

Audit Report No. 2, 2002 - 2003

Grants Management ATSI

Introduction

Background

- 2.1 The Aboriginal and Torres Strait Islander Commission's (ATSI's) vision is to help Aboriginal and Torres Strait Islander peoples and communities exercise their legal, economic, social, cultural and political rights. The ATSI grants program provides financial assistance to individuals, communities and other levels of government as one means of achieving this vision.
- 2.2 ATSI is made up of an elected arm and an administrative arm. Elections are held every three years to fill positions on the 35 regional councils located throughout Australia. Each regional council makes its own funding decisions, based on a specific regional development plan that highlights the funding priorities for that region. The majority of ATSI grants are administered at a regional level.

- 2.3 In 2001–02, ATSIC provided grants of approximately \$869 million to indigenous organisations and State and Territory governments. This involved 3108 separate grants to over 1000 separate organisations to provide services to indigenous communities. Approximately 78 per cent of ATSIC grant funding is used to achieve objectives under two key ATSIC programs:
- Community Development Employment Projects (CDEP); and
 - the Community Housing and Infrastructure Program (CHIP).¹
- 2.4 On 1 July 2003, there was a significant change to the management of ATSIC’s grants with the establishment of the Aboriginal and Torres Strait Islander Services agency (ATSIS). The role of ATSIS is to ‘provide a range of policy, program and administrative services to ATSIC to assist it to achieve its national objectives.’ In short, ATSIS now administers ATSIC’s grants program.
- 2.5 The purpose of the change was to:
- ... provide better opportunities for ATSIC to focus on national policy development and advocacy; and for ATSIC Regional Councils to focus on regional-level planning and the coordination of services with the three levels of government, while seeking to improve the overall accountability for relevant program resources.²

The audit

- 2.6 The audit was conducted before the administrative changes introduced on 1 July 2003. It examined ATSIC’s grant management practices, as measured against recognised best practice standards set out in the ANAO Better Practice Guide published in May 2003.³
- 2.7 The audit concentrated on CDEP grants and regional council discretionary funding, representing approximately 84 per cent of all regional council grant funding. The audit did not cover in detail the administration of CHIP grants nor did it examine the appropriateness of funding decisions made by regional councils.⁴

¹ Auditor-General, *Audit Report No. 2, 2002–2003 Grants Management ATSIC*, Canberra, July 2002, p. 11.

² *Portfolio Budget Statements 2002–04, Immigration and Multicultural and Indigenous Affairs Portfolio, Budget Related Paper No. 1.12*, p. 173.

³ Auditor-General, *Administration of Grants*, Canberra, May 2002.

⁴ Auditor-General, *Audit Report No. 2, 2002–2003*, p. 12.

Audit findings

2.8 *Audit Report No. 2, 2002 – 2003, Grants Management ATSIC found that:*

- ATSIC had developed effective policies and procedures for administering grants that meet better practice standards;
- the financial management of grants , especially funds release and acquittals, was sound, however, the implementation of these policies and procedures lacked consistency among the regional offices;
- ATSIC, rather than providing supplementary funding, had assumed the role of a primary funder of programs and service to indigenous communities where mainstream programs were unable to cope with the needs of these communities;
- ATSIC grants were often historically based, thereby locking regional councils into a cyclical funding pattern;
- in assessing grant submissions, ATSIC had developed a risk management policy that was consistent with ANAO better practices and industry standards, however the discretion that regions were allowed had led to inconsistencies in how this policy was implemented;
- the decision-making by regional councils concerning grant approvals required further documented justification of reasons for full or partial funding of a submission, in order to make the process more transparent and to enable regional council decisions to stand up to greater scrutiny; and
- there was scope for improvement in ATSIC's management of approved grants, in particular with regard to the administrative requirements placed on small and struggling grantee organisations—many processes required improvement, for example clearer documentation and monitoring of grants through field visits.

The Committee's review

2.9 On 28 March 2003, the Committee held a public hearing to review the progress made by ATSIC in relation to the implementation of the ANAO's recommendations.

