The Administration of Telecommunications Grants

Department of Communications, Information Technology and the Arts

Department of Transport and Regional Services

Australian National Audit Office

Canberra   ACT
5 November 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Communications, Information Technology and the Arts and the Department of Transport and Regional Services in accordance 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 *The Administration of Telecommunications Grants.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations

ACC	Area Consultative Committee
AGS	Australian Government Solicitor
ANAO	Australian National Audit Office
BARN	Building Additional Rural Networks
DCITA	Department of Communications, Information Technology and the Arts
DOTARS	Department of Transport and Regional Services
EPOS	Electronic Point of Sale
FON	Field Officer Network
FTE	Full-Time Equivalents
GST	Goods and Services Tax
IAF	Internet Assistance Fund
NTN	Networking the Nation
PBS	Portfolio Budget Statements
RTC	Rural Transaction Centre
RTIA	Regional Telecommunications Infrastructure Account
RTIF	Regional Telecommunications Infrastructure Fund
TSB	Telstra Social Bonus
USO	Universal Service Obligation

Executive Summary and Recommendations

Executive Summary

Background

1.   Since 1997, the Government has introduced a number of different programs and initiatives in excess of $1 billion that are designed to enhance telecommunications infrastructure and services in regional, rural and remote areas of Australia. This has included $494 million provided through telecommunications grants programs.

2.   Two Commonwealth departments are responsible for the administration of these grant programs. The Department of Communications, Information Technology and the Arts (DCITA) administers six programs under the banner of Networking the Nation (NTN) This includes the General Fund and the Social Bonus 2 programs. The Department of Transport and Regional Services (DOTARS) is responsible for the Rural Transaction Centres (RTC) program.

3.   At 30 June 2003, 797 projects have been approved under the NTN programs at a cost of $351.1 million of which 373 have been completed; 164 Rural Transactions Centres have been approved under the RTC program of which 80 are operational. In addition 119 Electronic Point of Sale (EPOS) centres have been established. Expenditure and commitments on the RTC program totalled $56.5 million at 30 June 2003.

4.   The primary objective of the audit was to assess whether DCITA and DOTARS are administering the grant programs according to better practice. The audit was also aimed at determining whether DCITA had implemented the recommendations of an earlier audit of the NTN General Fund, Audit Report No.43, 1998–99, *Networking the Nation—The Regional Telecommunications Infrastructure Fund* (the 1999 audit).

5.   In 2002, the Senate Environment, Communications, Information Technology and the Arts Reference Committee requested an audit of the telecommunications grant programs administered by DCITA. This encompassed the extent to which DCITA is able to assess the success or otherwise of NTN.

6.   The audit also covered the administration of the RTC program by DOTARS.

Key audit findings

Planning for Effective and Efficient Grant Programs (Chapter 2)

7. The ANAO found that neither DCITA nor DOTARS translated the Government's program objectives into operational objectives that would have helped to establish an appropriate performance management framework to monitor the efficiency and effectiveness of program delivery. In the case of the NTN General Fund this was, in part, associated with a shortcoming of the needs assessment, which did not involve a qualitative and quantitative assessment of the nature and extent of the needs of the target client groups. In the case of the Social Bonus initiatives no quantitative needs assessment was undertaken. However, DCITA did implement the recommendation from the 1999 audit that the Department brief the Minister on options for consulting with other Ministers on the changes made to the program objectives.

8. The RTC program was slow in getting off the ground, in part, because of a lack of a needs assessment during the planning phase to identify and target likely communities. However, some 22 months after the launch of the RTC program, DOTARS took steps to better assess priority communities and generate greater demand for the program.

9. Neither department conducted a formal risk analysis during the planning phase of their programs although there was evidence that risk management activities had been subsequently conducted in DCITA to identify and manage key risks. DOTARS has also taken steps to identify risks to the RTC program as a whole, but not at the individual project level.

10. The RTC program had a high level of budgeted administrative costs. As a percentage of total program funds administrative costs were an estimated 26.9 per cent, compared with an estimated 4.2 per cent for the suite of NTN programs. The high administrative costs for the RTC program are mainly attributable to the appointment of a separate field officer network to promote and administer aspects of the program. Although staff numbers have fluctuated over the life of the program, at the time of the audit fieldwork there were some 39 staff administering the RTC program (including field staff) compared to 29 for NTN. DOTARS has advised that staff numbers have subsequently been substantially reduced.

11. The ANAO found that, as recommended in the 1999 audit, DCITA had reviewed opportunities to streamline the application and approval processes for NTN and restructured the NTN secretariat to reduce internal workload inequities.

12. Both programs highlight the need to comprehensively plan evaluations early in the process. Although DCITA planned for a major evaluation at the outset the program, its evaluation plan did not establish baseline information needs and measurable program targets as part of a coherent performance information framework for monitoring program outcomes. There was no evidence that DOTARS had developed an evaluation strategy for the RTC program from the start of the program. However, despite a lack of an initial strategy some RTC evaluation activity has taken place and more is planned.

13. As a result of shortcomings in the planning process, neither program had a mechanism for feeding information gained from the evaluation of individual projects into an evaluation of the efficiency and effectiveness of the programs as a whole.

Program Promotion and Project Selection (Chapter 3)

14. Both Departments have actively promoted their programs. DOTARS' initial efforts, however, were not successful and some time after the launch of the program less than 50 applications had been received. DOTARS response was to establish a field officer network to promote the program, which resulted in a larger number of applications.

15. The ANAO did not examine selection processes for the NTN program as they had been examined previously in the 1999 audit and had not changed. The criteria used in the selection process for the RTC program were appropriately designed for the selection task. However, there have been a number of shortcomings in the guidelines and training for staff particularly as far as financial issues are concerned. The guidelines for staff are now satisfactory and remedial measures have been taken to improve financial skills. However, the re-examination and approval of applications previously rejected, raises questions about the way the selection criteria have been applied and the effectiveness of quality assurance systems in place at the time of the original assessment.

16. Both Departments had transparent decision-making processes. There was clear documentation of reasons for decisions and there was no evidence of inequities in the decision making process. The Departments have also put in place measures to reduce the risk of double dipping by applicants.

17. The 1999 audit of the NTN General Fund identified cost shifting as an area of high risk for DCITA to manage. This risk has been further exacerbated by the introduction of the Social Bonus 2 initiatives. This audit found that the relevant recommendation from the 1999 audit to examine more stringently the risk of cost shifting has been implemented.

Management of Funding Agreements (Chapter 4)

18.   Both Departments have standard templates to assist staff in preparing funding agreements. The design of DCITA's agreement involved a better structure and a greater level of detail than DOTARS'. It was consistent with better practice to the extent that it required a description of the objectives and outputs expected from a project, linked performance indicators to the measurement of activities required to achieve individual project objectives, linked payments to project performance, and retained funds until satisfactory project completion. The ANAO found that DCITA's template had been consistently applied across NTN, providing the Department with a useful project management tool.

19.   Both Departments provided grant recipients with details of what was expected in their project progress reports. DCITA monitors project progress through NTN Online which, although having some highly desirable features, also has some shortcomings. These shortcomings have resulted in the development of shadow computer systems. The Department advised that these shortcomings were being addressed as part of a proposed move to a department –wide Grant Management System (GMS) based on NTN Online.

20.   There is scope for improvement with respect to DOTARS' monitoring arrangements. The most significant shortcomings were the timing of progress reports and the absence of a link between progress reports and project payments. Progress reports are not required until after an RTC has been opened. This is of little help as a mechanism for oversighting progress and managing projects during their establishment phase. The payment of all grant funding without evidence of the completion of milestones, also provides no incentive for the grant recipient to complete projects on time or to account to the Commonwealth for financial and outcomes performance.

21.   Both Departments had significant numbers of outstanding project reports and acquittals. In response to this situation, DCITA has increased its efforts to reduce the number of outstanding progress reports and acquittals including through the establishment of a dedicated Compliance Team. DOTARS has written to recipients requesting progress reports and acquittals for 2001–02 but has also experienced difficulty in maintaining up-to-date records of outstanding reports and acquittals.

Program Monitoring and Evaluation (Chapter 5)

22.   Both Departments have databases to monitor financial expenditure and collect performance information on projects. NTN Online provides monthly reports on both financial and performance aspects of the NTN programs. Although the financial reports are of a high standard, the performance reports

are more limited. While there are no links between DCITA's financial management system and NTN Online, the two systems are reconciled. The development of the GMS, noted earlier, is designed to address some of these issues but it will not remedy the shortage of some basic performance information.

23. DOTARS uses a number of small, independent databases to monitor the RTC program. However, these have some serious limitations for both financial and performance monitoring. Like NTN Online, they are also not linked to the departmental payments system but, unlike DCITA, DOTARS does not reconcile the two systems. Some improvements have been made since an internal review in August 2001 and more are expected. However, the current limitations restrict the Department's ability to monitor progress against program outcomes as well as program expenditure. A GMS is also being developed by DOTARS that may address some of these issues.

24. Both DCITA and DOTARS have evaluated some aspects of their respective programs, and have other evaluation work in progress. DCITA abandoned its first attempt to evaluate the NTN General Fund after three years of trying as a result of methodological and data collection problems. A second evaluation exercise, which commenced in 2002, has also experienced difficulties with data collection.

25. DCITA is aiming to report on the extent of the increase in telecommunications infrastructure development in regional areas. However, as no baseline data was collected at the start of the program and no targets were set, it will be difficult to demonstrate the success, or otherwise, of the program.

26. DOTARS' review of the RTC program in 2002 found the program appeared to be meeting its objective to improve access for small rural communities to basic government, financial and other services. It also identified the financial viability of some of the Centres as a key constraint that could affect the longer-term success of the program. DOTARS, however, has taken a number of steps to try to overcome this issue.

27. At present, DOTARS is not in a position to determine the efficiency and effectiveness of the RTC program. However, the Department has advised that it is now undertaking a data collection exercise that is designed to enable further efficiencies in assessment processes to be implemented and to estimate the net present value of costs and benefits of the program.

28. Some of the shortcomings with both the evaluation of NTN and the RTC program can be traced to insufficient planning at the start of the programs. Neither Department established the range of performance information and targets needed for evaluation purposes, nor the associated data collection processes that needed to be put in place. In future, it is important that both

Departments ensure that evaluations are properly planned at the outset of programs to be able to contribute to efficient, effective and accountable outcomes.

Meeting External Accountability Requirements (Chapter 6)

29.   The ANAO found that there were shortcomings in the public reporting of both NTN and the RTC program. Current reporting through the Departments' Annual Reports does not provide sufficient information for stakeholders to make an informed assessment of program performance over time. This is because reporting on performance is primarily focused on Departmental activities, rather than their level of achievement against outcomes sought from the programs.

30.   DCITA has not reported against the performance indicators articulated in its Portfolio Budget Statements. DOTARS does not report on key measures consistently over time. The ANAO considers that more reporting on trends, risks and challenges for the future would also allow stakeholders to make informed judgements about overall program performance.

Audit conclusions

31.   The ANAO found that although DCITA's and DOTARS' administration of the programs demonstrated elements of better practice there was scope to improve the administration of both NTN and, more particularly, the RTC program. DOTARS is aware of many of the shortcomings with the administration of the RTC program and is working towards resolving them.

32.   The ANAO found that although Departmental Annual Reports and the NTN Board Annual Report provide information on levels of program activity, it is difficult for stakeholders to get a sense of what outcomes have been achieved by the various programs and how they have contributed to the achievement of the government's broader policy objectives.

33.   With respect to the implementation of the recommendations from Audit Report No.43, 1998–99, *Networking the Nation—The Regional Telecommunications Infrastructure Fund*, the ANAO is satisfied that DCITA has implemented the three recommendations.

Agency responses

34.   All recommendations were agreed. Agency comments on the proposed report are provided in full at Appendix 1.

Recommendations

The ANAO's recommendations and agency responses are set out below. More detailed responses are shown in the body of the report. The ANAO considers that priority should be given to Recommendations 3 and 4.

Recommendation No. 1 Para 2.64

The ANAO recommends that, in order to reduce administrative costs, DOTARS review the functions and responsibilities of the RTC Secretariat relative to the resources allocated.

DOTARS response: Agreed.

Recommendation No. 2 Para 3.63

The ANAO recommends that, in order to achieve the efficient, effective and consistent administration of grant programs over time, DOTARS provide all staff with a comprehensive set of guidelines and training.

DOTARS response: Agreed.

Recommendation No. 3 Para 4.58

The ANAO recommends that DOTARS:

(a) specify the outcomes and outputs expected from projects, linked to milestones and performance indicators in funding agreements;

(b) require progress reports and financial expenditure reports during the establishment phase of projects; and

(c) make payments, apart from the initial project payment, subject to the approval of progress reports

DOTARS response: Agreed.

Recommendation No. 4 Para 6.16

The ANAO recommends that both DCITA and DOTARS review the content of annual reports with a view to improving the quality of reporting on program outcomes, efficiency of program delivery and discussion on trends, risks and challenges facing the various programs.

DCITA response: Agreed.

DOTARS response: Agreed.

Audit Findings
and Conclusions

1. Introduction

This Chapter provides an overview of the Government's strategies to ensure that all Australians have access to the full range of services provided through telecommunications networks. It outlines the role of competitive grants programs in achieving this objective, including Networking the Nation and the Rural Transaction Centres program. It also sets out the audit's approach, objective and methodology.

Background and context

1.1   Since 1997, the Commonwealth Government has provided in excess of $1 billion to ensure that basic telecommunications services are accessible, reliable, and affordable for all Australians. This has included funding under the Regional Telecommunications Infrastructure Account (RTIA)[1], the Social Bonus 2 programs[2], and a package of initiatives in response to the report on the Telecommunications Service Inquiry, *Connecting Australia*.[3] The Government has responded positively to the most recent report on telecommunications services from the Regional Telecommunications Inquiry, *Connecting Regional Australia*[4], which recommended additional funding to further improve services in regional, rural and remote areas. The suite of current Government telecommunications programs and initiatives is provided at Appendix 2.

