, the existing mitigation strategies, such as increased reporting requirements, can divert resources away from the actual delivery of services and programs. There is scope to broaden existing approaches to risk management by considering the wider sources of risk associated with capacity and employing strategies to change the likelihood of the identified risks occurring. A more strategic approach to risk management would give greater emphasis to managing risks emerging from outside the Indigenous service delivery organisations—including the influences of the remote service delivery environment and aspects of government funding administration.

Recommendation No.2

3.45 To support service delivery arrangements and the achievement of desired policy outcomes in the longer term, the ANAO recommends that the departments take a more strategic approach to risk management that gives greater consideration to the broader operating environment, and balances

compliance requirements with the actual level of risk and the achievement of outcomes.

Departments' responses

FaHCSIA's response

3.46 Agreed. FaHCSIA makes the following comments:

In 2012, FaHCSIA will be reviewing its Program Risk Framework in its use in managing funding arrangements. The findings from this audit will inform that review.

Whilst there has been some significant progress over recent years it is clear more can be done to better align the requirement for accountability for public monies and the associated red-tape burden against the actual level of risk. The work envisaged under recommendation three will incorporate consideration of these issues.

Across government, the broader Not-For-Profit reform is examining the streamlining of funding agreements and establishing a common funding agreement template. FaHCSIA is also examining the scope to encourage organisations funded to deliver services to Indigenous citizens to incorporate under appropriate legislation.

DEEWR's response

3.47 Agreed. DEEWR has and will continue to put in place compliance arrangements that support the maximisation of outcomes. The department will also consider the broader operating environment when developing program and provider risk plans.

DoHA's response

3.48 Agreed. OATSIH continually monitors the risk assessments of funded organisations and any issues that require consideration. OATSIH has recently outsourced its risk assessment process to an external organisation to ensure independence, greater national consistency in audits being undertaken, and to provide advice regarding management of risk within funded organisations and any associated risk to the Commonwealth. This information, together with the broader issues raised in the ANAO report, will be used for further revisions of the OATSIH Risk Framework including its associated processes as required.

4. Investment to Support Capacity for Indigenous Service Delivery

This chapter considers the steps the three departments have taken to address issues affecting service delivery capacity and its utilisation in Indigenous organisations. Firstly, progress of reforms to the administration requirements is considered followed by discussion of specific initiatives that have been implemented by the departments to work with organisations in developing their capacity.

Introduction

4.1 In recognition of the role of third sector organisations, recent government policy has emphasised the importance of engaging with and supporting service providers in the delivery of government services. Within Indigenous affairs, specific commitments to capacity development and investing in service delivery capacity were made under the National Indigenous Reform Agreement (NIRA) in 2008. Under the Service Delivery Principles for Indigenous Programs and Services, articulated in the NIRA, investment in the capacity of organisations and promoting opportunities for Indigenous service delivery was linked with the long-term sustainability of programs and services.

4.2 Also in the NIRA, capacity development was identified as contributing to outcomes under the Council of Australian Governments (COAG) strategic areas for action or building blocks of ‘governance and leadership’ and ‘economic participation’. Accordingly, developing the capacity of organisations is important as both a means of achieving better outcomes by facilitating effective service delivery, and as a policy outcome in itself.

4.3 International development experience suggests that the most successful capacity development approaches are systematic with a long-term outlook, flexible and suited to the circumstances or context, and address capacity at multiple levels.⁸³ For non-government organisations, this includes addressing capacity factors within the organisation and factors in its external environment.

⁸³ Organisation for Economic Cooperation and Development, *The Challenge of Capacity Development, Working Towards Good Practice* [Internet], OECD, Paris, 2006, available from <<http://www.oecd.org/dataoecd/4/36/36326495.pdf>> [accessed 13 May 2011].

4.4 Some of the factors within organisations that influence capacity to deliver programs and services include the strength of governance structures, sophistication of operational systems and processes such as financial management, level of infrastructure (such as information and communications technology), amount of resources, and, staff skills. External factors that influence an organisation emerge from its operating environment such as location and geography, overall funding patterns and approaches, the presence (or lack of) other services, community circumstances, and the availability or ability to attract and retain suitable staff.

4.5 Accordingly, capacity development can be considered to be activities which promote growth in the service delivery capacity of organisations—either directly, within an organisation, or through influencing issues that arise from an organisation’s operating environment. Where capacity constraints to service delivery exist, this presents risks to the achievement of outcomes and requires an appropriate response from government departments.

4.6 The ANAO considered the broad ways in which the three departments reduce the risks posed by potential capacity constraints in Indigenous organisations. In particular, the ANAO considered:

- progress in agreed reforms to administrative approaches to enable capacity utilisation; and
- activities of departments to invest in the service delivery capacity of organisations.

Enabling service delivery capacity through program and administrative reform

4.7 The capacity of organisations can be heavily influenced by the broader enabling environment in which organisations operate. The enabling environment can include the institutional structures, power relations and structures of power, rules, laws, policies, systems, practices, and norms that affect the operations of organisations.⁸⁴ The enabling environment also includes the relationships, operations and structures within and across departments which can affect organisations. For Indigenous organisations, and non-government organisations more generally, government departments

⁸⁴ OECD 2006; UNDP 2009.

which provide funding to organisations are a key element of the enabling environment.

4.8 There is the potential for service delivery outcomes to be affected if, in a complex program environment such as Indigenous affairs, administrative arrangements are unduly complex or burdensome and lead to ‘crowding out’ of other activities that are more directly related to the delivery of services. While a level of administration activity is appropriate, the impact of unnecessary or burdensome administrative arrangements on the capacity of organisations is well-documented. Most recently, the *Strategic Review of Indigenous Expenditure (Strategic Review)*, completed in February 2010, pointed to fragmented program management and service delivery, with weak linkages within departments as well as across departments, leading to limited flexibility and unnecessary red tape.⁸⁵ The report also recommended whole-of-government approaches to developing the capacity of Indigenous communities and organisations.

4.9 The Indigenous Affairs Arrangements (IAAs), introduced by the Australian Government in 2004, enabled the establishment of the mainstreaming approach where responsibility for Indigenous programs was given to various line departments. As part of the IAAs, the Australian Government replaced the regional offices of the previous Aboriginal and Torres Strait Islander Commission with Indigenous Coordination Centres (ICCs). These were offices in which several departments were represented. A key function of ICCs was to act as the main vehicle for departmental coordination of Indigenous-specific programs, combining coordination, planning and service functions. An important process introduced to ICCs was the Common Funding Round to reduce administration associated with multiple funding applications across departments.