2.10 The Committee took evidence on the following issues:

- identifying funding priorities;
- managing approved grants;
- other options for managing grant funding; and

- alternative funding sources for indigenous communities.

Identifying funding priorities

- 2.11 One of ATSIC's roles is to fund programs for indigenous Australians that supplement funding from other government agencies. Identifying where gaps exist between the needs of indigenous Australians and the services provided by other government agencies highlights where supplementary funding is required.
- 2.12 The issue of apparent recurrent funding arose during the discussion about identifying the needs of communities. The audit report noted that ATSIC had not developed systematic methods to collect and document information to identify the needs of indigenous communities. One of the key findings of the audit was that the lack of information had caused many of the grants administered by ATSIC to become historically based and, as such, had committed the program to cyclical funding.⁵
- 2.13 This risked the perception that the funding was recurrent. The ANAO observed that:
- ... regions have a number of grantee organisations expecting the continuation of funding (and a portion of the council that believes they are entitled to it) that may not fit within the regional council priorities. As a result, potential grantee organisations that fit within a council's priorities cannot access these funds.⁶
- 2.14 The audit report identified the potential problems that may arise from cyclical funding:
- By continuing to fund incumbent grantees, ATSIC may create a perception that the submission process is a formality and that funding can be expected for the coming financial year. It also creates a significant barrier to any other indigenous organisations wishing to obtain a grant to address need within the region, as grant funds are limited ... Further, the cyclical and ongoing nature of the majority of ATSIC grant funding indicates that ATSIC is acting as a primary funder rather than a supplementary funder.⁷
- 2.15 As a consequence, the Auditor-General had recommended that:

⁵ Auditor-General, *Audit Report No. 2, 2002–2003*, pp. 31–2.

⁶ Auditor-General, *Audit Report No. 2, 2002–2003*, p. 31.

⁷ Auditor-General, *Audit Report No. 2, 2002–2003*, pp. 32–3.

ATSIC develop a systematic method of collating information to identify funding needs within indigenous communities.⁸

- 2.16 ATsIC agreed that the funding needed to be better targeted and noted that the board of ATsIC had recently called for a review of the formula that underpinned their grants funding. ATsIC told the Committee that this review would address one of the major concerns of the ANAO report:

Clearly, that priority is going to be in front of us to ensure better alignment between levels of grants, nature of grants and needs in different areas. So, in that sense we are picking up the thrust of the report: there is too much history driving what is happening, rather than a fresh assessment of relative need and relative levels of funding.⁹

- 2.17 ATsIC added that it had, in response to the audit, established a unit to improve the collection and management of data on the needs of indigenous communities. This unit was planning some major survey work and was working cooperatively with the Bureau of Statistics and the Productivity Commission. The unit would also be working with the program of the Council of Australian Governments (COAG). ATsIC anticipated that COAG's first report on Indigenous disadvantage would be an important tool to assist in its work.¹⁰

Committee comment

- 2.18 The Committee shares the ANAO's concern regarding supplementary funding versus recurrent funding and considers that ATsIC needs to clarify the priority needs of communities to ensure that funding is best directed to areas of most need. The Committee endorses the Auditor-General's recommendation that ATsIC develop a systematic method of collating information to identify funding needs within Indigenous communities and notes that ATsIC has responded to this recommendation with the establishment of a unit that will address some of these matters.

Managing approved grants

- 2.19 The audit report concluded that while practice and procedures relating to the financial management of grants were appropriate and sound, there

⁸ Auditor-General, *Audit Report No. 2, 2002–2003*, p. 18.

⁹ Mr Bernard Yates, *Transcript*, 28 March 2003, p. 4.

¹⁰ Mr Bernard Yates, *Transcript*, 28 March 2003, p. 7.

was scope for improvement in ATSIC's ongoing administrative management of approved grants.