1.2   The Government's programs and initiatives are directed at promoting a more open and competitive telecommunications sector. The objective is to enhance telecommunications infrastructure development and service availability across Australia, and address the inequities in regional, rural and remote areas compared with capital cities.

1.3   A combination of funding mechanisms is being used to realise these outcomes, among them joint ventures, tender processes, subsidies, and grant programs.

1.4   This latter group is the focus of this audit. In particular, the audit covers those grant programs in which communities are involved in setting their own telecommunications service priorities. These programs, which include both the

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[1]   Previously known as the Regional Telecommunications Infrastructure Fund, which was announced in December 1996, and launched as Networking the Nation on 1 July 1997. This Social Bonus program was funded from the first tranche of the partial sale of Telstra.

[2]   The Social Bonus 2 initiatives were funded from the second tranche of the partial sale of Telstra.

[3]   *Connecting Australia*, Report of the Telecommunications Service Inquiry, chaired by Mr M. A. Besley AO, September 2000.

[4]   *Connecting Regional Australia*, Regional Telecommunications Inquiry, chaired by Mr Dick Estens, October 2002. See: <www.telinquiry.gov.au/rti-report.html>. The Government's response followed the completion of the audit fieldwork.

NTN General Fund and a number of Social Bonus 2 programs, are based on a competitive grants application process. Applicants are required to compete against each other for available program funds, with the selection of applications based on merit.

1.5   Two Commonwealth departments are responsible for administering these grant programs. The Department of Communications, Information Technology and the Arts (DCITA) administers six programs under the banner of Networking the Nation (NTN). These include the initial $250 million allocation to the NTN General Fund and an additional $174 million allocated as part of the package of Social Bonus 2 initiatives announced by the Government in June 1999. Funding details for this latter group of programs are set out in Table 1. The Department refers to the original program as the NTN General Fund to distinguish it from subsequent Social Bonus programs.

1.6   The Department of Transport and Regional Services (DOTARS) is responsible for the administration of the Rural Transaction Centres (RTC) program. This program was also part of the Social Bonus 2 funding. It was launched in March 1999, and was originally due to finish on 30 June 2004. However, the former Minister has now decided to extend the program to 30 June 2005.

1.7   The original funding allocations for these grant programs, which are the focus of this audit, are set out in Table 1.

Table 1
Telecommunications Grant Programs

DEPARTMENT	PROGRAM	ORIGINAL FUNDING $ million
DCITA	Networking the Nation General Fund	250
	Telecommunications for Remote and Isolated Island Communities	20
	Internet Access for Regional and Remote Communities	36
	Building Additional Rural Networks	70
	Networking the Nation Local Government Fund	45
	Extended Mobile Phone Coverage	3
	Networking the Nation Initiatives (Total)	**424**
DOTARS	Rural Transaction Centres Program	70
TOTAL		**494**

Source: ANAO

1.8   During the course of the programs, the Government reallocated some funds to other initiatives and some funds were unspent. This reduced the level of funding available for the:

- Internet Access for Regional and Remote Communities program by $29.9 million[5], to $6.1 million;

- Building Additional Rural Networks by $35 million to $35 million; and

- RTC program by $9 million[6], to $61 million.

Program overviews

1.9 As noted earlier, NTN has an overarching aim to improve telecommunications infrastructure and services in regional, rural and remote areas. This is met to a large degree through the NTN General Fund that, as the name suggests, provides funding for a variety of projects aimed at meeting this objective. By contrast, the Social Bonus 2 programs tend to target specific needs, funding either particular groups or telecommunications solutions to achieve the broader NTN objectives.[7]

1.10 The RTC program aims to provide people in rural areas with the capacity to conduct transactions and/or to obtain access to government information and services. Examples of the types of services provided are banking, post, phone and fax facilities, internet and Medicare Easyclaim. It is designed to assist people in smaller rural towns to have the same access to these services as people in larger towns and cities. The program is directed at communities where services have either been withdrawn from the town or have never been provided in the first instance, and where there is no reasonable likelihood that they will be provided in the future without Government assistance.

1.11 Some changes have occurred with the RTC program since its establishment. In 2001, decisions were made to provide program funding directly to Centrelink so that it could provide its services in Rural Transaction Centres and to Australia Post to provide communities with Electronic Point Of Sale (EPOS), that is, electronic bill-paying facilities in Licensed Post Offices. In 2002, program funding was extended to projects aimed at improving the long-term viability of existing services, as opposed to a focus solely on withdrawn or new services.

1.12 The specific objectives of each of the grants programs are provided in Table 2.

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[5] This included a reallocation of $6 million in 2001–02 to the Internet Assistance Program as part of the Government's response to the Telecommunications Service Inquiry and $15 million to the National Communication Fund. A further $8.9 million in unspent funds was declared as savings in the 2002–03 Budget.

[6] This included a reallocation of the $9 million in 2001–02 to the Mobile Phone initiatives also as part of the Government's response to the Telecommunications Service Inquiry.

[7] The Local Government Fund and Internet Access for Regional and Remote Communities program meet the needs of particular groups/communities. The Building Additional Rural Networks and Extended Mobile Phone Coverage programs provide for specific telecommunications solutions/services.

Table 2

Program objectives

PROGRAM	OBJECTIVE
Networking the Nation General Fund	To assist the economic and social development of rural Australia by funding projects which: • enhance telecommunications infrastructure and services; • increase access to, and promote use of, services available through telecommunications networks; and • reduce disparities in access to such services and facilities.
Telecommunications for Remote and Isolated Island Communities	To improve telecommunications access for remote and isolated island communities.[8]
Internet Access for Regional and Remote Communities	To stimulate Internet service delivery in regional and rural Australia.
Building Additional Rural Networks	To promote ongoing, self-sustaining improvements in the service, quality and price of regional telecommunications services.
Networking the Nation Local Government Fund	To assist local government authorities in regional Australia to provide online access to their own information and services and public point of access to advanced telecommunications services such as the Internet.
Extended Mobile Phone Coverage	To expand mobile phone coverage in major regional centres in South Australia, Western Australia and Tasmania, with $1 million per State.
Rural Transaction Centres	To establish Rural Transaction Centres to help provide or restore services to smaller regional communities.

Source: ANAO

1.13   Funding under NTN and the RTC program is generally available to not-for-profit organisations.[9] In relation to NTN, this includes community organisations[10], State/Territory Governments, and local government associations. This is apart from the Local Government Fund where eligibility is limited to local government bodies and associations, and the Building Additional Rural Networks program where eligibility was extended to particular for-profit organisations in 2001.[11] With respect to the RTC program, eligibility is restricted

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[8]   This includes those external territories previously ineligible for funding under the NTN General Fund.

[9]   This is consistent with the underlying principle that communities identify their service needs and priorities.

[10]   The organisations must have the legal standing needed to enter into legally-binding funding agreements with the Commonwealth.

[11]   This is restricted to competing universal service providers for the purposes of the Universal Service Obligation contestability pilots. It includes for-profit organisations that have received or have sought Australian Communications Authority approval as competing USO providers, for projects delivering infrastructure and services in USO pilot areas.

to organisations in rural towns of up to 3000, although organisations in larger towns are eligible where there is a strong case for assistance.[12]

1.14   Both NTN and the RTC program can fund a diverse range of project activities and costs. These include awareness-raising activities, business planning, training, staff costs, marketing, and equipment needed to access services. The primary difference between them is the degree to which NTN will also fund telecommunications infrastructure and the RTC program will fund building renovations and/or refurbishment costs.

1.15   The programs encourage private sector involvement. This is aimed at overcoming one of the major obstacles to investment in telecommunications infrastructure and services in rural and remote areas—low demand for services. Both NTN and the RTC program encourage applicants to aggregate existing or new community demand for services, as part of developing a business case for the provision of enhanced services. In the case of the RTC program, business plans are a prerequisite for project funding.

1.16   As at 30 June 2003, the Minister for Regional Services, Territories and Local Government had approved 164 RTCs of which 80 were operational, as well as 119 EPOS RTCs. At the same date the NTN Board had approved 797 applications under NTN, of which 373 have been completed.

Administrative arrangements

1.17   Both programs have been directed by a board or an advisory panel. The first of these to be established was the NTN Board, appointed by the then Minister for Communications and the Arts in 1996 to oversee the NTN General Fund. Since 2000, its role has included responsibility for the Social Bonus 2 programs associated with NTN. The Board's responsibilities include determining funding priorities, ensuring that funding allocations accord with the Minister's approved program guidelines and budgets, and making funding decisions.

1.18   The RTC Advisory Panel was appointed by the Minister for Regional Services, Territories and Local Government in 1999. It was wound-up in mid-June 2003. Its role was to review applications, and to make recommendations on funding applications to the Minister who decides project funding. However, at various times, Departmental officers have been authorised to approve funding associated with applications for business plan development.

1.19   Both NTN and the RTC program are administered by Secretariats located within their respective Departments. The Secretariats are responsible for

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[12]   The Program's guidelines automatically disqualify applications from State/Territory Governments but not local councils.

providing advice and support to their respective board or panel as well as the usual range of activities associated with administering a grant program. More specifically: promoting the program; assessing applications; managing funding agreements; monitoring and improving program outcomes; and accounting for outcomes.

1.20   To achieve this, the NTN Secretariat had 29 full-time equivalent (FTE) staff.[13] Although numbers have fluctuated, at the time of the audit fieldwork the RTC Secretariat had 28 staff.[14] In addition, in December 2000, DOTARS engaged GRM International Pty Ltd (GRM) to establish a Field Officer Network (FON) to assist with delivery of the RTC program. Key administrative responsibilities of the FON include promoting the program, developing business plans, assisting communities to develop Business Planning and Project Assistance applications, and providing support to communities during the development and operation of their Rural Transaction Centres. The current contractual arrangements require GRM to maintain 11[15] FTE positions. The initial cost was $5.4 million, for a two-year period. The contract was subsequently extended by one year at a cost of $2.4 million, taking the total cost of the contract to $7.8 million. The contract with GRM is due to finish in December 2003.

1.21   The programs also have processes in place to receive State and Territory input. The NTN process provides for States and Territories to comment on non-Government project applications within their jurisdictions. These are provided through State Advisory Groups, comprising Government and non-Government representatives. The RTC program established a similar mechanism to receive formal feedback from States and Territory Governments on project applications in their respective jurisdictions.

Funding arrangements

1.22   Funding for NTN is channelled through the Regional Telecommunications Infrastructure Account (RTIA), established under the *Financial Management and Accountability Act 1997* (FMA Act).[16] The program provides for the expenditure of funding up to 30 June 2003. At the time of the audit, the Government agreed to roll over the General Fund to June 2004, as a precaution against projects not being completed on time.

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[13]   The original number was 23 FTE to administer the NTN General Fund.

[14]   DOTARS has advised that staff numbers have subsequently been reduced substantially.

[15]   The first two years of the FON involved 14 field staff.

[16]   Three of the NTN programs were established under the *Telstra (Further Dilution of Public Ownership) Act 1999*, including Telecommunications for Remote and Isolated Island Communities, Internet Access for Regional and Remote Communities, and Extended Mobile Phone Coverage initiatives.

1.23   Several of the NTN programs also have specified funding allocations across States and Territories. These include:

- NTN General Fund;

- Local Government Fund;

- Building Additional Rural Networks; and

- Extended Mobile Phone Coverage, where funding is only available to South Australia, Western Australia and Tasmania.

1.24   Funding for the RTC program is channelled through the Rural Transaction Centres Account, established by the *Telstra (Further Dilution of Public Ownership) Act 1999*. This now requires the expenditure of all funding by 30 June 2005.

1.25   The ANAO is currently conducting a performance audit of the agency management of Special Accounts, which will include both the RTIA and the Rural Transaction Centres Account.[17]

Previous audits

1.26   An earlier audit of the NTN General Fund was tabled in 1999.[18] The ANAO examined DCITA's management of NTN, in terms of the efficiency, effectiveness and equity of grant administration under the program. The planning and design of the program, the transparency and rigour of decision-making processes, and the economy and efficiency of administrative arrangements were included within the scope of the audit.

1.27   The major conclusions of the audit were:

- the objectives of the program were broader than those originally approved by the Government;

- there was potential for cost shifting from the States and Territories to the Commonwealth; and

- the approval processes were too highly structured and labour intensive.

1.28   The Department agreed with the three recommendations that flowed from these conclusions. The ANAO, however, was unable to judge the effectiveness of the program. This was because, at the time, DCITA was yet to undertake an evaluation of the program. However, it had engaged consultants to develop a mechanism to evaluate individual projects and the program as a whole.

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[17]   Note 29D to the 2002–03 financial statements for DOTARS discloses a restatement of the balance of the Rural Transaction Centres Account.

[18]   Audit Report No.43 (1998–99) *Networking the Nation-The Regional Telecommunications Infrastructure Fund* As DCITA's administration of the Social Bonus 2 programs did not take effect until 2000–01, the Social Bonus 2 programs were outside the scope of the 1999 audit.

Audit objectives and scope

1.29 The audit objectives were to provide an assurance that:

- DCITA and DOTARS are administering the planning, selection processes, monitoring and evaluation of grant projects for telecommunications grant programs, in accordance with better practice;

- the reporting and performance information provides sufficient transparency to meet the accountability requirements of stakeholders; and

- DCITA has implemented the recommendations of the previous audit of NTN, Audit Report No.43, 1998–99, *Networking the Nation—The Regional Telecommunications Infrastructure Fund*.