4.10 Another initiative stemming from the IAAs was the Cross-Agency Working Group on Indigenous Funding and Governance, established by the Secretaries Group on Indigenous Affairs in 2006 as a Senior Executive Service decision-making body to drive key reforms to improve how government agencies managed organisations delivering Indigenous-specific funded

⁸⁵ Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure*, DoFD, Canberra, February 2010, available from <http://www.finance.gov.au/foi/disclosure-log/2011/foi_10-27_strategic_reviews.html> [accessed 30 August 2011].

programs and reduce red tape.⁸⁶ This working group was led by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and made up of representatives from: Attorney-General's Department; Australian Government Solicitor; Australian Institute of Health and Welfare; Department of Broadband, Communications and the Digital Economy; Department of Education, Employment and Workplace Relations (DEEWR); Department of Environment, Heritage and the Arts; Department of Finance and Deregulation; Department of Health and Ageing (DoHA) (specifically the Office of Aboriginal and Torres Strait Islander Health); Department of Prime Minister and Cabinet; and Treasury.

4.11 As the lead agency in Indigenous service delivery, FaHCSIA worked through the Cross-Agency Working Group on Indigenous Funding and Governance to:

improve consistency in accountabilities across Indigenous funded programs and to improve standardisation of funding agreements while also reducing unnecessary administrative burden placed on organisations moderated by risk-based reporting and monitoring requirements.⁸⁷

4.12 FaHCSIA reported to the Joint Committee on Public Accounts and Audit (JCPAA) in February 2010, that an outcome from the Cross-Agency Working Group in Indigenous Funding and Governance was the introduction of a new suite of funding agreements and Standard Terms and Conditions for Funding Agreements from July 2009.⁸⁸ The new standard funding agreement was for Indigenous programs that were managed by FaHCSIA and other departments administering programs through the Grant Management

⁸⁶ Joint Committee of Public Accounts and Audit, *Official Committee Hansard, Reference: Auditor-General's reports Nos 4 to 26 (2007–08)*, [Internet], JCPAA, Canberra, Wednesday, 25 June 2008, p. 7, available from <<http://www.aph.gov.au/hansard/joint/commttee/j10899.pdf>> [accessed 30 November 2011].

Department of Families, Housing, Community Services and Indigenous Affairs, *Executive Minute on Joint Committee on Public Accounts and Audit, Report No. 414, Review of Auditor-General's Reports tabled between August 2007 and August 2008*, [Internet] JCPAA, Canberra, 10 February 2010, p.7. available from <http://www.aph.gov.au/house/committee/jcpaa/auditor_generals_comb2/execmin.htm> [accessed 30 November 2011].

⁸⁷ Department of Families, Housing, Community Services and Indigenous Affairs, *Executive Minute on Joint Committee on Public Accounts and Audit, Report No. 414, Review of Auditor-General's Reports tabled between August 2007 and August 2008*, loc. cit.

⁸⁸ *ibid.*

System.⁸⁹ FaHCSIA considered that the new terms and conditions were considerably reduced from previous agreements, reporting requirements were more streamlined to reduce the impost on organisations, and financial reporting and acquittal processes reflected a risk-based approach.⁹⁰ These reforms were supported by the introduction of the Common Business Model, which aimed to streamline risk assessments and funding agreements to improve overall program efficiency.⁹¹

4.13 The *Strategic Review* in 2010 noted the common business practices developed through the Cross-Agency Working Group on Indigenous Funding and Governance Reform. The *Strategic Review* also noted it is unclear how effective the working group had been as there was no overarching monitoring and evaluation of the reforms, although anecdotal evidence suggested take-up was patchy.⁹² The review recommended:

86: Priority should be given to achieving greater consistency and coherence in approach to program management across Commonwealth agencies, particularly where there are important interactions between related Commonwealth programs; and

86.1 The current CAWG Terms of Reference should be amended to include a mandate for monitoring consistency and coherence in program management practice across participating agencies.

4.14 In relation to initiatives that were being progressed through the group, FaHCSIA advised the ANAO that the Executive Coordination Forum on Indigenous Affairs (ECFIA) decided in August 2010 that the Cross-Agency Working Group on Indigenous Funding would be incorporated into the overall work being undertaken to reform the Australian Government's interactions with the third sector led by the Office of the Not-for-Profit Sector.

⁸⁹ Department of Families, Housing, Community Services and Indigenous Affairs, *Annual Report 2008–09*, [Internet], FaHCSIA, Canberra, 2009, p.258, available from <http://www.fahcsia.gov.au/about/publicationsarticles/corp/Documents/2009_Annual_Report/pdf.htm> [accessed 2 June 2011].

⁹⁰ Department of Families, Housing, Community Services and Indigenous Affairs, *Executive Minute on Joint Committee on Public Accounts and Audit, Report 414, Review of Auditor-General's Reports tabled between August 2007 and August 2008*, op. cit., p. 7.

⁹¹ Department of Families, Housing, Community Services and Indigenous Affairs, *Annual Report 2008–09*, loc. cit.

⁹² Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure*, DoFD, Canberra, February 2010, pp. 300–302, available from <http://www.finance.gov.au/foi/disclosure-log/2011/foi_10-27_strategic_reviews.html> [accessed 30 August 2011].

As a result of this development, FaHCSIA informed the ANAO that it was no longer undertaking specific work of its own in relation to reforming Indigenous funding arrangements in coordination with other departments. The department noted that various whole-of-government initiatives were now addressing this issue, including the Office of the Not-For-Profit Sector, the Not-For-Profit Inter-Departmental Committee (chaired by the Department of Prime Minister and Cabinet), and the Not-for-Profit Sector Reform Council. FaHCSIA did not identify any other efforts to reform Indigenous funding arrangements in coordination with other departments.

4.15 In relation to efforts to reform the funding agreements at a broad level, DEEWR advised the ANAO that the following reform had been undertaken:

In 2010-11, funding agreements issued under the Child Care Services Support Program, which includes those for Indigenous focussed BBF services, were issued as multi schedule agreements to allow service providers, delivering several services, to have a single agreement with several schedules rather than separate agreements for each service. This reduced the administrative burden for providers.

4.16 DEEWR also advised that under the Indigenous Employment Program (IEP) initiatives that have been undertaken to reform funding agreements include:

Example 1: All IEP panel members are provided with a Deed of Standing Offer (as a contract) and as individual service projects are negotiated Official Orders are executed (these take the place of contract schedules) rather than having separate agreements in place for each contract/project. This reduces the administrative burden for panel members, who in some instances are Indigenous organisations.

Example 2: The panel approach also reduces the need to fund projects through Indigenous organisations whereby the Department can now contract directly with service providers who then can provide services (including capacity building) to Indigenous organisations, where that is their preference.