2.20 The report observed that ATSIC now needed to focus on the management of non-financial aspects of the process, such as adequate documentation and undertaking the required number of field visits to monitor grants, while still ensuring that gains made in financial management were not lost.¹¹

2.21 During questioning, ATSIC agreed that there were problems in the management of grants and in achieving the outcomes set out by the grant proposals. ATSIC commented that:

How to manage those funds and get the outcomes you are trying to achieve from those funds is the difficulty. A lot of these organisations have been operating for two or three years. They have not been operating in this environment with a background of [many] years. It is something we are cognisant of and are doing something about.¹²

2.22 ATSIC detailed some of the issues affecting grants management, highlighting:

- issues of isolation which impacted upon education and skill levels in remote communities;
- limited capacity to attract skilled staff;
- lack of experience by organisations awarded grants; and
- the large number of communities that are able to seek funding from ATSIC.¹³

2.23 The Committee questioned ATSIC about the resources used to support organisations managing grants. ATSIC confirmed there were options available for assisting organisations that were struggling with the administration of grants, such as the installation of grant controllers. However, ATSIC agreed that more needed to be done, and commented on the difficulty of providing assistance while respecting the autonomy of each organisation:

We take action when organisations have more difficulty than we can allow, but we have to be cognisant of the control element as

¹¹ Auditor-General, *Audit Report No. 2, 2002–2003*, pp. 60–1.

¹² Mr Stephen Mason, *Transcript*, 28 March 2003, p. 8.

¹³ Mr Stephen Mason, *Transcript*, 28 March 2003, p. 8.

against the development element and the understanding of self-management. We cannot be controlling all organisations.¹⁴

2.24 The audit report highlighted the inconsistencies in various regions regarding the use of field visits as a monitoring tool. ATSIK's submission noted that it had asked Regional Managers 'to give field visits a high priority' as part of the monitoring that was integral to managing grants.¹⁵

2.25 ATSIK told the Committee that it agreed with the ANAO view that more needed to be done to support organisations that had received funding. Its comments reflected the understanding that grants management had been a problematic area for ATSIK and that, without further review, the problems would continue:

We need to develop, contract in or buy expertise in the area of community development ... and capacity building. A lot of our communities, of course, have suffered a mismatch between traditional governance and modern governance...So there are a number of issues we have to deal with ... Is there more to be done? Absolutely.¹⁶

Other options for managing grant funding

2.26 ATSIK took the opportunity at the hearing to outline some of the new initiatives for managing grant funding that it had trialled. An example was the use of contract program managers for some of the large housing infrastructure projects. ATSIK explained:

A lot of those [projects] are done through the use of contract program managers, where the community does not get the money but, rather it goes to a large international engineering firm. They negotiate with the community on the outcomes and the employment, and all the other spin-offs from the capital construction. They manage the contracting and the actual capital construction on behalf of the community. That is an instance where the community is still the nominal grantee. It owns the project but all the management and financial accountability goes through a contracted program manager.¹⁷

2.27 In other examples, ATSIK described how the allocation of grant monies was being managed in conjunction with State and Federal agencies:

¹⁴ Mr Stephen Mason, *Transcript*, 28 March 2003, p. 9.

¹⁵ ATSIK, *Submission No 1*, p. 6.

¹⁶ Mr Stephen Mason, *Transcript*, 28 March 2003, p. 10.

¹⁷ Mr Terrence Mowle, *Transcript*, 28 March 2003, p. 10.

In New South Wales we provide a grant of \$12.5 million to the Aboriginal Housing Office. Family and Community Services put in their Commonwealth-State Housing Agreement for that agency. That agency delivers one program of \$70 – odd million, provides one operational plan to ATSIC and FaCS and accounts for everything in through that one report.¹⁸

- 2.28 ATSIC advised that it was examining its submission process and methods of more effectively delivering grant funds. Over the next 12 months it would review aspects of contracted services, different service providers and purchaser-provider models. ATSIC noted that this would be ‘an extensive examination.’¹⁹

Committee comment

- 2.29 The Committee recognises the range of difficulties facing ATSIC in regard to the management of approved grants. These include the sheer number of organisations that receive funding from ATSIC. As well, there are issues of isolation and difficulty in attracting and retaining skilled staff to manage funded projects. The Committee is pleased that, at the time of the hearing, ATSIC was exploring various options such as contracted service delivery and entering into funding partnerships with State and Federal agencies. The Committee endorses the view of the ANAO that while ATSIC had made much progress in developing appropriate procedures and polices, the next challenge lies in ensuring the consistent application of these polices across all of ATSIC’s regional councils.