1.30 The scope of the audit covered the NTN General Fund and associated Social Bonus 2 grant programs, where the NTN Board is responsible for the approval of projects, and the RTC program. The scope did not extend to internal processes by grant recipients.

Audit approach

1.31 The ANAO Better Practice Guide on the *Administration of Grants* was used as the basis for reviewing administrative effectiveness against the better practice principles of grant administration. The main steps involved in the grant administration cycle are provided in the diagram at Appendix 3.

1.32 As DCITA generally uses the same processes and mechanisms for administering both the NTN General Fund and the Social Bonus 2 programs, the audit findings refer to the NTN programs collectively. The exceptions are referred to separately where they occur. In addition, greater attention has been paid to the administrative issues raised in the 1999 audit of NTN.

Audit conduct

1.33 The main methods of inquiry involved:

- a review of the key files and records relevant to the administration of the programs. These included the 2001–02 Portfolio Budget Statements and Annual Reports, which were the Departments' most recent full-cycle external reporting documents available during the audit; and

- interviews with officers of both Commonwealth Departments.

1.34 Fieldwork was conducted in the Departments' national offices in Canberra.

1.35 The audit was conducted in accordance with ANAO auditing standards and cost $395 000.

Structure of the report

1.36   The report is based around the four key steps in the administration of grant programs—planning for an effective and efficient grant program, program promotion and project selection processes, management of funding agreements, and program monitoring and evaluation of the grants programs. A separate chapter discusses external accountability.

1.37   DCITA's response in implementing the recommendations of the 1999 audit of the NTN General Fund, Audit Report No.43 1998–99 *Networking the Nation—The Regional Telecommunications Infrastructure Fund*, is discussed in relevant chapters.

2. Planning for Effective and Efficient Grant Programs

This Chapter examines the planning conducted by DCITA and DOTARS to ensure that the grant programs achieve their respective objectives in the most economic, efficient and effective manner. For NTN, the emphasis is on the extent to which DCITA implemented relevant recommendations from the 1999 audit of the NTN General Fund.

Introduction

2.1   Good planning is the cornerstone of an economic, efficient and effective grant program. It largely needs to be undertaken prior to the commencement of the program so that the results can feed into the design of the program and its associated administrative structure and processes.

2.2   The planning process involves several key steps including setting clear, measurable operational objectives, conducting a needs assessment and risk analysis, establishing efficient administrative structures and mechanisms for review and evaluation.

2.3   The audit applied a 'green fields' approach to DOTARS' planning for the RTC program. However, with respect to NTN, the focus was on the two ANAO recommendations from the 1999 audit. This approach allowed the ANAO to determine whether DCITA had addressed the planning issues previously identified for the NTN General Fund, whilst taking into account DCITA's revised administrative arrangements to accommodate the Social Bonus 2 programs.

Program objectives

2.4   Grant programs should operate under clearly defined operational objectives. This helps to identify the strategies, priorities, resources that will be used to achieve these objectives. Therefore, operational objectives should be measurable to the extent that they include quantitative, qualitative and milestone information, or be phrased in such a way that it is clear when these objectives have been achieved. This, in turn, facilitates the development of an appropriate performance information framework necessary to monitor the efficiency and effectiveness of implementation.

NTN

2.5   DCITA had a role in developing the program objectives for the NTN General Fund. This was the result of the Government decision establishing the

program, which provided for details of the program objectives to be settled between the Prime Minister, the then Minister for Communication and the Arts, the Minister for Finance, and Ministers of other relevant portfolios. These objectives were sufficiently broad to encompass the Social Bonus 2 initiatives and, as such, DCITA did not modify them.[19]

2.6 The 1999 audit found that DCITA's revision of NTN objectives had resulted in broader objectives than those originally expressed by the Government. DCITA had not obtained appropriate authority for the revised objectives in accordance with the requirements of the Government's decision. The objectives were approved by the then Minister for Communications and the Arts, but without reference to the Prime Minister and other relevant Ministers, and without the Minister for Communications and the Arts being advised of the implications of the broader objectives.

2.7 The effect of these changes was to widen the range of projects and applicants eligible to apply for funding. The audit pointed out the potential consequences of this for program administration, which included: increased risk of cost-shifting from State/Territory Governments to the Commonwealth; and greater difficulty in measuring the effectiveness of outcomes from the program. The 1999 audit recommended that the Department brief the Minister on options for consulting with other Ministers on the changes made to the program objectives. DCITA agreed with the recommendation.

2.8 During this audit the ANAO reviewed a Minute to the Minister for Communications, Information Technology and the Arts. The Minute advised the Minister of his obligation to consult other Ministers on changes that had been made to NTN objectives. It included letters that were subsequently sent to the Prime Minister, Deputy Prime Minister, and other relevant Ministers, advising them of the changes to the program objectives. Therefore, the ANAO is satisfied that DCITA has fully implemented the recommendation.

2.9 However, as noted in the 1999 audit, DCITA did not develop more specific measurable operational objectives for the NTN General Fund. Similarly, this was not done for the Social Bonus 2 initiatives. The ANAO considers this is a significant shortcoming in planning, given that it is a fundamental step required to develop strategies, targets and a performance information framework to measure both administrative efficiency and program effectiveness.

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[19] The administration of NTN provides a seamless process to applicants. A common set of selection criteria is used to assess project applications. The NTN Board decides which is the most appropriate NTN initiative to draw funds from.

RTC program

2.10 The Government established the objectives for the RTC program in the course of developing the Social Bonus 2 programs. As the Government had approved the RTC program 'under-the-line',[20] DOTARS had no significant role in developing the program's objectives.

2.11 The ANAO, however, found no evidence that the Government's high-level objectives were translated into measurable operational objectives that could be used to help develop strategies and targets to meet the Government's program objectives efficiently and effectively. For example, whilst the Government noted that up to 500 small towns would eventually benefit from the program[21], DOTARS did not establish how this was to be achieved. Consequently, DOTARS did not develop an associated performance information framework for measuring administrative performance or progress against key program milestones.

Needs assessment

2.12 Ideally, a grant program's objectives are underpinned by a needs assessment. The analysis should involve a qualitative and quantitative assessment of the nature and extent of the need for the program. This serves to identify priority groups, projects or funding areas for the program. This information then provides baseline data to form the basis of future evaluation strategies and enable administrators to measure the achievements of the program. The needs assessment also serves to contribute to the design of the most appropriate and cost-effective administrative structure for delivering the program.

2.13 Even where agencies are not involved in developing the underlying policy for a program, further needs analysis should be conducted to assist in targeting the regions, communities or projects most in need of funding assistance.

NTN

2.14 A needs assessment was conducted for the NTN General Fund. This formed the basis for the revised program objectives, especially to take account of the different priorities in the States and Territories. It also underpinned the administrative arrangements in the NTN Secretariat, involving State and Territory-based managers with responsibility for program implementation in their respective jurisdictions and consultative arrangements with the States and

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[20] 'Under-the-line' refers to the process whereby submissions are not provided to the Government by the relevant portfolio department.

[21] Media Release $70 Million Kickstart for Rural Services John Anderson 11 March 1999.

Territories through the State Advisory Groups. However, this did not involve a qualitative and quantitative assessment of the nature and extent of the needs of the target client group.

2.15 Similarly, the ANAO found no evidence to suggest that any quantitative needs assessment was conducted for the Social Bonus 2 initiatives. Consequently, baseline data was not established that would have facilitated an evaluation methodology to establish the efficiency and effectiveness of NTN and its achievement of program objectives.

2.16 While DCITA notes the comment in the previous paragraph that no quantitative needs assessment was undertaken for the Social Bonus 2 initiatives, it also notes that there was already a sound understanding of the needs. The Social Bonus 2 initiatives emerged from the experience of the NTN General Fund, and from the Government's appreciation of the telecommunications needs of regional Australia as a result of direct representations from relevant organisations, community bodies, and individuals. Further, a feature of the Social Bonus programs was that communities first identified their communications needs, and then sought funding for projects that satisfied these needs. Projects that received funding had demonstrated that they were viable, met needs, and were broadly supported within the community.

RTC program

2.17 DOTARS did not conduct a needs assessment for the RTC program between October 1998 when the program was announced and its launch in March 1999. DOTARS advised that the program concept originated in the then Department of Primary Industries and Energy and that staff did not transfer to DOTARS until January/February 1999 following a change in the Administrative Arrangements Orders in October 1998.

2.18 This had important consequences, as it led to a poor understanding of the demand for the program a lack of focus and a failure to identify priority target communities. As a result, there was an initial low level of demand for the program.

2.19 DOTARS' first response to the low level of applications was to revise the Government's expectations concerning the number of Rural Transaction Centres to be established under the program. In September 2000, the Government noted the final number of RTCs was unlikely to approach the original projection, with a figure of 250 or half of the Government's initial expectations, anticipated. The Department advised the ANAO that, at the time, Ministers were broadly satisfied with the program's objectives, and were not inclined towards major changes to its design in order to boost numbers.

2.20 DOTARS second response was to engage a consultant in October 2000 to conduct a Communications Review. The terms of reference involved establishing the existing level of knowledge among target groups for the program, and ascertaining why the program had experienced low demand. The consultant's report recommended a mix of strategies to promote the program, including placing field staff in regional areas and the development of a communications strategy.

2.21 The Communications Strategy was finalised in January 2001, some 22 months after the program's launch and 19 months after the first funding round was completed in June 1999. Importantly, the Communications Strategy also attempted to better target the program by identifying a target group of 120 towns that were likely to be prime candidates for grant funds. These towns had not previously applied for funding, had populations of between 200 and 3000, and were 20 kilometres or more from key services such as another RTC, Centrelink Office or agency, or State Government Service Centre.

2.22 However, the Communications Strategy did not proceed. DOTARS briefed the then Minister who decided not to proceed with the Strategy, subject to further discussion with other Ministers, on the basis that the department expected program funds to be fully expended before the end of the 2001 calendar year. This expectation was, on the one hand, a result of an increased number of applications generated by the FON. On the other, a number of decisions taken during 2001 had reduced the total level of funds available to establish RTCs under the program.

2.23 These decisions included an agreement to transfer:

- $9.0 million from the RTC program to the partial funding of the Mobile Phone Initiative. This was in response to the Telecommunications Service Inquiry, *Connecting Australia*;

- an estimated $19.4 million in June 2001 to Australia Post. This funding was to enable Australia Post to implement a phased roll-out of Electronic Point of Sale (EPOS) to licensed post offices in regional Australia[22]; and

- up to $4 million to Centrelink. This was made available to Centrelink to enable it to cover the set up costs for delivering its services through Rural Transaction Centres.

2.24 In the event, not all funding earmarked for transfer has eventuated, as shown in Table 3.

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[22] This involved a commitment of between $12 million and $25 million to Australia Post, which involved extending eligibility under the RTC Program to Licensed Post Offices. The decision provided funding for installation costs, technology licensing fees, and any shortfall fees, that is, it was inclusive of ongoing costs until the Program ended in 2004.

Risk management

2.25   Adopting a documented risk management approach during the planning stage provides the opportunity to maximise the benefits of a grant program while reducing the probability and/or consequences of risks associated with the program.

NTN

2.26   A formal risk assessment was not conducted during the design of the NTN program. Nevertheless, DCITA's introduction of formal risk assessments since then has led to the development of an NTN risk register. The ANAO saw evidence that DCITA was identifying and managing key risks for both the program as a whole, as well as for individual projects. For example, a Compliance Team has been established to follow up projects that have outstanding acquittals (see Chapter 4 'Management of Funding Agreements'), while common sets of project risks such as project sustainability have been identified to assist project managers during the assessment and management of NTN projects.

RTC program

2.27   Similarly the ANAO found no evidence that DOTARS had conducted a formal risk assessment at the outset of the RTC program although there was evidence of subsequent risk identification at the program level. However, risks were not identified at the individual project level. This meant that there was no assurance that risks were being proactively managed during the implementation of projects.

2.28   An expectation of the program is that RTCs will become self-sustaining in a reasonable period after opening. However, financial viability has been on ongoing problem for the program from its inception and stems from the failure to conduct a risk identification exercise that could have identified financial viability issues as a program risk during the planning phase.

2.29   Once the risk became apparent, DOTARS took a number of steps to try to manage the issue including:

- the use of the FON to provide assistance to applicants with business plan development and ongoing management of projects;

- Ministerial decisions to fund Centrelink and Australia Post to provide services;

- program changes in July 2002 to increase flexibility by recognising explicitly two main 'models' for RTCs: *community sponsorship* (including Local Government) and *small business*;

- increased emphasis in December 2002 on collocation with Post Offices and financial institutions as a means of improving the long term viability of RTCs;

- a memorandum of understanding with Centrelink in May 2003 to facilitate provision of Centrelink services to help improve the viability of RTCs through earning additional income; and

- agreement with the Department of Employment and Workplace Relations in May/June 2003 for a limited trial of touch screens in selected RTCs as a potential further source of income.

2.30 However, a number of these initiatives resulted in significant variations in funding allocations and the transfer of program funds to Centrelink and Australia Post. The effects of these ongoing and multiple changes to program funding allocations, are summarised in Table 3.

Table 3
Allocation of RTC program funds: 1999–2002

ALLOCATION OF FUNDS	Original allocation 1999 $ m	Revised allocation 2001 $ m	Revised allocation 2002 $ m
Administered funds – RTCs			
Application funding	61.7	22.7	39.2
Australia Post	N/A	19.4	4.4
Centrelink	N/A	4.0	1.0
Sub Total	**61.7**	**46.1**	**44.6**
Administrative Expenditure			
Departmental funding	8.3	8.3	8.3
Communications Strategy[1]	N/A	1.2	Discontinued
GRM contract–Field Officer Network[2]	N/A	5.4	7.8
Post-Implementation Review[3]	N/A	N/A	0.1
RTC Sustainability Initiatives	N/A	N/A	0.2
Sub Total	**8.3**	**14.9**	**16.4**
Transfers to other programs			
Mobile Phone Initiative	N/A	9.0	9.0
Sub Total	**N/A**	**9.0**	**9.0**
TOTAL	**70.0**	**70.0**	**70.0**

Source: ANAO, based on data provided by DOTARS.