4.17 As a member of the Cross-Agency Working Group on Indigenous Funding and Governance Reform, DEEWR was also involved in developing and applying the common business practices developed by the group. DEEWR advised that in relation to the Cross-Agency Working Group on Indigenous Funding and Governance Reform, the IEP has incorporated the performance indicators developed by the working group in its new performance indicator tool and the Parental and Community Engagement program has also adopted the performance indicators.

4.18 In 2009, the *Overburden Report: Contracting for Indigenous Health Services (Overburden Report)* was released by Flinders University and the Cooperative Research Centre for Aboriginal Health. This was a significant report which highlighted the impact of the Department of Health and Ageing's (DoHA) administrative approach on organisations in the health sector. In response to the report, and other stakeholder consultation, OATSIH commenced a series of reform to its reporting requirements.⁹³ The reforms included the introduction of a single reporting system, national Key Performance Indicators, introducing a web-based reporting tool, removing unnecessary reporting requirements, introduction of Continuous Quality Improvement (CQI) indicators to support service providers, improved reporting back to service providers and peak bodies, support and training, improvements to patient information recall systems, and establishing a national data custodian.⁹⁴

4.19 OATSIH also advised the ANAO that while it was a member of the Cross-Agency Working Group on Indigenous Funding and Governance Reform, it considered:

that around 95% of current OATSIH funding agreements (OFA) already encompassed the recommended improvements. In addition, there were elements (clauses) of the OFA that the CAWG IFGR Group considered not appropriate to include in any streamlined funding agreement for use across agencies. This led to OATSIH pursuing its own 'streamlining' agenda through the development and implementation of a new Multi-Year Funding Agreement from 1 July 2011 taking into account all areas of the Department providing funding to Indigenous health services.

⁹³ Office of Aboriginal and Torres Strait Islander Health, *OATSIH Reporting Reforms*, fact sheet, [Internet], DoHA, Canberra, September 2010, p. 1, available from <[http://www.health.gov.au/internet/main/publishing.nsf/Content/41955CC26409E870CA25733700182634/\\$File/Reporting%20Reforms%20Fact%20Sheet%201%20-%20current%20as%20of%202%20Sep%202010.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/41955CC26409E870CA25733700182634/$File/Reporting%20Reforms%20Fact%20Sheet%201%20-%20current%20as%20of%202%20Sep%202010.pdf)> [accessed 18 April 2011].

⁹⁴ *ibid*, p. 1-2.

4.20 In addition to administrative reforms, OATSIH also considers that the regionalisation of health services and funding for additional health in the Northern Territory is a capacity-enabling strategy. This has included providing funding to the Aboriginal Medical Services Alliance of the Northern Territory to support the sector through this process. OATSIH has also built in a loading for remote service delivery in recognition of potential higher costs in remote areas.

4.21 The various initiatives undertaken by OATSIH are relatively recent in their implementation and their effectiveness in terms of improving the efficiency of funding arrangements has yet to be formally reviewed by OATSIH. In light of the *Strategic Review's* observation on the take-up of the work of the Cross-Agency Working Group on Indigenous Funding and Governance Reform, it will be important for OATSIH to formally review the impact of their changes.

Summary of reform activity

4.22 The importance of addressing administrative burden on Indigenous organisations has been raised in a number of government reports over the years and is a well-known and longstanding issue. In response, different agencies have implemented various initiatives aimed at reforming administration requirements. Some of these initiatives operate at an agency level and others, in the case of OATSIH, at a sectoral level. While these directions are promising, the initiatives are also relatively new given the history of reports in this area and are progressing unevenly across departments. Further, it is likely to be a number of years before the benefits are fully realised.

4.23 At a whole-of-government level, efforts were made under the auspices of the Cross-Agency Working Group on Indigenous Funding and Governance Reform which had a specific focus on Indigenous programs. This work has now been transferred to the Office of the Not-for-Profit Sector for continuation under that office's broader work program. In relation to reducing red tape, a specific working group has been established to progress reform. In its communiqué on 4 August 2011, the Office of the Not-for-Profit Sector indicated that work on a common grant template is due to commence in 2012.

Investment in capacity through capacity development programs and activities

4.24 Capacity development initiatives for Indigenous organisations can be traced back several decades. One of the early capacity development programs for Indigenous organisations implemented by the federal government was the Aboriginal Organisation Training Program (AOT). The AOT was introduced by the Commonwealth in 1989 to overcome management deficiencies in Aboriginal organisations and communities.⁹⁵

4.25 The Australian Government specifically invests in Indigenous governance through the Office of the Registrar of Indigenous Corporations (ORIC)⁹⁶, which supports and regulates corporations for Indigenous people which are incorporated under the *Corporations (Aboriginal and Torres Strait Islander) Act* (CATSI Act). ORIC administers a capacity development program that aims to build the independence and capacity of Indigenous individuals, groups, and corporations. This program is predominantly focused on governance capacity and supporting organisations registered under the CATSI Act. Recently ORIC has also focused on expanding its enabling services, such as providing recruitment assistance to encourage best practice and build capacity by helping corporations to recruit and keep suitable staff.⁹⁷

4.26 There are a limited number of other specific capacity development programs across the Australian Government. For example, while governance and leadership is a strategic area for action under the Closing the Gap strategy, according to the *Strategic Review*, only four programs fell into the functional category of governance and leadership category out of 232.⁹⁸ This was the smallest category with the four programs costing \$17.2 million, which was

⁹⁵ Royal Commission into Aboriginal Deaths in Custody 1989-1991, *Report*, (Commissioner Elliott Johnston, QC), para 20.4.58, available from <<http://www.austlii.edu.au/au/other/IndigLRes/rciadic/>> [accessed 4 April 2011].

⁹⁶ ORIC was the Office of the Registrar of Aboriginal Corporations until 1 July 2007 when the new CATSI Act commenced.

⁹⁷ Office of the Registrar of Indigenous Corporations, *ORIC- Recruitment assistance (ORA)* [webpage], ORIC, Canberra, available from <[http://oric.gov.au/Content.aspx?content=corporationJobs/recruitment%20and%20retention/oric_recruit ment_assist.htm&class=default](http://oric.gov.au/Content.aspx?content=corporationJobs/recruitment%20and%20retention/oric_recruit_ment_assist.htm&class=default)> [accessed 20 May 2011].

⁹⁸ Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure*, DoFD, Canberra, February 2010, p. 63, available from <http://www.finance.gov.au/foi/disclosure-log/2011/foi_10-27_strategic_reviews.html> [accessed 30 August 2011].