Alternative funding sources

- 2.30 ATSIC’s *Grants Procedures* manual requires project officers to identify alternative sources of funding for applicants. The ANAO found that in practice this relied heavily on the regional staff’s knowledge of what was available from all levels of government in their region. The ANAO noted, however, that the extent of this knowledge varied significantly from region to region. Some regions had developed information resources on the different funders available in that region for the information of staff and applicants.²⁰

¹⁸ Mr Terrence Mowle, *Transcript*, 28 March 2003, p. 5.

¹⁹ Mr Stephen Mason, *Transcript*, 28 March 2003, p. 5.

²⁰ Auditor-General, *Audit Report No. 2, 2002–2003*, p. 30.

2.31 The audit report also referred to the importance of advocacy on the part of ATsIC to develop awareness in the communities of alternative sources of funding to relieve the pressure on the availability of ATsIC grant monies.²¹

2.32 ATsIC agreed that knowledge about alternative sources of funding for Indigenous organisations was an important issue. However, ATsIC noted that unfortunately it was often the first point of call for organisations seeking funding when in fact many other options for funding were more appropriate. ATsIC commented:

Our presence and our funding are often the only resources that people feel that they have to work with.²²

2.33 The Committee enquired about what steps had been taken by ATsIC to enhance the information used to make decisions about funding priorities and alternative sources of funding.²³

2.34 ATsIC responded that the 35 regional councils were required to develop regional plans which included references to resource options for that community. ATsIC conceded, however, that it did not 'play a particularly active broker role in that regard.'²⁴

2.35 ATsIC also conceded that the highly complex environment of government services at various levels resulted in many organisations being unaware of the services and funding available to them.²⁵

2.36 While ATsIC stated that although there was a need and a demonstrated capacity for ATsIC to direct communities to other funding sources or to broker alternative funding arrangements with other government agencies, a considerable depth of knowledge and resources was required:

The difficulty is that we have a number of programs. Each department has a number of programs with a number of guidelines, a number of stipulations. For ATsIC as a whole to know the intricacies of all of those, I think that would require quite a large increase in resources ...²⁶

²¹ Auditor-General, *Audit Report No. 2, 2002–2003*, p. 34.

²² Mr Bernard Yates, *Transcript*, 28 March 2003, p. 6.

²³ *Transcript*, 28 March 2003, p. 11.

²⁴ Mr Bernard Yates, *Transcript*, 28 March 2003, p. 11.

²⁵ Mr Bernard Yates, *Transcript*, 28 March 2003, p. 11.

²⁶ Mr Stephen Mason, *Transcript*, 28 March 2003, p. 12.

Committee comment

- 2.37 The Committee agrees that it is a very large and complex task for any one agency to be fully aware of and provide advice on alternative sources of funding, within all three levels of government. However, it is the view of the Committee that if ATSIC Regional Councils could better access and distribute this information, it would lighten ATSIC's funding load considerably by directing organisations and communities to alternate source of funding.
- 2.38 An effective way to provide up-to-date information could be via ATSI's website. Using such a vehicle would also allow information to be easily updated with the identification of new emerging sources of funds.

Recommendation 1

- 2.39 **The Aboriginal and Torres Strait Islander Services agency should investigate cost-effective methods of compiling and publishing information about alternative sources of funding from the three levels of government. This information should be provided to Aboriginal and Torres Strait Islander Commission Regional Councils on a regular basis.**