Notes: (1) DOTARS had anticipated that the Communications Strategy would be funded from the Administered component.

(2) The contract with GRM originally comprised: $5.4 million for 2 years; and $2.4 million for an additional year.

(3) Additional funding was provided from another Departmental program for the first phase of the Review.

Administrative costs

2.31 The administrative structure and processes associated with a grant program should be designed to minimise costs. This, in turn, will maximise the funds available for grants. While there is no set ratio of administrative costs relative to program costs, it is expected that larger programs will have a lower proportion of administrative costs relative to program funds as fixed costs are spread over a larger funding base.

NTN

2.32 The 1999 audit found the NTN General Fund had high administrative overheads. This was due to the highly structured and labour intensive administrative processes and mechanisms. DCITA agreed with audit Recommendation No.3 to examine opportunities to streamline its processes to reduce administrative costs and to better match resources with workloads.

Opportunities to streamline administration processes

2.33 Since the 1999 audit, DCITA has twice reviewed opportunities to streamline the program's administrative processes. The Department commenced a review in mid 1999, aimed at identifying and prioritising processes requiring reengineering. The main outcome from the review was the development and implementation of NTN Online, which resulted in the transfer of existing paper-based administration processes into the online environment. This change:

- reduced the level of repetition associated with the existing paper-based practices; and

- improved the efficiency of the imminent program evaluation, by providing the capacity to aggregate data from individual projects for the program as a whole.

2.34 The timing of NTN Online was important for integrating the Social Bonus 2 programs into NTN's administrative processes. The application process was identified as a priority and resulted in a reduced number of selection criteria from sixteen to six. In other words, non-specific criteria used to assess applications for all six programs replaced the discrete criteria previously used to assess applications for funding under the NTN General Fund. This was aimed at reducing the workload associated with the application process, while allowing the Board to determine the most appropriate program to provide funding.

2.35 NTN Online did improve the efficiency of some administrative practices. For example, online access to applications and project assessments has reduced the amount of paper-based material previously required for Board meetings

and improved the timeliness of access to information by the NTN Board. NTN Online has also produced other benefits, especially in relation to enhanced financial management and control. For example, at the program level, it restricts the amount of funds that can be paid in any one year, which means that if the total funds for an NTN program are exhausted the system will not allow any further projects to be approved for that year. The Department, however, did not conduct a cost-benefit analysis either before or after implementation to determine whether NTN Online delivered actual savings, taking into account its development and ongoing maintenance costs.

2.36 The second review, conducted in 2000, considered the application, selection and ongoing management processes. This resulted in the adoption of a range of new processes and practices that were designed either to reduce further duplication of effort or to standardise the quality of NTN's administration. They include, for instance:

- devolving responsibility from the General Manager to Section Heads for approval or progress reports and grant payments, within their financial delegations;

- the introduction of templates for the schedules to deeds associated with the different types of commonly-funded projects, such as those involving mobile phones, points of presence, telecentres and videoconferencing; and

- providing clarification on the key actions requiring paper versus electronic records in the context of NTN's online administration.

2.37 Based on these findings, the ANAO is of the view that DCITA implemented this aspect of Recommendation No.3.

2.38 However, program administration costs as a percentage of program funds have not reduced. The NTN General Fund was allocated $9.6 million out of program funds of $250 million. In addition $8.2 million was internally allocated to administer the Social Bonus 2 programs. Since the Social Bonus 2 programs were established, there has been a reallocation of program funds associated with the BARN program (reduced by $35 million) and the Internet Access Fund (IAF) (reduced by $29.9 million[23]). All of the administration costs associated with the BARN program were retained within NTN but some of the $3.0 million originally earmarked for administering the IAF was reallocated to other programs outside

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23 The IAF was originally allocated $36.0 million. In 2001–02, $21.0 million was reallocated within the Department to other telecommunications initiatives as part of the Government's response to the Telecommunications Service Inquiry and a further $8.9 million in unspent residual funds was declared as savings in the 2002–2003 Budget. This left a balance of $6.1 million, including $3.1 million in program funds and $3.0 for administration, some of which was transferred to other areas of the Department to administer the new initiatives.

NTN. However, the Department is not able to identify the actual amount of the IAF administration costs that were reallocated.

2.39 Although the Department, is unable to identify the specific level of funds associated with NTN's administration the ANAO has estimated that the percentage of program funds allocated for NTN's administration is 4.2 per cent of total available program funds and would be higher if the $3.0 million associated with the administrative costs of the IAF were included.

2.40 The ANAO would have expected that the economies of scale and the ability to make use of existing NTN processes and systems would have reduced the start-up and ongoing costs of administration of the Social Bonus 2 programs. However, at 4.9 percent they are higher than the costs of the NTN General fund. The administrative costs relative to program funds for NTN are provided in Table 4.

Table 4
Allocation of program funds–NTN

PROGRAM	Initial Allocation $ million	Revised Allocation $ million	Administration costs $ million	Administration costs percentage
Networking the Nation General Fund	**250.0**[1]	**250.0**	**9.6**	**3.8**
Needs of Remote Island Communities	20.0	20.0	0.8	4.0
Building Additional Rural Networks	70.0	35.0	2.7	7.7
Local Government Fund	45.0	45.0	1.7	3.8
Internet Access Fund	36.0	3.1	0.0[2]	0.0
Extended Mobile Phone Coverage	3.0	3.0	0.0	0.0
Total Social Bonus 2 Initiatives	**174.0**[3]	**106.1**	**5.2**	**4.9**
NTN TOTAL	**424.0**	**356.1**	**14.8**	**4.2**

Source: ANAO, based on data provided by DCITA

Notes: (1) Announced in December 1996.

(2) This figure does not include $3.0 million retained by DCITA for administration, including the IAF.

(3) Announced in June 1999.

Reviewing resources against workloads

2.41 In the 1999 audit the ANAO also recommended DCITA review the level of resources required to administer NTN, with a view to matching resources to workloads.

2.42   DCITA reviewed the level of resources required in relation to NTN workloads when planning the administration arrangements for the Social Bonus 2 programs. This resulted in an increase in FTE staff from 23 for the NTN General Fund to 29 for the combined programs. In addition, the NTN Secretariat was restructured to take account of inequities in internal workloads. Based on these findings, the ANAO is of the opinion that DCITA implemented this aspect of Recommendation No. 3.

RTC program

2.43   In terms of the cost to deliver the RTC program, the costs are high relative to NTN. Budgeted administrative costs amount to $16.4 million out of total program funds of $61.0 million or 26.9 per cent.

2.44   The reason for this high administrative cost mainly relates to the need to augment DOTARS staff to address the issue of low demand for the program. The total staffing level increased to 39, consisting of 28 full-time equivalent (FTE) staff within the RTC Secretariat and 11 in the FON. The FON was established in December 2000 and will cost an estimated $7.8 million over three years. This is in addition to the $8.3 million approved by Ministers for administration at the commencement of the program and $0.3 million for a post-implementation review and Sustainability initiatives. In effect, the FON almost doubled the original planned administration costs.

2.45   DOTARS maintains that the funds allocated to the FON should be regarded as program rather than administrative costs because the FON is involved in developing business plans, which replaces the need to fund communities for this purpose. Business planning, however, comprises only a small proportion of the FON work. The Network's role is much broader, involving responsibility for providing communities with:

> comprehensive and coordinated support and mentoring at every stage in the development and operation of their RTCs.

2.46   This suggests that only a small amount of the $7.8 million for the FON should be attributed to business plan development, that is, program funding. Ideally, the Department should have distinguished between funds required for business plan development and the administrative functions of the FON but, in practice, this was not done.

Program evaluation planning

2.47   A comprehensive evaluation strategy should be planned at the outset of a grant program. Evaluation serves two purposes. Firstly, it is an important

mechanism by which grant administrators demonstrate accountability to stakeholders, including Parliament and the public. Secondly, evaluation improves the administration of the program, where continuous feedback on the grant program allows the program administrators to assess its progress and take remedial action when necessary.

2.48 The evaluation strategy should not be conceived in isolation, but rather as one component of a robust performance management framework. Accordingly, it should be designed to facilitate the collection of relevant, accurate, timely, accessible, interpretable and coherent performance information. The collection of this information will contribute to timely and effective decision-making in managing the grant program and enable the agency to account for its performance. Therefore, it is important to consider the evaluation strategy and its associated performance measurement as a key component of planning, and not as an afterthought.

NTN

2.49 DCITA planned for a major evaluation at the outset the NTN program. Planning for the design of the evaluation commenced just after the launch of the NTN General Fund in August 1997.

2.50 NTN's program managers clearly intended the evaluation to be conducted in a manner consistent with better practice. The evaluation was aimed at gathering information that could be used to improve the program's overall performance, by:

- identifying the outcomes and benefits delivered by funded projects;

- identifying the key lessons learnt by projects, to assist in refining the program and improving the design of projects;

- guiding the development of future activities in enhancing telecommunications services and infrastructure; and

- helping to meet accountability requirements for the overall program.

2.51 However, as mentioned previously, DCITA did not set measurable objectives or collect baseline data to measure outcomes for the NTN General Fund or the Social Bonus 2 programs and, as a result, the telecommunications service priorities identified in the General Fund needs assessment were not translated into measurable targets.

2.52 This shortcoming in planning affected NTN's monitoring and evaluation arrangements. Although DCITA collected some data to monitor aspects of the program's implementation, such as the numbers and nature of projects funded and the levels of program expenditure and commitment, this was not within a

broader evaluation context that addressed the priorities contained in operational objectives, outcomes and targets for the program as a whole. Similarly, performance measures were determined for monitoring individual projects but, again, these were not designed with a view to the program's overall evaluation. Instead, each grant project had project-specific indicators and milestones that made no reference to overall program objectives or outcomes.

RTC program

2.53 There is no evidence that a performance measurement framework or evaluation strategy was designed or implemented at the commencement of the RTC program. This is partly attributable to the lack of measurable objectives, outcomes and priorities at the commencement of the program. Additional planning for evaluation should also have been undertaken with respect to the specific administrative elements contracted to GRM for the FON. However, there is no evidence that this took place, whether by itself or in the context of a broader evaluation framework.

2.54 Despite a lack of planning for evaluation, some evaluation activities did take place. DOTARS conducted an internal audit in August 2001 and a Post-Implementation Review in mid 2002; and, on the basis of findings from this Review, the Department decided to conduct further evaluation of the program.

2.55 DOTARS also developed some performance indicators for the program. The performance indicators were articulated in three categories, including:

- high-level performance indicators that are largely used for accountability purposes. These performance indicators are articulated in the Department's Portfolio Budget Statements, and are reported against in the Department's Annual Report;

- individual project milestones, used for measuring project performance. These are specified in the agreements for each funded project, and are established during the negotiation of the grant agreement; and

- performance indicators for the FON, which involves a set of 30 performance measures specific to the FON in six areas of activity.

2.56 There is no means, however, for linking these performance indicators to a comprehensive performance management framework that is capable of being assessed through evaluation. Had performance indicators been established with reference to a broader evaluation strategy, this would have facilitated ongoing management of the program and improved reporting for accountability purposes.

Conclusion

2.57 Neither DCITA nor DOTARS translated the Government's program objectives into operational objectives that would have helped them to better design appropriate strategies, activities and allocate resources to achieve the broader program objectives efficiently and effectively. Operational objectives would also have helped to establish an appropriate performance management framework that could be used to monitor the efficiency and effectiveness of program delivery. In the case of the NTN this was, in part, associated with a shortcoming of the needs assessment, which did not involve a qualitative and quantitative assessment of the nature and extent of the needs of the target client group. In the case of the Social Bonus initiatives no quantitative needs assessment was undertaken. However, DCITA did implement the recommendation from the 1999 audit that the Department brief the Minister on options for consulting with other Ministers on the changes made to the program objectives.

2.58 A needs assessment for the RTC program was not conducted before its launch in March 1999. The inability to accurately estimate demand for the RTC program stems from this lack of an early needs assessment and subsequent targeting of likely communities. As a consequence, the program was slow in getting off the ground. Some 22 months after the launch of the RTC program, DOTARS took steps to better assess priority target communities and generate greater demand. In addition, a lack of a risk analysis, either during the planning phase or early in the program, failed to identify difficulties associated with financial viability. Although DOTARS has subsequently taken a number of initiatives to address the financial viability issue some have resulted in a lack of financial stability with the allocation of funds to different program components fluctuating significantly and having to be reinstated. This is not conducive to good program management.

2.59 Similarly DCITA did not conduct a formal risk analysis during the planning phase. However, there was evidence that risk management activities had been conducted at both the project and program level to identify and manage key risks, including project sustainability. DOTARS also later identified risks at the program level but this did not extend to the project level.

2.60 In line with Recommendation 3 from the 1999 audit, DCITA has reviewed opportunities to streamline the application and approval processes for NTN and restructured the NTN secretariat to reduce internal workload inequities. This included two reviews of administrative processes, one of which resulted in the development of NTN Online. While this did not result in a reduction of administrative costs relative to program costs, as may have been expected, it did improve the efficiency of some practices.

2.61   NTN also proved more economical to administer than the RTC program as a percentage of total program funds. The RTC program has a high level of budgeted funds used for administration of an estimated 26.9 per cent, contrasting with an estimated 4.2 per cent for the suite of NTN programs. There are some 39 staff administering the RTC program (including field staff) compared to 29 for NTN.