1 per cent of total expenditure.⁹⁹ While there may be other categories that capacity development programs are represented in, overall this indicates a limited number of programs that specifically seek to address capacity at a whole-of-government level.

Policy developments relating to investment in organisational capacity

4.27 Under the Service Delivery Principles for Indigenous Programs and Services, articulated in the National Indigenous Reform Agreement (NIRA) in 2008, investment in the capacity of organisations and promoting opportunities for Indigenous service delivery was linked with the long-term sustainability of programs and services. Also in the NIRA, capacity development was identified as contributing to outcomes under the Council of Australian Governments (COAG) strategic areas for action or building blocks of ‘governance and leadership’ and ‘economic participation’. Accordingly, developing the capacity of organisations is important as both a means of achieving better outcomes by facilitating effective service delivery, and as a policy outcome in itself.

4.28 There are mixed views within the three departments about whose role it is to develop capacity. A survey undertaken by the ANAO for this audit asked for senior management’s perspective on whether the government or a service provider has primary responsibility to ensure sufficient capacity to deliver services, where it was funded to do so. Most Senior Executive Service (SES) officers (63 per cent) considered it was the service provider’s responsibility, with a lesser proportion considering that government departments had a role. Capacity development was unlikely to be a focus or factored into program arrangements in these cases.

⁹⁹ *ibid.*, p. 62.

4.29 No overarching whole-of-government guidance or strategy has been developed to give effect to this emphasis on capacity development by COAG. However, in some bilateral implementation plans that support National Partnership Agreements under the NIRA there are examples of references to capacity development and related activities. A number of SES officers surveyed by the ANAO also identified specific policies relating to capacity development within their department. The policies identified by SES officers included:

- FaHCSIA—the Financial Management Resource Support Unit, Toolkit for Indigenous Service Provision, Common Business Model, Capacity Building in the Native Title and Land Rights Program, and ORIC;
- DoHA—service support and a branch responsible for providing advice; and
- DEEWR—Indigenous Economic Development Strategy, National Partnership Agreement on Remote Service Delivery, and Budget Based Funded (BBF) Quality Measure.

4.30 Further, there were 45 per cent of responses from senior management that indicated that their department did not have a specific policy directed at developing the capacity of service providers for Indigenous programs (although the rate varied across departments). Where policies did exist, just under half of the policies were developed within the last two years. Within the policies identified by departments, most of the policies identified were generally program-specific and there did not appear to be an underlying strategy to invest in the capacity of Indigenous organisations. While a flexible approach is appropriate, and it is reasonable to expect individual programs to have a tailored response, such an approach risks missing opportunities that could have greater impact across programs and departments.

Capacity development activities by departments

4.31 Research and experience has highlighted that developing capacity is not straightforward and requires more than just delivering training. International organisations emphasise a principles-based approach to capacity development that includes: a long-term focus, goals, understanding of strengths and constraints, building on existing capacities, respect for values, locally driven approaches, local ownership, high-level leadership and commitment, change processes and fostering change of structural inhibitors. Capacity development requires consideration of the interrelated aspects of capacity, and how capacity can be strengthened and maintained over a period

of time.¹⁰⁰ Importantly, capacity development approaches need to recognise and enhance existing capabilities and assets to support long-term and sustainable outcomes.

4.32 The survey conducted by the ANAO sought details about any activities that had been conducted to improve the capacity of Indigenous service providers. The responses indicated that just over half of the programs in the survey have factored in capacity development of service providers. There was a greater awareness of activities at the regional level, which potentially indicates a stronger focus on capacity development activities at the local level. The types of capacity development activities that had been undertaken are presented in Table 4.1.

Table 4.1

Activities to improve capacity of service providers

	Total (%)
Activity	
Workshops and training	24.8
Local support	14.7
Expertise support	11.7
Monitoring, evaluation and meetings	11.1
Governance and business operations assistance	7.8
Funding or other one-off assistance	7.5
Add hoc support	5.5
Accreditation support	4.9
Additional staff or resources	4.9
Program specific assistance	3.6
Other	2.6
Collaboration with other agencies	1.0
Total	100.0

Source: ANAO analysis of survey results.

4.33 The survey also asked whether any of the initiatives undertaken were designed for all service providers within the program or specifically for

¹⁰⁰ United Nations Development Program, *Capacity Development: A UNDP Primer* [Internet], UNDP, New York, 2009, available from <<http://www.undp.org/capacity/publications.shtml>> [accessed 17 May 2011].

individual service providers. The responses indicated that nearly 50 per cent were designed for all service providers, 38 per cent were tailored to individual service providers, and a variety of strategies applied to the remaining initiatives such as providers operating in particular states or with a specific group of employees.

4.34 The survey results highlight a number of key points:

- There are a limited number of activities that are designed to support capacity development at the organisational level or that targeted the enabling environment. Activities tend to be focused on aspects of capacity within the organisation, or training of individuals, with less consideration of factors affecting the whole organisation or issues from the enabling environment.
- Local support was a common activity, representing 14.7 per cent of overall activities. This included regional projects designed to build leadership capability and networks among the providers, working groups, face-to-face support, mentoring and coaching. Local and ad hoc support is likely to be devolved to local offices without specific strategies or resources. Many of the activities identified under workshops and training as well as other categories are also often initiated or driven at the local level.
- Training accounted for a quarter of the total capacity development efforts. When combined with expertise support, a significant proportion of the total activities were delivered through mechanisms where the approach is short-term, skills improvement for individuals.
- Interagency collaboration represented only one per cent of activities, which indicates that there are limited cross-agency efforts to jointly support service providers or address capacity constraints emerging from the broader enabling environment created by departments.

4.35 In terms of the capacity development activities that are undertaken, the survey data indicated that many are training-based and short-term focused. While training is an accepted element of support, where assistance was provided by departments, it was not always suited to the needs of organisations. Service providers gave examples of training being provided without any consultation or on the basis of a skills audit. Other service providers found that governance training was the only assistance that had been provided, with one organisation commenting that ‘governance training is

provided every year, everyone in the organisation had undertaken governance training', but other assistance was much harder to access.

4.36 For providers operating in remote areas, just attending training can present problems as many people can not leave communities (for different reasons) and block release training can be difficult to absorb. Some service providers observed that to attend a day of training in a major centre, it could require at least three days out of the office as well as travel costs; and that organisations can not always afford to have staff away for days at a time, as well as afford the cost of travel.

4.37 Training alone is unlikely to support capacity development, as it does not address other areas that can affect organisational capacity, such as infrastructure and resources. While some funding arrangements often include an 'administrative component', this does not always allow for sufficient funding to maintain and develop supporting infrastructure within an organisation. A number of service providers commented on difficulties in accessing funding to cover operational costs, or support to develop an organisation's operational infrastructure such as IT services, management systems (financial, resource management, human resources), or document management. When combined with issues of attracting suitably skilled staff, this often leads to service providers outsourcing elements of operations, such as accounting, or continuing with out-of-date or non-existent structures.

4.38 As noted in Chapter 1, in the international development context, providing funding to civil society organisations for discrete projects has been noted to lead to high transaction costs in relation to applying for funding and reporting on its use, and a tendency to fund organisations for the project only with limited consideration of funding overheads. A project-specific approach has also been observed to result in little investment in the capacity of an organisation.¹⁰¹ While program-based approaches may assist organisations to meet their funding obligations, there are also alternative strategies that better align with a capacity development approach.

¹⁰¹ AusAID, Working Paper: *Good Practice Donor Engagement with Civil Society* [Internet], report prepared by J Hall, Office of Development Effectiveness AusAID & J Howell, Centre for Civil Society, London School of Economics, Canberra, June 2010, p. 12, available from <http://www.ode.ausaid.gov.au/current_work/documents/donor-engagement2010.pdf> [accessed 30 November 2011].

4.39 Table 4.1 shows local and ad hoc support to service providers as a common activity to improve the capacity of service providers. Local funding agreement managers are likely to be in regular contact with service providers, and are likely to be well-positioned to recognise capacity constraints and develop a collaborative approach tailored to the individual service provider. A number of service providers interviewed by the ANAO were also positive about assistance provided by local departmental staff. However, other stakeholders raised concerns about the qualifications or experience of agreement managers and ICC staff to be delivering capacity development initiatives without clear guidance from their department. Others considered capacity development to be outside of their role of 'managing agreements'.

4.40 During interviews with service providers, an area that was reflected on as positive was when departments invested time in developing relationships with the service provider. This included regular visits or contact with the organisation; this may not necessarily contribute specifically to capacity development itself, but fosters strong foundations for a partnership which is likely to support service delivery arrangements. Other positive examples included holding reporting workshops at the beginning of the funding cycle to assist service providers to understand and meet their reporting requirements, assistance with reports, advice on funding opportunities, regular information and updates, and facilitation of networks in regions. These examples are consistent with some of the 'local support' activities identified by the departments. While positive, a more comprehensive capacity development strategy might look at broader activities and changes that can support organisations.

4.41 Capacity development activities do not necessarily need to be formal programs or initiatives. Informal capacity development may include assistance with meeting reporting requirements, accessing funding or resources, or general advice. A number of departments and service providers reflected informal activities they considered to be supportive of capacity development. There are advantages and disadvantages of both formal and informal approaches to capacity development. Formal approaches imply a more systematic response that is likely to provide greater coverage of service providers. Informal approaches are probably more likely to be in direct response to and targeted at, particular issues. However, two potential issues emerge from this: capacity development is not always planned or factored into program delivery at the time of implementation; second, informal approaches leave it up to the individual staff of government departments, suggesting an

inconsistent approach that may often depend on the individual's attitude, time and experience.

4.42 While capacity development approaches are likely to support service delivery outcomes, there are some barriers to adopting these approaches, particularly for staff on the front line. For the departmental contact staff, most likely in state and regional offices, many are managing numerous programs. Some of the barriers identified by state and territory staff to taking a more supportive, partnership role with organisations included: a lack of skills within the department to support capacity development; a focus on compliance in funding arrangements (rather than capacity development); different understanding of roles; and, limited time and resources. This suggests consideration could also be given to the capacity of government staff, both in terms of effectively engaging with Indigenous organisations and the skills and resources to support capacity in organisations they interact with.

4.43 The majority of capacity development activities identified by respondents in the survey were initiated by the departments (around 77 per cent). However, in general, the experience of service providers interviewed by the ANAO was that support to develop capacity was much harder to access (and less proactive) than the departments' perceptions of capacity development approaches. A number of service providers reported difficulties in accessing capacity development support from government departments. From the service providers interviewed, it was common for providers to request assistance from a department and be refused or not responded to. In one example, an organisation was funded by multiple departments to deliver a range of services to a community, but was unable to cover operational costs such as administration, buildings, building maintenance, accounting and IT. The organisation engaged with the ICC, state departments, and finally appealed to the Minister for Indigenous Affairs for financial assistance to cover their costs of management, administration, governance and other overhead costs.

4.44 To provide a more detailed reflection of capacity development initiatives, the ANAO asked the three departments to identify an example of where their department had implemented an approach or activity that was designed to support capacity development in Indigenous organisations. The three examples identified by the departments were:

- Development and Support Funds under the Community Development Employment Projects Program, FaHCSIA;

- the Economic Development and Business Support Panel activities under the Indigenous Employment Program, DEEWR; and
- Establishing Quality Health Standards through the Office of Aboriginal and Torres Strait Islander Health, DoHA.

4.45 The examples provide a description of the program or activities undertaken, with each highlighting a different approach. The descriptions are based on interviews with departmental staff and consideration of departmental documentation. ANAO's intent is to provide examples of initiatives that exist and potential considerations rather than make overall judgements about their performance or effectiveness. Summaries of these activities are included in Appendix 1.

4.46 In line with better practice, many service providers commented that capacity development activities were most effective when held in communities. Linked with this, people working in the community from the ground up tend to have more of a long-term impact. While there are a number of different models for approaching capacity development, drawing on the experience of service providers and international experience, successful and long-lasting capacity development approaches are to likely to take a long-term view, be locally driven and include engagement and consultation with organisations, be context-specific and appropriate, and, recognise and build on the existing strengths of organisations.

Conclusions

4.47 Policy commitments by the Australian Government indicate a renewed focus on effectively engaging with service provider organisations and investment in Indigenous organisations. Based on the capacity constraints experienced by Indigenous organisations, investment to support capacity and its utilisation needs to occur at multiple levels. For departments, there are two key approaches needed to implement these policies—ensuring their administrative arrangements do not unduly impact on the utilisation of capacity for service delivery, and working actively with individual organisations to develop internal capacity.

4.48 Efforts to reform administrative arrangements have been pursued in different ways within and across the departments, and have included some funding agreement reforms. However, these reforms have not always been sustained or achieved the desired intentions. Given the history of reviews that have pointed to the influence of government administration in driving some of

the constraints, overall progress by the three departments to address issues of administrative burden has been slow.

4.49 The departments identified a number of approaches and individual activities that they were pursuing to build internal capacity of organisations for nearly 50 per cent of programs surveyed in the audit. While not all programs or providers need capacity development, service providers which sought support generally found it difficult to access appropriate support, resources or activities that were tailored to the needs of their organisations. This indicates that despite the activities that are occurring, more formal and coordinated efforts are required by the departments.