2.62   Both programs highlight the need to comprehensively plan evaluations early in the process. Although DCITA planned for a major evaluation at the outset the program, its evaluation plan did not establish baseline information needs and measurable program targets as part of a coherent performance information framework for monitoring program outcomes. There was no evidence that DOTARS, had developed an evaluation strategy for the RTC program from the start of the program or when the FON was established. However, despite a lack of strategy some RTC evaluation activity has been undertaken and more is planned.

2.63   As a result of shortcomings in the planning process, neither program could demonstrate a link between the performance information used to monitor projects, and that necessary to monitor the program as a whole. In this respect, neither program had a mechanism for feeding information gained from the evaluation of individual projects into an evaluation of the efficiency and effectiveness of the programs as a whole.

Recommendation No.1

2.64   The ANAO recommends that, in order to reduce administrative costs, DOTARS review the functions and responsibilities of the RTC Secretariat relative to the resources allocated.

DOTARS' Response

2.65   Agreed. The number of staff in the RTC Secretariat was reduced in mid-2003 by 33 per cent, in part reflecting the amalgamation of the RTC programme into Regional Partnerships. The number of Secretariat staff will be reduced by a further 20 per cent from December 2003. This will result in significantly lower administrative costs and overheads.

2.66   In December 2002 the number of RTC Field Officers was reduced from 14 to 11. The Field Officer contract ends in December 2003.

3. Program Promotion and Project Selection

This Chapter considers the effectiveness of NTN and RTC processes to generate sufficient numbers of quality program applications, as well as to select the most competitive projects on an equitable basis. It also considers whether the reasons for decisions have been properly documented.

Introduction

3.1   The fundamental principle of grant programs is that the grant adds value in the context of the objectives and outcomes of the program and, in doing so, achieves something worthwhile that would not otherwise occur without financial assistance. This requires effective promotion of the program to stimulate a high level of interest from potential applicants—especially the target groups identified for the program.

3.2   It also requires an effective selection process that maximises the chances of those projects being selected that are most likely to achieve the program's objectives efficiently and effectively. This latter process encompasses the suitability of selection criteria, the quality of guidelines and training provided to staff, selection on merit and controls to prevent double dipping and cost shifting.

3.3   This Chapter considers the promotion and selection processes separately.

Program Promotion

3.4   Promotion and awareness-raising amongst communities is important for the success of a grant program. Administrators of programs should identify target communities according to priorities for the program and design the program's promotional strategies accordingly.

3.5   Promoting the program should be managed to ensure appropriate numbers of high quality applications over the length of the program. This requires administrators to monitor the outcomes of their promotional strategies to ensure that the target groups for the program are being reached. It may require administrators to revise their strategies.

NTN

3.6   DCITA has developed and implemented two formal Communications Strategies to promote NTN. The first of these related to the launch of the General

Fund in 1997. Its key objectives were to raise awareness of the program in regional, rural and remote Australia, provide information on eligibility and the application process, and provide information on the broader telecommunications environment that might have a bearing on individual applications. A number of tools were used to implement the Strategy, the most significant being:

- an Information Kit that contained fact sheets relevant to the program;

- the establishment of a 1800 number for contacting the NTN Secretariat;

- the development of a dedicated NTN Web-site; and

- an advertising campaign and media releases.

3.7   The second Communications Strategy related to the Social Bonus 2 programs. To a certain extent, this made use of existing processes. It did, however, have some important differences in terms of its objectives, amongst them the need to clarify any confusion about the new initiatives, in terms of the multiplicity of initiatives and their relationship to NTN, and to target so-called 'black spots' in NTN coverage to date.

3.8   Additional activities to promote NTN have continued over the course of the program to take advantage of opportunities as they arise. These have included, for instance: the development of revised fact sheets for inclusion in the Information Kit on the Board's funding priorities; the introduction of an NTN newsletter highlighting funding rounds; advertising material incorporating case studies and progress on Social Bonus initiatives; advertisements; and the use of the NTN staff and Board members to speak at a range of public forums.

3.9   Overall, the results of the Communications Strategies have been relatively successful for promoting NTN. It has resulted in either a full or nearly full commitment of program funds for NTN. The exception was the BARN program that had approximately $34 million remaining in uncommitted funds in September 2002. This was the result of a shortage of high quality applications or the unacceptable level of risks associated with them, rather than a failure to adequately promote the program.

3.10   The promotional activities also resulted in a high number of project proposals, with a total of 2 217 applications received during the course of NTN. This has led to increased competition for available program funds, with only 797 applications, or 36 per cent, being approved nationally.

RTC program

3.11   DOTARS implemented several strategies to promote the RTC program at the time of the program's launch in March 1999. These involved an advertising campaign in the press, a letter from the Minister to non-metropolitan mayors,

the establishment of an 1800 number within the RTC Secretariat, and the development of a dedicated Website that provides guidelines and information about the program and application processes.[24] From time to time, the former Minister also used media opportunities to promote the program.[25]

3.12   However, as noted earlier, there was low initial demand for the Program. This gave rise to the establishment of the FON which became operational in March 2001. It remains as the single most important strategy to promote the RTC program. Under its contract, GRM has responsibility for:

> actively promoting the RTC Programme to individual communities, councils and regional organisations.

3.13   Until December 2002, 14 field officers were engaged in the Network. They were responsible for covering large parts of Australia, with regional responsibilities adjusted from time to time to provide coverage across all States and Territories.

Priorities given to the FON for promoting the program

3.14   In terms of promoting the RTC program, it could have been expected that certain communities would be identified so that promotional efforts could be focussed on them as a means of better achieving the program's objectives. Such a priority list could also serve to monitor contract performance. In this respect the Communications Strategy, which identified communities in special need, would have been helpful for identifying communities to be targeted as a matter of priority. Although the contract with GRM does refer to the Communications Strategy, DOTARS advised that the identified communities were not a list of priority communities, as the Minister had not endorsed the Communications Strategy. Instead, the Communications Strategy was referenced in the contract in case the Department needed to reactivate it at a future time.

3.15   However, the FON is required to consult other key stakeholders such as other State/Federal bodies that provide assistance programs to regional and rural Australia, Area Consultative Committees (ACCs), DOTARS Regional Offices, and community-based telecommunications networks established by State Governments.[26] Such networks can assist field officers to identify priority communities for the RTC program.

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[24]   Advertisements were placed in 200 small circulation newspapers, regional daily newspapers, the Weekend Australian and Rural Press agricultural newspapers in each State.

[25]   For example, announcements on the first round funding and calls for further expressions of interest were made by the Ministers for Transport and Regional Services and Regional Services, Territories and Local Government.

[26]   These include: the WA Telecentre network, the Tasmanian Communities On-Line Program, the Queensland Government Agency Program, Service South Australia, and the NSW Government's Community Technology Centres initiative.

3.16   DOTARS advised that it also provided the FON with guidance on priorities for the program when the FON was first established. More generally, this involved targeting communities not yet participating in the program, with an emphasis on those without a financial institution and/or those with difficulties in gaining access to services in their region. Field officers were further given a list of existing applicants and projects as priorities to follow up. These included:

- business planning applicants;

- groups that had received business planning grants but which had made little progress;

- project applications that had been deferred, supported in-principle by the Advisory Panel or not supported for viability reasons;

- projects that had been funded but were not yet operational; and

- potential applicants who had called the 1800 number.

3.17   In terms of future priorities, DOTARS meets with field officers on a six-monthly basis to discuss progress. RTC program case managers also provide feedback in their daily liaison with field officers.

Results of DOTARS' promotional strategies

DOTARS has acknowledged that the initial advertising and Website strategies for promoting the program produced mixed results. The level of awareness about the program by people in regional areas was relatively low.[27] While these strategies resulted in 1600 phone calls to the 1800 number, many potential applicants did not pursue funding—fewer than 50 applications were received, with the majority from the eastern States.

3.18   Some figures on the results of FON activities are available. As at 31 December 2002, the FON had visited 661 communities, which generated some 191 business plans.[28] In addition, 41 business plan applications that required reworking were referred to field officers. These included business plans where applicants had either independently developed their business plans or used the services of other advisors prior to the establishment of the FON.

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[27]   Even by 2002, there was only modest awareness of the Program. The average level of awareness was 13 per cent, compared with 33 per cent for the Regional Assistance Programme and 2 per cent for the Employment programs.

[28]   Most visits to communities were conducted by field officers during the first year of the FON, with approximately 330 visits in March-May and a further 180 in August-October 2001. The largest number of visits since then involved approximately 40 visits to communities in May-July 2002. As the contract moves on, more effort is being directed towards the management of existing applicants rather the generating new applications.

3.19 In terms of the numbers of applications approved for the program, DOTARS does not differentiate between those applications that used the services of the FON and those that did not. As at the end of December 2002:

- 349 out of 440 applications for business plans (79 per cent) had been approved; and

- 120 out of 259 applications for project assistance (48 per cent) had been approved.

Conclusion

3.20 Both Departments conducted promotional exercises at the start of their programs to raise the level of awareness in regional, rural and remote areas about their programs. DOTARS' initial set of promotional activities did not translate into many project applications, which prompted the Department to establish the FON. This move was successful in increasing the number of applications.

3.21 However, DOTARS did not use the needs assessment conducted as part of the development of the Communications Strategy for the RTC program as a basis for directing the FON's promotional activities.

Selection of projects

3.22 The selection of projects under a grants program should be fair and equitable, with the best projects chosen on the basis of merit, in accordance with the selection criteria. To meet accountability requirements, this should be underpinned by a clear management trail and documentation of the funding decisions, together with a clear separation of responsibilities between those assessing applications and those approving funding decisions.

3.23 The selection of projects covers a number of administrative processes and practices. These include: the design of the selection criteria; the rigour and transparency of the decision-making; avoiding duplication of funding; and managing the potential for cost-shifting. These are each discussed in turn below.

Design of selection criteria

3.24 Project selection should be based on criteria that reflect program objectives. The criteria should provide a robust framework for identifying those projects that will best achieve the program's objectives.

3.25 Given the 1999 audit of the NTN General Fund found DCITA's selection processes to be satisfactory, this part of the report is focused only on the

administration of the RTC program. It does, however, refer to DCITA in some instances, especially where comparisons between NTN and the RTC program are relevant.

RTC program—Design of selection criteria

3.26   To assess the appropriateness of the selection criteria the ANAO examined the six main selection criteria to assess applications for Project Assistance. They were found to have a high level of correlation with the program objectives. Three of the criteria, Criteria 1, 2 and 3, directly address the objective that the proposed facility would provide a service that has either been lost or never provided to the community and, moreover, that it would be managed by the community. A further two, Criteria 5 and 6, address the more detailed explanation of the program objective that the proposed facility: would not affect the financial viability of existing local businesses; has a fully developed business case (having garnered the service needs of local business and government); and is sustainable in the long-term. The remaining criterion addresses the overall value for money of the proposed facility (Criterion 4). Table 5 shows the level of correlation between the program objectives and criteria used to assess applications.

Table 5

Correlation between RTC program objectives and criteria used to assess Project Assistance applications

RTC PROGRAM OBJECTIVES AND SELECTION CRITERIA		
Stated objectives	**Project Selection Criterion**	**Aspect of objective addressed**
To assist communities to establish locally run and self funding Centres that improve access to basic government, financial and other services in communities that have either lost access to those services, or have never had them	No. 1 Management capacity	• Capability of the organisation to manage the proposed Centre
	No. 2 Existing availability of services and the likelihood of services being provided in the near future by other providers	• Nature and existing availability of proposed services, ie, no service availability elsewhere
	No. 3 Extent of community support and management	• Level of community demand for the services
		• Management by local communities
RTCs should enhance or complement existing or planned commercial or government services in your town. Applicants should therefore try to maximise the involvement of local businesses and public sector agencies in your RTC project. The aim is to encourage private sector and community collaboration, and minimise direct competition. RTC funding cannot be used to establish services which would jeopardize the business prospects of an existing business. Proposals that bring together new and existing services in the same location are encouraged.	No. 5 Extent of support from State/Territory and Local Government and the relationships with their initiatives, such as one-stop shops and telecentres where appropriate	• Nil financial effect of proposed facility on other service providers
		• Demonstrated business case for proposed facility, by garnering local business need and government usage
	No. 6 Long-term viability of the project after Commonwealth assistance ceases	• Long-term financial viability of proposed facility
Value for money	No. 4 Extent to which the applicant and others will contribute	• Demonstrates value for money

Source: ANAO

Rigour of RTC decision-making

3.27   A rigorous decision-making process enables an informed assessment of project proposals. Guidelines should be provided to staff to facilitate consistent and appropriate interpretation of the selection criteria and the information provided in applications. Staff should also be adequately trained to facilitate consistent assessments across the program and assessments should be supported by a quality review process. This will help to ensure that the project proposals most likely to achieve the program's objectives receive funding.

Guidelines for RTC staff

3.28   An internal audit review in August 2001 found a number of gaps in the guidelines for staff. For example, there was a lack of information regarding the reasonable range of costs associated with capital expenses, running costs and service fees needed to assess project proposals accurately and consistently across the RTC program.

3.29   In response to the review the Assessor Resource Kit now includes guidelines for staff on how to make assessments against the criteria for the RTC program. This includes an explanation of some of the key selection criteria, supported by an explanation of how to determine a rating for criteria based on an assessment of risk. Although not comprehensive of all selection criteria used to make assessments, they do cover the key priority areas.

3.30   In addition, DOTARS periodically updates the Kit with checklists, some of which arise from the bi-annual meetings with the FON. These largely provide either:

- a list of process-based activities to be undertaken with respect to various areas of administration, such as might be needed to obtain sign-off on agreements;

- an explanation of certain aspects of an application, such as, how to understand a GST-inclusive budget; or

- a prompt on the sorts of questions that may need to be considered in relation to particular applications, for example, automatic teller machines.

RTC Training

3.31   In terms of staff skills and expertise, the August 2001 review found that Departmental staff did not have the level of expertise or the full range of information required to assess project proposals consistently across the RTC program. In particular, a major weakness was in the analysis of financial and cash flow statements that are needed to assess the viability of Rural Transaction Centres.

3.32 Two recommendations were made to address this. The first concerned the need to include financial information in a manual to assist staff with the assessment of applications or to appoint an officer with specialist accounting skills. The second addressed the training needs for RTC Secretariat staff in interpreting financial statements. DOTARS agreed to both recommendations.

3.33 DOTARS has since conducted financial training for staff. This has included a one day course and, most recently, a session on financial analysis in April 2003. This latter course covered financial analysis that involved a practical orientation to assist staff with the assessment of business plans; it also gave pointers on early warning signs of financial difficulty. Ad hoc training has also been conducted in other areas of financial management, including Goods and Services Tax (GST), contract management, and depreciation and budgeting.

3.34 The financial training has been accompanied by including financial and business planning material in the Assessor Resource Kit. This covers areas of business activity, including capital, cash flow statements and GST liability. Raising awareness of better practice in grant administration has also been introduced recently.

3.35 The ANAO is of the view that the Department has attempted to address the relevant recommendations in the internal audit report but, in light of the ongoing sustainability issues with Rural Transaction Centres, should continue to give strong attention to this area.

RTC Quality Review

3.36 The Secretariat now has a number of quality assurance mechanisms in place to ensure that the information provided in the grant application is complete, reasonable and accurate. These include:

- weekly meetings between individual case managers, team leaders and the section head; and

- liaison with other government agencies and the FON.

3.37 In addition, both a team leader and the section head now review each assessment of an application prior to a recommendation being made to the Independent Advisory Panel.

3.38 The ANAO is satisfied that these processes now appear to be working effectively.

Financial viability of RTC projects

3.39 Despite the high level of correlation between the program objectives and the selection criteria and the requirement for business plans as a pre-requisite

for project consideration, as noted earlier, the financial viability of projects has been of constant concern for DOTARS.

3.40 The Post-Implementation Review in May/June 2002 identified financial viability as a major program constraint and led to a reappraisal of a number of project proposals that had previously been rejected, partly on the grounds of financial non-sustainability. This involved a reassessment of 34 applications. At the time of the audit, seven had been approved funding, two were supported by the RTC Advisory Panel, two were withdrawn by applicants and the remaining 23 were still under consideration.

3.41 The ANAO reviewed the seven successful re-applications. These included two applications from community organisations (independent of local government support) and five from councils. In all seven instances, DOTARS sought additional information to address the viability concerns identified in the initial assessments.

3.42 In part, the approval of applications previously rejected reflects a reinterpretation of the financial viability guidelines but also raises questions about the way the selection criteria have been applied in the past and the effectiveness of quality assurance systems in place at the time.[29] However, as noted earlier, part of the problem also lies in the lack of guidance provided to staff on financial viability issues and a lack of specific training.

Transparency of decision-making

3.43 Decision makers are accountable for the funding decisions they make, which should be based on the merits of each application and aligned with the program objectives. Accountability for decision-making is promoted by a clear management trail, through appropriate documentation of the reasons for decisions.

Documentation of decisions

3.44 Both Departments document the reasons supporting funding decisions. The assessments, which provide a numerical or alphabetical rating against the selection criteria for each project, contain the following range of information:

- a project summary, including the facilities/services that are expected to result from funding;

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[29] In the sample of files examined as part of the internal audit review of August 2001, most did not contain evidence of the proposed service provider's participation in the RTC even though case managers were required to seek comment from key Commonwealth agencies, such as Centrelink and Australia Post, in relation to their potential involvement in the RTC.

- amount of funding sought by the applicant, as well as the recommended amount of funding; and

- reasons for supporting/rejecting the proposal, including issues associated with the proposals.

3.45 Both Secretariats also publicly announce funding decisions.

Equity in the selection process

3.46 This issue was considered in-depth in the 1999 audit of NTN. The audit found no evidence of party-political bias in the selection process. Accordingly, another review was not a priority for this audit.

NTN

3.47 The 1999 audit found that Tasmania had a higher rate of approvals as a percentage of applications than other States. This is still the case with Tasmania having a higher approval rate than other States and Territories and multi-state applications having a lower approval rate compared to the national average. Table 6 shows the percentage of applications approved across States and Territories.

Table 6

Percentage of NTN applications approved by State, as at 31 December 2002

State	Number of applications received	Number of applications approved	Applications approved as a percentage of applications received
ACT	10	4	40
NSW	356	134	38
Vic	309	92	30
SA	272	93	34
NT	109	39	36
Qld	444	150	34
WA	166	52	31
Tas	386	186	48
Multi-state	165	47	28
Total	**2217**	**797**	**36**

Source: ANAO, based on data provided by DCITA

RTC program

3.48 As at 31 December 2002, DOTARS had received a total of 699 Business Planning and Project Assistance applications. The majority of applications have been received from electorates held by the Coalition parties (80 per cent) relative to Labor (13 per cent) and other political parties (7 per cent). As at 1 July 2002, Coalition parties held 54.7 per cent of the seats in the House of Representatives and Labor 43.3 per cent. Independent members accounted for the balance.

3.49 In terms of project proposals, approvals by political party were consistent with the national average. Compared with the national average approval rate of 67 per cent, 66 per cent were approved in electorates held by the Coalition, 70 per cent were approved in electorates held by Labor, and 77 per cent were approved in electorates held by other political parties. This suggests that there is no party-political bias in terms of the project approvals. Table 7 provides details of project approvals according to electorate.

Table 7

Percentage of RTC applications approved by electorate, as at 31 December 2002

Electorate	Number of applications received	Percentage of applications received	Number of applications approved	Percentage of applications approved	Applications approved as a percentage of applications received
Coalition	563	80	370	79	66
Labor	88	13	62	13	70
Other	48	7	37	8	77
Total	**699**	**100**	**469**	**100**	**67**

Source: ANAO, based on data provided by DOTARS

3.50 In terms of approval rates by State and Territory, there were no marked differences from the national average, apart from the Northern Territory. No applications were received from the ACT. Table 8 shows the percentage of applications approved across States and Territories.

Table 8

Percentage of RTC applications approved by State, as at 31 December 2002

State	Number of applications received	Number of applications approved	Applications approved as a percentage of applications received
ACT	0	0	0
NSW	208	138	66
Vic	127	84	66
SA	68	45	66
NT	39	31	79
Qld	130	89	68
WA	92	58	63
Tas	35	24	69
Total	**699**	**469**	**67**

Source: ANAO, based on data provided by DOTARS

Controls for double dipping

3.51 Better practice would expect control mechanisms to be in place to prevent applicants receiving funding from more than one Commonwealth source for the same project, that is, 'double dipping'. Given the similarity in some of the programs, DCITA and DOTARS have put in place consultation mechanisms to reduce the potential for double dipping as part of their planning. These mechanisms are also used to determine the most appropriate funding body.

3.52 To guard against double dipping, the Departments exchange information on individual project proposals. In addition, they consult a network of officers in other agencies relevant to their respective programs, such as the Health Insurance Commission, the Aboriginal and Torres Strait Islander Commission, and Centrelink. In DCITA's case, the consultation is also used to receive feedback on project proposals from other Commonwealth agencies as part of the project assessment process.

3.53 The consultation is referenced in the guidelines for both programs. When registering a project proposal, DOTARS also requests that applicants provide it with details of funding that has been sought from other sources. DCITA informs applicants that information will be disclosed to other Commonwealth Departments and agencies, and other bodies or groups associated with the project assessment process.

Managing the risk of cost shifting

3.54   The 1999 audit noted that the risk of cost-shifting was recognised in guidance material given to prospective applicants and had been of some concern for both DCITA and the NTN Board. This is not an issue for DOTARS, as State and Territory Governments are not eligible for funding under the RTC program. However, with respect to NTN, the 1999 audit found that program funds could potentially be used to fund activities that were clearly within the core business of other levels of government.

3.55   The areas of highest risk for DCITA include project applications from State and Territory Governments for funding for education and health projects. For example, the 1999 audit noted the Tasmanian OPEN-IT project for the provision of online education and training, which involved an infrastructure component for which the State Government might be expected to make provision for in its education budget. The project was still under consideration at the time of that audit.

3.56   The 1999 audit of NTN noted that the broadening of the program objectives increased the potential for cost shifting and duplicating elements of other Commonwealth programs. DCITA agreed with the audit report recommendation that it review its assessment procedures to examine more stringently the risk of cost shifting and duplication. This risk was further increased with the introduction of the Social Bonus 2 initiatives announced following the Telecommunications Service Inquiry, *Connecting Australia*.

3.57   The ANAO found that DCITA had addressed the recommendation. In a letter to State/Territory Governments and their associated Advisory Committees, the NTN Board reaffirmed its commitment not to approve funding for projects that clearly fell within the core business of State/Territory Governments. Steps have also been taken to ensure that the NTN Board receives annual briefings from relevant State and Territory officials on their Government's telecommunications priorities. The NTN Secretariat also now specifically identifies the risk of funding State/Territory core business activities as part of its project assessments. Where there is an element of funding core business, the Department examines options, such as joint funding with the State or Territory or requiring community access to any proposed services.

Conclusion

3.58   Both Departments have actively promoted their programs. DOTARS' initial efforts however, were not successful and some time after the launch of the program less than 50 applications had been received. DOTARS response

was to establish a field officer network to promote the program, which resulted in a larger number of applications.

3.59   Selection processes were not examined for the NTN program as they had been examined previously in the 1999 audit and had not changed. The criteria used in the selection process for the RTC program were appropriately designed for the selection task. An internal audit review in August 2001 found a number of shortcomings in the guidelines for staff including a lack of costing and revenue estimates to guide staff in assessing applications. These shortcomings have since been remedied and guidelines for staff are now satisfactory. The review also found staff did not have the necessary skills to interpret financial information. Again, remedial measures have been taken.

3.60   In the selection of projects, the financial viability of Rural Transaction Centres has been a persistent issue over the course of the program. This in part reflects the shortcomings in administration identified by the internal audit review in August 2001. The financial viability of projects continues to be an issue for the program, which DOTARS is trying to address. However, the re-examination and approval of applications previously rejected, raises questions about the way the selection criteria have been applied and the effectiveness of quality assurance systems in place at the time.

3.61   Both Departments had transparent decision-making processes. There was clear documentation of reasons for decisions and there was no evidence of party-political bias. Furthermore, the Departments have put in place measures to reduce the risk of double dipping by applicants.

3.62   The 1999 audit of the NTN General Fund identified cost shifting as an area of high risk for DCITA to manage. This risk has been further exacerbated by the introduction of the Social Bonus 2 initiatives. This audit found that the relevant recommendation from the 1999 audit to examine more stringently the risk of cost shifting has been implemented.

Recommendation No.2

3.63   The ANAO recommends that, in order to achieve the efficient, effective and consistent administration of grant programs over time, DOTARS provide all staff with a comprehensive set of guidelines and training.

DOTARS' Response

3.64   Agreed. DOTARS has provided a range of training for staff in the past including contract management training. RTC staff participated recently in a training session delivered by representatives from the ANAO, Department of

Finance and Administration and the University of Canberra on the following topics:

- The ANAO Better Practice Guide – Administration of Grants;

- Accounting practices for assessors and case managers; and

- The *Financial Management Act*.

RTC staff also receive regular on-the-job training. For example, staff participate in weekly case-management meetings to improve the efficiency and effectiveness of the Programme. Assessor Resource Kits are also maintained and updated to provide staff with current Programme guidelines, and for training purposes.

4. Management of Funding Agreements

This Chapter reviews DOTARS' and DCITA's processes and procedures for oversighting individual grant projects. It covers the design of the funding agreements, grant payments, monitoring and acquittal processes.

Introduction

4.1　The ongoing management of a grants program is dependent on two important elements of administration—well-drafted funding agreements and an appropriate monitoring and reporting regime that cover the progress and financial management of projects. Both the funding agreements and the monitoring and reporting regimes should also be tailored to the risks involved.

4.2　At a program level, it is important to ensure that the outcomes from individual projects can be aggregated to report on the achievements of the program as a whole. This requires the development of performance indicators that can also be used for the program as a whole, taking into account the needs of individual project objectives.

4.3　The goal should be to achieve a balance between the Commonwealth's requirements for accountability and the protection of the Commonwealth's interests, against excessive administration that might not prove cost-effective for the program or that might overburden recipient bodies with unnecessary requirements and obligations.

Funding agreements

4.4　Funding agreements contain the contractual arrangements for ensuring that grant recipients expend Commonwealth funds in accordance with funding decisions. Therefore, they need to include key information relating to the project, such as: project objectives, outcomes and deliverables; and project reporting and payment arrangements. Well-designed agreements provide program administrators with an effective project management tool, in which project payments can be used to encourage grant recipients to achieve their project objectives and meet their accountability obligations efficiently and effectively.

NTN

Grant agreements

4.5 DCITA uses grant agreements to administer all NTN projects. These are based on several standard funding templates, including:

- MOUs for State and Territory Governments;

- two types of agreements according to the size of the grants for local government and non-government organisations; and

- an agreement for project variations.

4.6 These each contain the main body of the funding agreement, which is standardised for all grants, and a schedule to the agreement that contains specific project information.

4.7 The template for the standard agreements and MOU are well-designed. The body of the funding agreement comprehensively addresses the use and payment of funds, monitoring and evaluation arrangements and the consequences of default by the recipient. The schedule provides for an explanation of the project objectives, supported by a list of activities to be undertaken in achieving the objectives. It further provides for milestones to be designed according to each stage of the project, with performance indicators to measure how the ongoing activities reflect progress towards meeting project objectives. While performance indicators facilitate good measurement of individual projects, there was considerable variation amongst agreements with no apparent link to broader program objectives.