4.50 Within the three departments, there are mixed views about whether government has a responsibility to assist in developing capacity in organisations. This is reflected in the limited guidance, and subsequent formal activities, within these departments to implement capacity development efforts. In addition, there is no framework across Australian Government departments to guide the implementation at a whole-of-government level of the relevant National Indigenous Reform Agreement service delivery principles covering investment in the capacity of Indigenous organisations. Many funding agreements with organisations are of relatively small value, and pose lower risk to government. This also means there is more limited scope for investing in capacity development at an individual organisation level. However, when considered from a whole-of-government perspective, the aggregate levels of funding, and the large number of agreements involved, highlights the benefits of developing a stronger sectoral approach across government to the development of capacity within the organisations that comprise the Indigenous service delivery model.

Recommendation No.3

4.51 To implement the capacity development elements of the National Indigenous Reform Agreement the ANAO recommends that FaHCSIA, through the Executive Coordination Forum on Indigenous Affairs, facilitates the development of a whole-of-government strategy and an implementation approach to provide a long-term, integrated and consistent approach to capacity development across Australian Government departments.

FaHCSIA's responses

4.52 Agreed. The Department agrees there is a need for a more sophisticated approach to how we fund Indigenous organisations and how this could provide for greater consideration of the capacity development that may need to be factored into our approach to working with Indigenous organisations. In this context it is important to recognise that a large number of the funding agreements identified in the report are associated with small one off 'activity' grants that do not lend themselves to capacity considerations. There are however a significant number of funding agreements that involve considerable funding that could be further considered in the context of capacity issues with Indigenous organisations. There is also a need to ensure effective business planning within organisations which includes consideration for the capacity needs of organisations. Effective business planning will inform subsequent discussions between organisations and government in the development of funding agreements. The Office of the Registrar of Indigenous Corporations (ORIC) is able to assist organisations registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* with developing effective governance and business planning.



Ian McPhee
Auditor-General

Canberra ACT
9 February 2012

Appendices

Appendix 1: Examples of Capacity Development Activities

To provide a more detailed reflection of capacity development initiatives, the ANAO asked the departments to identify an example of where they had implemented an approach or activity that was designed to support capacity development in Indigenous organisations. The three examples identified by the departments were:

- Development and Support Funds under the Community Development Employment Projects Program, FaHCSIA;
- the Economic Development and Business Support Panel activities under the Indigenous Employment Program, DEEWR; and
- Establishing Quality Health Standards through the Office of Aboriginal and Torres Strait Islander Health, DoHA.

The activities outlined are not an assessment of the performance or effectiveness of the activities, but the three examples highlight different approaches to supporting capacity development and the need to consider resourcing, coordination and timeframes of capacity development activities across departments.

Development and Support Funds under the Community Development Employment Projects Program

The CDEP program aims to help Indigenous job seekers in remote areas to find and keep jobs.¹⁰² To do this, CDEP assists Indigenous people in remote communities to gain the skills, training and capabilities needed to find sustainable employment and improves the economic and social wellbeing of communities.¹⁰³ Achieving employment outcomes in small remote communities can be challenging, often because of factors outside of service

¹⁰² Department of Families, Housing, Community Service and Indigenous Affairs, *Community Development Employment Projects (CDEP) Program, Program Guidelines 2009–12*, [Internet]. FaHCSIA, Canberra, 2009, p.3, available from <http://www.fahcsia.gov.au/sa/indigenous/progserv/families/cdep/CDEP_program_guidelines/Pages/default.aspx> [accessed 24 November 2010].

¹⁰³ Department of Families, Housing, Community Service and Indigenous Affairs, *Community Development Employment Projects (CDEP) Program*, [Internet], FaHCSIA, Canberra, 2011, available from <<http://www.fahcsia.gov.au/sa/indigenous/progserv/families/cdep/Pages/default.aspx>> [accessed 12 October 2011].

providers' control—these might include the size and nature of the local economy, employment options, and availability of local resources.

Development and Support Funds are a component of the community development stream of the Community Development Employment Projects (CDEP) program. To assist providers in their role of strengthening and supporting communities, the CDEP Development and Support funds are available to pay for things like employing community development officers, mentors, and providing a community support function that links and engages people with services they need.¹⁰⁴ Within the Development and Support funds, in order to strengthen the capacity of local organisations delivering CDEP, funding for organisational development and support is available for:

- reviewing and strengthening internal governance—this could include help from the Office of the Registrar of Indigenous Corporations;
- developing organisational plans and strategies—to assist organisations to take up new opportunities; and
- employing experts—to develop skills transfer strategies and succession planning.¹⁰⁵

Additionally, the organisational support funds can be used for: the development and review of the Community Participation Profile (CPP) and the Community Action Plan (CAP). In 2009–10 up to \$172.4 million in Development and Support funding was committed over 3 years for the full implementation of three year CAPs. Within the organisational support component of Development and Support funds, the Minister committed up to \$11.5 million over three years: the Minister approved \$6.6 million in 2009–10, and notionally approved \$2.3 million in 2010–11 and \$2.6 million in 2011–12 respectively.

The support for providers was included in the CDEP program as part of the reforms introduced to the program from 1 July 2009. During a series of consultations on Indigenous employment program reform, people raised the importance of community development and the need to have well functioning

¹⁰⁴ Department of Families, Housing, Community Service and Indigenous Affairs, *Community Development Employment Projects (CDEP) Program, Program Guidelines 2009–12*, op. cit., p. 7.

¹⁰⁵ Department of Families, Housing, Community Service and Indigenous Affairs, *Community Development Employment Projects (CDEP) Program, Program Guidelines 2009–12*, op. cit.

communities and strong local service providers in remote communities.¹⁰⁶ Further, in introducing reforms to the program, a key risk identified was the low capacity of providers in remote areas to deliver the more specialised program and tight implementation timeframes. It was also anticipated that the proposed reforms had the potential to impact adversely on the funding streams of service provider organisations and create a risk that a number would become unviable.

To address potential risks as well as issues raised in consultations, as part of the program reforms from 1 July 2009 the Australian Government agreed to a Community Development stream. This was to include a community support function and a focus at a community level, plus the inclusion of the development of the capacity of existing CDEP providers in remote areas to deliver the reformed CDEP program and other services to the community, in recognition of the importance and benefits of having strong local service providers in remote communities. It was also intended that risks would be addressed through extra capacity support for existing providers from early 2009, including by FaHCSIA program staff working closely with providers to support a smooth transition.