4.8 Specific agreements for grants in excess of $5 million are used to address higher levels of risk associated with projects of this size. These agreements include a greater level of detail, for example, in relation to default arrangements. This difference in approach, in the case of larger grants, helps to achieve a balance between protection of the Commonwealth's interests on the one hand and excessive administration on the other.

4.9 From the sample examined the ANAO also noted that any conditions specified in the NTN Board's funding approval were reflected in the letters of offer and funding agreements.

Guidance

4.10 DCITA has in place guidance to assist officers in developing and specifying grant agreements and variations. The guidance also serves to ensure consistency in agreements for different projects. It is embedded in the funding agreement templates and serves to explain the purpose of each heading/section. For example:

- project objectives should be '*more specific (and finite/measurable) Project aims/ outputs*'; and

- project milestones and accompanying performance indicators should outline 'how the ongoing activities reflect progress towards meeting Project objectives'.

RTC program

Grant agreements

4.11 Like DCITA, DOTARS uses a template that forms the basis for all RTC program grant agreements. The template comprises a standard body and up to three schedules. The standard body is well-drafted, using plain language that makes it easier for all parties to understand their obligations. It also meets better practice requirements in core areas. For example, it sets out the rights and obligations of the parties to the agreement with respect to:

- financial matters, including progress payments according to the completion of specified project stages and the acquittal of funds;

- monitoring and evaluation requirements, including the preparation of progress reports for the project; and

- default arrangements, where grant recipients fail to meet the terms and/ or conditions of funding.

4.12 The schedules cover matters specific to individual projects, where:

- Schedule 1 provides individual project details, such as the outcomes expected from the project, and project budget and work plan;

- Schedule 2 covers financial and reporting matters, including the number of project payments, details of in-kind contributions to be made by the applicant and other sources, as well as the number and timing of project reports; and

- Schedule 3 details compliance arrangements for projects involving construction and building activity.

4.13 DOTARS, however, provides only limited guidance to officers involved in the negotiation of agreements. The guidance consists of a checklist of basic administrative and legal requirements that must be complied with before the agreement can be signed. As a result, the ANAO was not surprised to find that Schedule 1 contained only limited information on the individual projects. The project agreements reviewed contained no more than a broad indication of the objectives and outcomes expected from projects. For example, the 'scope' of the project was generally 'to establish a Rural Transaction Centre', followed by a

list of the specific services expected to be available, such as GiroPost, Centrelink and Medicare EasyClaim.

4.14 In the project agreements reviewed, no detail was provided on the project goals or conditions associated with individual funding decisions, such as access arrangements and costs to the community to use the facility. Consequently, the agreements make it difficult for the Department to hold grant recipients accountable to the specific terms of their funding decisions. Ultimately, this could affect the achievement of outcomes. Furthermore, the services listed are sometimes subject to contracts with third party service providers. Again, project outcomes might be affected, given that there is no provision for what will happen if the third party services do not eventuate.

4.15 The agreements did not specify intermediate outputs, such as council building approvals, associated with the achievement of project objectives. While the work plans identified some activities that might constitute an output, these were not comprehensive in terms of the range of key activities needed to achieve provision of the services specified. For example, in some instances, they included 'ATM installed' to cover the establishment of an operational ATM facility and, in others, the range of services to be provided was summarised quite simply as 'finalise arrangements with service providers'. This lack of detail on outputs limits the Department's ability to monitor progress and, therefore, its ability to use agreements as a tool for managing individual projects.

Risk management

4.16 With respect to risk management, the only apparent program risks addressed in the schedules relate to a standard set of requirements and expectations for projects involving construction and building activities. Contained in Schedule 3, this included general standard requirements and conditions relating to compliance with industry guidelines or codes.

4.17 It was not clear from the schedules that DOTARS tailored the agreement or monitoring arrangements to the risk.

Payment of grant funds

4.18 Funding agreements should clearly articulate the payment schedule. Payments should be apportioned over the course of the grant, as and when funds are required to progress the project. This serves to protect Commonwealth funds by limiting potential losses on default by grant recipients and also enhances the use of the agreement as a project management tool by encouraging grant recipients to meet milestones to ensure timely completion of projects. It is also good practice to retain a small, but significant, portion of the grant funds until the recipient's final report has been acquitted.

NTN

4.19 In NTN's case, the payment of grant funds is generally consistent with better practice. The payment of project funds occurs in several payments, released over the course of the project, with payments linked to acceptance of progress outlined in project reports, with some funding retained until evidence is received of project completion and demonstration that funds have been fully expended. Consideration is given to the size and timing of payments, taking into account total project funds, specific cash flow needs of the individual projects and milestones identified in the funding agreements. In this respect, DCITA has modified its business rules, having experienced problems after making large upfront payments for some projects. The structure of payments now gives incentives to complete projects and to limit the risks to Commonwealth funding. As such, DCITA appears to have found a balance between the need for accountability and cost-effective administration.

4.20 The payments themselves are linked to the receipt of project reports. The reports are required to demonstrate the level of achievement against expectations for the reporting period. Guidance is provided to recipients on how to demonstrate progress, with reference to the relevant activities, milestones and performance indicators identified in the agreement.

RTC program

4.21 Schedule 2 of the agreements allows for three project payments. These involve two payments to establish the Centre, and a further payment, if necessary, to cover operational costs. The level of payments associated with establishing the Centre are based on a proportion of total project funds, with approximately:

- 70 per cent of funds being released on signing the agreement; and

- 30 per cent at a later time as determined by the recipient, by providing DOTARS with an unaudited financial statement of the expenditure of the funds already provided and a tax invoice for the new amount required.

4.22 This payment regime is an improvement on the earlier program practice, where 100 per cent of funds were released on signing the agreement.

4.23 Neither of these approaches to grant payments represents better practice. The ANAO acknowledges that there may instances where some projects require large upfront payments due to high initial capital infrastructure costs and a lack of financial resources by applicants. However, these cases, should be the exception and determined on the basis of project need and risk.

4.24 At the time of the audit fieldwork, payments were not linked to the achievement of milestones or reports on satisfactory progress in project

implementation. Instead the large upfront payments and lack of progress reports weakened the Department's capacity to oversight projects to ensure they are on track and remain on track. The only report that was received during the establishment of an RTC was an unaudited statement of expenditure to-date as part of the process of seeking the final progress payment. Although a report is received once a Centre has been established, no funds are retained to encourage the provision of the report and acquit the grant.

4.25 There is scope to improve RTC agreements in order to improve their usefulness as a project management and accountability tool. This involves increasing the number of payments and better aligning payments according to project-specific needs and risks. This would require DOTARS to release funds more selectively on the basis of reports of progress against project milestones.

Monitoring of projects

4.26 The purpose of monitoring individual grants is to ensure that funded projects are achieving their objectives efficiently and effectively. The key tools used by administrators for this purpose include project progress reports and financial expenditure reports. Project reports give assurance that the progress being made is consistent with expectations cited in agreements and financial expenditure reports give assurance that Commonwealth funds are being expended in accordance with the intended purposes of the grant. Both sets of reports must be timely to ensure that appropriate intervention can be taken should grant recipients not be meeting their responsibilities.

NTN

4.27 NTN's grant agreements require grant recipients to prepare written reports in relation to their project's implementation. Project reports are expected to cover specific areas of project performance, including progress made against the activities, milestones and performance indicators specified in the agreement, and outline proposed activities over the remainder of the project implementation period. To assist grant recipients in this task, the Department provides a report pro-forma. The follow-up of outstanding reports is the responsibility of Departmental officers who are allocated individual projects within their respective State/Territory teams.

4.28 The administration and monitoring of individual grants is conducted in the NTN Online environment. All details relevant to individual grants are maintained on the database, including: recipient details, project proposals, Secretariat project assessments, funding decisions, grant payment details and performance report details.

4.29 The database also provides an automated system for some aspects of grant monitoring. For example, departmental officers are automatically notified when grant recipients upload progress reports on the system. Once assessments are complete and project reports approved, the system automatically triggers any associated payments.

4.30 However, the ANAO noted some limitations with NTN Online for monitoring individual agreements. First, it did not have the functionality either to report against milestones or to flag when reports against milestones were due. As a result, each State/Territory team had developed shadow systems for monitoring individual projects in terms of dates for progress/final reports, payments and acquittals. This required additional effort to manually extract project information from NTN Online and re-enter it into each team's workload summaries.

4.31 Second, NTN Online was unable to extract historical data. This limited its capacity to deal with some financial aspects, for example, where agreements involved less funds than were approved by the Board, or where funding agreements were altered through under-spends or variations. While this resulted in increased dependence on manual records, it did demonstrate that financial variations were closely monitored.

4.32 The Department advised the ANAO that these shortcomings were being addressed in the development of a department-wide Grant Management System(GMS), based on NTN Online. The GMS is not yet in place and DCITA is currently considering its options for effectively integrating its grants program payments management with its financial management system.

RTC program

4.33 The grant agreements for the RTC program require grant recipients to prepare several written reports on their project once it is operational. The Secretariat provides grant recipients with a particular format for the reports, covering specific areas of the project including:

- a listing of the services provided through the Rural Transaction Centre;

- a summary on the operation of the Rural Transaction Centre (either a summary of the project to date or a summary since the last report);

- whether there have been any difficulties in establishing or operating the Centre;

- whether financial pledges to the project had been received;

- the level of satisfaction with the business relationship between the Rural Transaction Centre and any private sector service providers;

- a description of the marketing, level of success, and future plans for promoting the Centre; and

- a summary of expected achievement for the next year.

4.34 The recipient is required to provide the first report 60 days after the Rural Transaction Centre becomes 'operational', while other progress reports are due 60 days after the end of each subsequent financial year. A final report is due 60 days after the expiry of the project period, which is three years after the opening date of the Centre.[30]

4.35 The ANAO considers that there are significant shortcomings with both the timing and format of reports. In terms of timing, reports are not required until the Rural Transaction Centre is already operational. This means that there is no monitoring of progress during the establishment phase of the project, a critical period of the project. This approach may be appropriate for projects with a short time period before the Centre is established. However, it is not appropriate for longer-term projects, where individual project risks may lead to either project slippage or failure to establish the Centre at all.

4.36 In effect, the late timing of progress reports also reduces the effectiveness of the grant agreements as a project management tool, as project administrators are not in a position to monitor project implementation nor to determine the need for timely intervention. This, in turn, creates a risk for the program, that individual project delays will affect the achievement of the program's objectives. This finding should be considered in light of the present results from the program, where only 80 RTCs were operating at 30 June 2003 out of 164 RTCs approved, plus 119 EPOS RTCs.[31]

4.37 Another issue with the reports is that they do not determine the appropriateness (or size) of further payments. Further payments were not contingent on the receipt of reports, effectively eliminating the use of grant payments as an incentive for recipients to provide progress reports, as well as the final report. This exposes DOTARS to the risk that it may not receive the requisite project reports to be able to fully report on outcomes for the program as a whole. This was acknowledged in the August 2001 internal audit review, which found that 'for the most part, grant recipients have not submitted any reports and acquittals.'

4.38 Similarly, the ANAO found that a significant number of reports were outstanding on operational Rural Transaction Centres.

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[30] The *Opening Date* refers to the date the Rural Transaction Centre is open for business, being 180 days after the date of the Agreement or any earlier date approved.

[31] DOTARS does not monitor the number of Centres expected to be established. See Chapter 6 'Evaluating the Programs'.

Financial acquittal processes

4.39   The acquittal of grants is an integral part of good financial management, providing a measure of assurance that public funds allocated to grant recipients have been used for their intended purposes. Accordingly, acquittal processes should be underpinned by adequate and well-documented arrangements, whereby grant recipients ensure that relevant and comprehensive information is provided in a timely fashion. Grant recipients usually provide this information in the form of certificates or statements of compliance from the responsible officer of the recipient organisation accompanied by financial statements for the relevant period. The stringency of acquittal procedures should also be balanced against the level of risk and take into account the cost of compliance.

NTN

4.40   All NTN agreements require financial statements for individual projects, including an acquittal of grant payments for the period covered by the particular report. The financial statements must show that previous funds have been fully expended, or evidence that the funds previously paid are expected to be fully expended in the near future. Furthermore, no later than three months after the project's completion, grant recipients are required to provide certification that all funds received were expended for the purpose of the project. This has to be accompanied by an audited statement of grant funds for projects of more than $100 000.[32]

4.41   Throughout NTN's implementation, individual State/Territory teams have been responsible for monitoring the status of acquittals and progress/final reports. As a result of the limitations of NTN Online this is achieved through shadow spreadsheets, as noted earlier. In the course of the audit, the ANAO established that a significant number of progress reports and acquittals are either outstanding, in terms of their receipt from grantees, or have been received but are yet to be processed. Of the 373 projects completed, 111 were yet to be fully acquitted.

4.42   Since the fieldwork for this audit was completed, DCITA advised that it had established a Compliance Team of three staff to:

- ensure recipients provide satisfactory acquittals of grant funds within 3 months of the completion of the funding agreement; and

- manage projects where recipients have failed to meet their obligations and, therefore, are not expected to receive further payment.

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[32]   The audited statement must be prepared by a person who is eligible to be registered as an auditor under section 1280 of the Corporations Law and who is not an officer or employee of the grant recipient.

4.43   DCITA has subsequently advised that of the 401 projects completed at the end of August 2003, only 33 acquittals are overdue.

4.44   In addition, NTN staff have been advised that payments are only to be made where reporting is complete and satisfactory against both performance and financial obligations. A senior legal officer has also been engaged to provide legal advice with respect to projects that have specific legal issues and where there is a high risk of projects not being completed.