Funding under the Development and Support funds is usually provided to engage specialist skills within the provider organisation, for example mentors, coaching, community liaison officers, community development officers, specialist trainers or human resource specialists. Training opportunities are also encouraged, and non-fixed assets were also eligible to be funded in the first year of the agreement. In existing Community Action Plans, other initiatives included specific training opportunities, health advocacy initiatives, funding for dedicated trainers, improved infrastructure and business feasibility studies, business plans and strategic plans.

Since the implementation of the reformed CDEP in 2009, FaHCSIA has initiated two new projects to help identify and assist in resolving problems with providers. During monitoring visits, FaHCSIA staff became aware that some providers were struggling with aspects of the reformed funding arrangements and there was an absence of quality framework for CDEP

¹⁰⁶ Australian Government, *Increasing Indigenous Employment Opportunities: Proposed reforms to the CDEP and Indigenous Employment Programs* [Discussion Paper], Australian Government, Canberra, October 2008, Canberra, p. 17.

providers. Subsequently, two further projects are being trialled under the new CDEP model:

- the Provider Viability Project—aims to assist providers who are struggling with changes to the payment structure; from a funding model with a ‘safety net’ to an outcomes payment model, with the potential to generate income. FaHCSIA staff assist the providers to look at how the organisation is managing the changes to the program structure, assisting providers to define, identify and manage their risk, and assist them to manage outcome payments and discretionary funds. FaHCSIA was developing diagnostic tools to identify organisations at risk.
- the Continuous Improvement Framework—uses a ‘balanced scorecard’ approach to examine past performance, potential reasons for non-compliance, and identify considerations that will impact on future performance. Through the framework, FaHCSIA aims to engage in an open dialogue with providers about the factors that affect their delivery of services and assist providers to access further support if necessary.

Economic Development and Business Support Panel activities under the Indigenous Employment Program

The Indigenous Employment Program (IEP) is administered by DEEWR and is one of the Australian Government’s key Indigenous employment initiatives. The objective of the IEP is to increase Indigenous employment outcomes and participation in economic activities.¹⁰⁷ The Economic Development and Business Support Panel under the IEP aims to make specialised and tailored business support easily accessible to Indigenous organisations, communities, and individuals. In this way, the IEP is an initiative that facilitates access to assistance for capacity development which is available on a broad, sector-wide basis (rather than tailored to service providers of a specific program). The intention is that the provision of business support will increase the number of Indigenous-owned businesses and facilitate the expansion of current Indigenous businesses, which will also have a direct impact on Indigenous

¹⁰⁷ Department of Education, Employment and Workplace Relations, *Indigenous Employment Program 2009–12 Program Guidelines*, [Internet] DEEWR, Canberra, 2009 (version released March 2011), p. 4, available from <<http://www.deewr.gov.au/Indigenous/Employment/Programs/IEP/Pages/InformationForProviders.aspx>> [accessed 13 September 2011].

employment levels. The Australian Government committed \$764 million over five years¹⁰⁸ to the IEP.¹⁰⁹ At March 2011, a total of \$8.9 million had been expended through the Economic Development and Business Support panel.

Small and medium businesses play a key role in supporting outcomes because economic participation and employment have flow on effects for other aspects of wellbeing.¹¹⁰ However, these Indigenous small businesses and enterprises can face unique challenges such as business relationship constraints, lack of business networks, accessing finance, and developing financial and business skills.¹¹¹ Further, in remote areas there may be limited opportunities and infrastructure, and generally poorer education levels can have a result on one's understanding of business processes and the knowledge required to successfully manage a business enterprise.¹¹² There have been a number of government and independent reviews that have highlighted the need for an increased focus on business-ready skills and a holistic, coordinated approach to supporting Indigenous Australians develop business aspirations.¹¹³

Prior to July 2009, the IEP consisted of ten separate elements—including the business support element under the Indigenous Small Business Fund. The services available under the different elements of the IEP were delivered through a variety of mechanisms creating a system that was complex when accessing more than one element of support. This also resulted in an arrangement where organisations wanting to access different elements of the IEP had to enter into more than one contract with DEEWR. It also meant that

¹⁰⁸ Changes to funding for the Indigenous Employment Program were announced as part of the 2011–12 Budget, released in May 2011. In total, the Australian Government has now committed \$852 million over five years to the IEP from the 2010–11 financial year.

¹⁰⁹ B O'Connor (Minister for Employment Participation), *Next Steps for Indigenous Employment Reforms*, media release, Parliament House, 16 March 2009.

¹¹⁰ Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2011*, Productivity Commission, Canberra, 2011, p. 8.24.

¹¹¹ Australian Taxation Office, *Indigenous Small Business Owners in Australia*, [Internet], ATO, Canberra, 2009, pp. 9-11, available from <<http://www.ato.gov.au/content/00220454.htm>> [accessed 23 May 2011].

¹¹² Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2009*, Productivity Commission, Canberra, 2009, p. 8.33-8.34.

¹¹³ See for example Aboriginal and Torres Strait Islander Commission (*Removing the Welfare Shackles: A Discussion Paper on a Reform Initiative for Indigenous Economic Development*, 1998) and the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (*Indigenous Australians at work: Successful initiatives in Indigenous employment*, 2007, and House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Open for business: Inquiry into the development of Indigenous enterprises*, 2008).

discussions with Indigenous communities, individuals and employers were based around explaining the eligibility requirements of each program element rather than the needs of the particular circumstances.

In July 2009, a series of reforms were implemented across Indigenous employment programs and the IEP.¹¹⁴ The reforms to IEP consolidated the existing 10 sub-programs into four sub-programs.¹¹⁵ The aim was to increase accessibility to the program and streamline the support services available. Further, as the potential recipients of support are diverse (such as employers of Indigenous Australians, Indigenous businesses, communities, groups or organisations), the reforms were designed to be flexible and able to be tailored to the relevant circumstances. In order to comply with the Commonwealth Procurement Guidelines, the department established a panel of organisations with expertise in providing business support who could then be engaged to provide support as required to Indigenous organisations, communities or individuals. However, the IEP still has the flexibility to directly fund eligible organisations and businesses.

The assistance available under IEP is designed to assist Indigenous Australians to develop sustainable businesses and economic opportunities in urban, regional and remote areas.¹¹⁶ Examples of areas for assistance that can be accessed include: starting and running a business; developing project management and business administration skills; developing financial literacy and management skills; training and business mentoring; conducting feasibility or scoping studies for business and economic development opportunities; developing and implementing business plans and risk management plans; developing culturally appropriate business tools, products, services or information; support for the development and implementation of community or regional development plans and other

¹¹⁴ J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs) and M Arbib (Minister for Employment Participation), 2009, *Greater employment opportunities for Indigenous Australians*, joint media release, [Internet], Parliament House, Canberra, 1 July 2009, available from <http://www.jennymacklin.fahcsia.gov.au/mediareleases/2009/Pages/employ_opportunities_indigenous_aust_01jul09.aspx> [accessed 19 May 2011].

¹¹⁵ Department of Education, Employment and Workplace Relations, *Changes to the Indigenous Employment Program*, [Internet], DEEWR, Canberra, available from <<http://www.deewr.gov.au/Indigenous/Employment/Programs/IEP/Pages/ChangestoIEP.aspx>> [accessed January 2011].

¹¹⁶ Department of Education, Employment and Workplace Relations, *Indigenous Employment Program 2009–12 Program Guidelines*, op. cit., pp. 12–13.

strategic initiatives; and other professional services to assist business development.¹¹⁷ The program is demand driven, responding to the needs of those eligible for assistance.

An example of support provided involves a group of Aboriginal corporations with an interest in establishing a number of commercial enterprise ventures. The group was lacking the skills to manage the projects, such as an understanding of the legislative requirements, strategic planning and general business management. Through the IEP Economic Development and Business Support panel, the group received two years business support from a local panel member who is familiar with the region. The panel member assisted with licensing requirements to ensure that the businesses met statutory obligations, and develop an operational plan to help them achieve profitability. By supporting this group of Aboriginal corporations, the IEP aims to help the business ventures to achieve sustainability.

The projects or activities supported under IEP are mostly one-off or short-term activities. The average length of an Economic Development and Business Support project is around nine months and the average cost of a panel project was \$60 275. Projects can run for one to two years but ongoing funding is unlikely to be provided through the IEP.¹¹⁸

The services are to foster and support enterprises from conception and as they expand, with the intention that the activities provided through IEP will support further opportunities. DEEWR is working with other organisations such as Indigenous Business Australia to develop links between IEP support and other potential support mechanisms so that organisations can access ongoing assistance if necessary.

Establishing Quality Health Standards through the Office of Aboriginal and Torres Strait Islander Health

A Better Future for Indigenous Australians—Establishing Quality Health Standards (EQHS) was announced as a 2007–08 budget measure with the objective of ensuring Indigenous health services meet the same standards as mainstream health services. EQHS attempts to address the low levels of accreditation by Aboriginal Community Controlled Health Organisations (ACCHOs) by

¹¹⁷ *ibid.*, pp. 9–10.

¹¹⁸ *ibid.*, p. 14.

providing funding and support to ACCHOs on a non-mandatory basis to assist in attaining accreditation based on mainstream health standards. In addition to support provided to ACCHOs for the attainment of accreditation, EQHS also provides funding and assistance to individuals to undertake non-clinical training and development through the training and development scheme.

While the Australian Government considers that Indigenous health organisations provide high quality care to Aboriginal and Torres Strait Islander people, the majority of ACCHOs had not been formally accredited against relevant mainstream health care standards for clinical and/or organisational accreditation. While accreditation itself does not guarantee safety and quality, it is an effective part of the improvement of systems through external assessment against standards it can 'verify that actions are being taken, that system data and information are being used to inform the analysis of issues and program solutions, and that safety and quality improvement is being achieved'.¹¹⁹

A 2008 review found that there was strong enthusiasm in the sector for accreditation and its benefits, but there were also significant barriers that prevented organisations from undertaking and achieving accreditation.¹²⁰ The following problems were identified by organisations undertaking accreditation:

- the burden of additional administrative requirements attendant upon accreditation;
- the cost of achieving and maintaining accreditation;
- the technical nature of the language used in accreditation;

¹¹⁹ Australian Commission on Safety and Quality in Health Care, *National Safety and Quality Health Service Standards and their use in a Model National Accreditation Scheme - Decision Regulatory Impact Statement*, [Internet], ACSQHC, Sydney, October 2010, p. 2, available from [http://www.safetyandquality.gov.au/internet/safety/publishing.nsf/Content/862222652D5C4A2BCA2577ED001671A1/\\$File/42141-RegulatoryImpactStatement.pdf](http://www.safetyandquality.gov.au/internet/safety/publishing.nsf/Content/862222652D5C4A2BCA2577ED001671A1/$File/42141-RegulatoryImpactStatement.pdf) [accessed 2 May 2011].

¹²⁰ Cooperative Research Centre for Aboriginal Health, *The Aboriginal and Torres Strait Islander Accreditation Quality and Standards Project Report, Report to the Office of Aboriginal and Torres Strait Islander Health Services* [Internet], The Lowitja Institute, Melbourne, July 2008, pp. 5-6, available from http://www.lowitja.org.au/files/crcah_docs/Accreditation-Project-Final-Report.pdf [accessed 29 September 2011].

- a lack of knowledge of the sector on the part of Australian healthcare accrediting bodies, in regards to the comprehensive primary health care environment within an ACCHO and the Aboriginal cultural context;
- appropriateness of existing accreditation frameworks in regards to the number of frameworks and the focus on general practice; and
- workforce issues.

Initially it was intended that EQHS would involve the development of an accreditation framework specifically for ACCHOs. However, consultations and research indicated that there was support for, and administrative benefits to, meeting the relevant mainstream accreditation standards. The Australian Government also considered that accreditation would lead to improving the quality of clinical care and business management practices within ACCHOs, and, in turn, EQHS has the potential to reduce the financial risks related to the Australian Government's investment in Indigenous health services.

To determine the support provided under EQHS, OATSIH undertook a consultative and research-based approach. OATSIH tasked an advisory committee, made up of relevant sector stakeholders, to identify the most beneficial support mechanisms. The support provided through EQHS was subsequently based on the recommendations of this group as well as other reports commissioned by OATSIH. The support mechanisms provided under EQHS include: include Quality Improvement and Accreditation Facilitators, Accreditation Support Grants for infrastructure and equipment, local support through peak bodies such as NACCHO, a training and development scheme, and the establishment of a National Quality Network.

ACCHOs have commented to OATSIH that 'attaining accreditation has enhanced their ability to attract and retain General Practitioners'. This has led to benefits for the end users of health care services in the form of better quality care. There is also recognition within the sector that ACCHOs are of equal standing with other health services accredited under the same frameworks. According to OATSIH the Training and Development scheme has also generally increased the capacity of the non-clinical health workforce within ACCHOs. The accreditation process has affirmed current good practices and identified areas for improvement for ACCHOs.

The complexity of the accreditation process however has meant that, for many organisations, insufficient time has been available for the work towards accreditation to be completed. This highlights that developing capacity within

organisations takes time and a long-term approach is needed to support ACCHOs in providing quality health care.

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