4.45   DCITA also put in place an audit strategy for NTN in August 2000. The purpose of the strategy was to establish the adequacy of DCITA's and recipients' control environment to ensure that NTN projects were complying with grant agreements.[33]

4.46   The strategy was expected to involve a small random sample of up to ten projects per year and, consistent with the Department's risk management strategy, to include audits of projects considered 'high risk'. In particular, the individual projects were to be audited for financial compliance, the quality of documentation, internal control/financial management in the organisation, and the continuing financial viability of the managing organisation. Twelve projects were initially identified for review. The Department has since revised the number of projects to be audited, with 45 projects expected to be reviewed in 2002–03. At the time of the audit, a total of 33 projects had been audited; including seven projects considered 'high risk' and 17 projects managed by one organisation. The audits have involved on-site visits to the recipient by both the internal auditor and a senior NTN officer not previously involved in approving the project's reports or payment of funds.

4.47   The ANAO's review of 12 internal audit reports indicated: eight projects had appropriate controls to account for all revenues and expenditure relating to the grant; whilst for two projects, although the control environments were not fully adequate, it was still possible to ensure that the grant funding had been expended in accordance with the funding agreement. The remaining two projects had shortcomings that needed to be addressed in order to strengthen the control environment.

4.48   Furthermore, the Department has developed a list of minimum standards for audited financial reports, which has been provided to all recipients. DCITA reviews the reports it receives at the completion of projects against these

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[33]   Up until this point, DCITA had been working on trust and on the basis of representations contained in period reports from grant recipients. There had been no checking behind the reports and no testing that the money had been spent. The grants vary considerably in size, from $10 000 to $10 million.

standards, and takes action in instances where the reports are unsatisfactory or where there are significant material errors.[34]

RTC program

4.49 The financial accountability requirements of individual projects are outlined in the RTC agreements. For projects in the establishment phase, financial statements are required as a basis for the second payment. The procedures require the Secretariat to be satisfied that all funds have been spent in accordance with the funding agreement. Furthermore, at the completion of a project, which is three years after the Centre has been established, recipients are required to provide an audited financial statement showing expenditure of funds against payments. The grant recipient must also certify that:

- funds have been used for the intended purpose of the project; and

- salaries and allowances have been paid in accord with any relevant awards.

4.50 In addition, DOTARS requires audited financial statements as part of the series of progress reports once the RTC is operational. These cover the preceding financial year and are required within 60 days of the completion of the financial year.

4.51 The internal audit review in August 2001 found significant shortcomings with the implementation of the acquittal process. It found that grant recipients had largely not complied with the requirement to provide acquittals. The internal audit report recommended DOTARS review files to confirm whether any acquittals had been received; develop a list of previous grant recipients and dates of when acquittals were due; and contact grant recipients to submit outstanding acquittals. The RTC Secretariat agreed with the recommendation.

4.52 Since then DOTARS has developed a spreadsheet for monitoring financial acquittals for all projects where Rural Transaction Centres have been established. It identifies whether financial statements were due and received for each relevant financial year for each project. The spreadsheet does not account for payments made to Centres that are not yet operational.

4.53 Unfortunately, the information contained in the acquittals register is not up-to-date. DOTARS has written to recipients for report and acquittal information for 2001–02. Nevertheless, details for many projects remained incomplete. There was no information for the latest financial year, 2002–03.

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[34] The Department has returned audited statements to recipients to review where the Department identified significant material errors. In cases where these errors were not addressed, the Department forwarded information on to the Australian Securities and Investment Commission for further investigation.

Conclusion

4.54 Both Departments have standard templates to assist their staff in preparing funding agreements. The design of DCITA's was more informative than DOTARS, involving a better structure and a greater level of detail at a project level. It was consistent with better practice to the extent that it required a description of the objectives and outputs expected from a project, linked performance indicators to the measurement of activities required to achieve individual project objectives, linked payments to project performance, and retained funds until satisfactory project completion. The ANAO found that DCITA's template had been consistently applied across NTN, providing the Department with an assurance that grant agreements could be relied on as an effective project management tool across the program.

4.55 Both Departments provided grant recipients with details of what was expected in their progress reports. DCITA monitors project progress through NTN Online which has some highly desirable features, but also some shortcomings. These shortcomings have resulted in the development of shadow computer systems. The Department advised that these shortcomings were being addressed as part of the move to a department-wide GMS based on NTN Online.

4.56 There is scope for improvement with respect to DOTARS' monitoring arrangements. The most significant shortcomings were the timing of progress reports and the absence of a link between progress reports and project payments. Progress reports are not required until after an RTC has been opened. This is of little help as a mechanism for oversighting progress and managing projects during their establishment phase. The payment of all grant funding without evidence of the completion of milestones, provides no incentive for the grant recipient to complete projects on time or to account to the Commonwealth for financial and outcomes performance.

4.57 Both Departments had significant numbers of outstanding project progress reports and financial acquittals. However, DCITA has implemented an internal audit strategy to give greater assurance that grant recipients were complying with grant agreements. DCITA has also increased its efforts to reduce the number of outstanding progress reports and acquittals including the establishment of a dedicated Compliance Team. DOTARS has written to recipients requesting progress reports and acquittals for 2001–02 but has also experienced difficulty in maintaining up-to-date records of outstanding reports and acquittals.

Recommendation No.3

4.58 The ANAO recommends that DOTARS:

(a) specify the outcomes and outputs expected from projects linked to milestones and performance indicators in funding agreements;

(b) require progress reports and financial expenditure reports during the establishment phase of projects; and

(c) make payments, apart from the initial project payment, subject to the approval of progress reports.

DOTARS' Response

4.59 (a) Agreed. The Regional Partnerships programme commenced on 1 July 2003. All applications approved from this date will use Standard Funding Agreements. These require:

• outcomes and outputs from projects to be linked to milestones and performance indicators in funding agreements;

• progress reports and financial expenditure reports to be provided throughout the life of the project; and

• payments contingent on the receipt of satisfactory progress reports.

(b) Agreed. See (a) above.

(c) Agreed. See (a) above.

5. Program Monitoring and Evaluation

This Chapter reviews DCITA's and DOTARS' monitoring and evaluation of program outcomes.

Introduction

5.1   Monitoring and evaluation are an important part of managing grants programs and are closely linked. Ongoing monitoring contributes to informed decision-making for managing and improving program administration. The information gained through program monitoring also forms the basis for evaluating the effectiveness of the program and assists in ensuring accountability.

Monitoring program outcomes

5.2   An effective program monitoring strategy is important in assisting departments to monitor financial expenditure and to be able to report on progress against program objectives. In this respect, the information obtained from individual projects should be able to be aggregated to assist in monitoring and assessing the program as a whole. Accordingly, it is important to have a management information system that has the capacity to aggregate the performance and financial data collected on individual projects.

NTN

5.3   DCITA uses NTN Online for monitoring program outcomes. This provides high-level, monthly reports on both financial and some aspects of performance of the NTN programs.

Financial monitoring

5.4   The financial reports provide a high standard of monitoring program expenditure. The reports provide information on the total level of expenditure, and existing and anticipated commitments for NTN. These can be produced for each NTN program and according to State/Territory jurisdiction, electorate and project size.[35] Although NTN Online is not interfaced with the Department's financial management system, the Department conducts reconciliations between the two. Nevertheless, the use of a shadow financial system is not an ideal situation.

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[35]   This includes multi-State, State-wide, regional, and specific projects.

5.5 The financial reports have been effective in monitoring program expenditure. The Department, for instance, was able to identify under-expenditure in relation to the BARN program. This involved the Department advising the NTN Board in August 2002 of a risk that BARN funding might not be fully expended by the program's end date of June 2004. Up to $35 million of program funds remained unallocated, with pending applications having only marginal business cases on which to proceed.

5.6 DCITA advised the NTN Board on various options to address the under-expenditure. These were based on an assessment of need in terms of current and future availability of services, and within the context of other Government policy measures aimed at addressing service inequities in regional, rural and remote areas. The financial issue has since been resolved. The NTN Board put a proposal to the then Minister in September 2002 and, in June 2003, the Government announced that it would transfer $35 million unallocated BARN funding to other telecommunications initiatives as part of its response to the Regional Telecommunications Inquiry *Connecting Regional Australia*.

Performance monitoring

5.7 NTN Online, however, is more limited in its capacity to report on program performance outcomes. The performance reports that are produced are limited in scope—they include some activity reports, such as the numbers of project approvals/non-approvals and lists that contain an outline of project proposals. The Department had expected the establishment of NTN Online to enhance program outcome reporting, especially given that the database houses a good deal of up-to-date information on individual projects. However, while NTN Online has the facility to customise reports according to the criteria selected, it has not led to a standard suite of regular program performance reports.

5.8 The ANAO associates the reporting limitations of NTN Online with shortcomings in planning, where insufficient consideration was given to the types of performance information required for program monitoring at the strategic level. Consequently, performance information required for individual project monitoring is determined independently of that needed for program monitoring. As a result, there is considerable variation amongst the activities, milestones and performance indicators selected for individual agreements. This makes aggregation of data for monitoring and reporting on program outcomes difficult.

5.9 At the time of this audit, DCITA's Information Management Committee was reviewing NTN Online's reporting tools. In addition, a Grants Management System Board had been established to consider the proposed move of all of the Department's grants programs to an online GMS. The Department expected

these initiatives to address a number of the shortcomings experienced with NTN Online's reporting. Furthermore, because the GMS is being developed with a direct link to the Department's financial management system, the move to the GMS is expected to overcome the need for financial reconciliations between the Department's financial management system and individual program databases like NTN Online. As noted earlier the GMS is not yet in place and alternative options are being considered.

RTC program

5.10   An Access Database, used to monitor the RTC program, has been in place since the outset of the RTC program. In terms of grant payments, the Department has a separate financial system from which funds are paid to grant recipients.

5.11   The internal audit in August 2001 detailed the early reporting limitations of the Database. It did not provide basic reports, such as the approval status of applications, for monitoring individual projects and hence the program as a whole. To compensate for this, the RTC Secretariat prepared spreadsheets based on the results of the Minister's approvals. The internal audit, however, found data integrity issues, where inconsistencies existed between the spreadsheets, the RTC Advisory Panel Minutes and information contained on files.

5.12   In addition, the internal audit found that no reconciliations had been made between the data contained in the Access Database and actual payments made through DOTARS' payment system.

5.13   The internal audit made three recommendations to address these issues. The RTC Secretariat agreed with the recommendations, which required implementation within two months.

5.14   Since that time, DOTARS has undertaken some improvements to the Access Database and, at the time of this audit, further revisions were expected. However, they did not cover all of the internal audit recommendations, as the Database still lacked the information needed to track projects. For example, additional information was included on whether Rural Transaction Centres were operational and acquittal information provided. However, it did not extend to reporting on project milestones and due dates of project reports. Consequently, considerable work is still required to improve the functionality of the system for monitoring individual projects and, hence, the program as a whole.

5.15   In addition, the Department is still dependent on shadow spreadsheets, maintained separately from the Access Database, in order to monitor financial information. As well as the acquittals spreadsheet[36] developed for monitoring

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[36]   As noter in Chapter 4, the spreadsheet has not been kept up to date.

individual grants, DOTARS had also developed a 'contract tracking' sheet. This identifies total project funds, total payments made and the outstanding grant amount to be paid.

5.16   The two spreadsheets are not linked which has implications for financial monitoring for the program as a whole. For example, a consolidated report cannot be generated on the level of funds acquitted for the program, as information on total payments made to recipients is on one spreadsheet while the acquittal information is contained on the other. DOTARS is expecting to address this issue as part of the introduction of any department-wide GMS as outlined below.

5.17   In terms of reconciliations, the ANAO found that the Department does not perform reconciliations between the Access Database and the Department's payments system. DOTARS attributed this to a lack of resources caused by staff turnover and absences. The ANAO also found some data integrity issues between project approvals and payments. As a result, there is a need to establish that total project payments accord with the Minister's funding decisions and that project payments to date reconcile with those made by the Department's payments system.

5.18   DOTARS advised the ANAO that since the fieldwork was completed for this audit, the Department, like DCITA, has commenced work on a Department-wide GMS. At the time of the audit, the system was being piloted, although an implementation timetable was yet to be decided. DOTARS further advised that any decision to integrate the RTC program into the GMS would be dependent on a number of factors, amongst them outcomes from the pilot.

Evaluating the programs

5.19   In terms of program outcomes, evaluations should aim to measure program achievements, with a view to obtaining more effective outcomes. In terms of administration, evaluations should aim to identify improvements in processes either to improve program efficiency or to improve accountability.

NTN

5.20   At the outset, DCITA planned to conduct a major evaluation of the NTN General Fund to receive early feedback on the program's implementation. However, the 1999 audit alerted the Department to potential difficulties arising from the broadened program objectives. This earlier audit also showed that DCITA had not developed operational objectives and outcomes, including an associated performance measurement framework, necessary to identify the:

- performance information needed for measuring outcomes; and

- processes and mechanisms needed for collecting data ahead of an evaluation exercise.

5.21 The evaluation process started with the engagement of a consultant in February 1998. The approach involved the development of a framework to measure outcomes against the broader objectives of the NTN General Fund. This included defining outcomes in the first instance according to an 'outcomes hierarchy', which described the highest level outcomes in terms of the social and economic benefits and lower level outputs in terms of infrastructure funded under the program. To assist with the process, the Secretariat developed a system for classifying all funded projects according to one or more categories. In other words, the evaluation design was centred on classifying projects in such a way as to allow a description of the type and nature of their contribution to program outcomes. The classification system was to be applied across all projects.

5.22 The evaluation produced one report in July 2001, which covered the period of the NTN General Fund up to 31 December 1999. The evaluation, however, was abandoned in August 2002, some five years after the start of the program. It was terminated for several reasons, amongst them that it had been unsuccessful in delivering meaningful results and that there had been delays in reporting due to technical problems with data collection through the NTN Online system.

5.23 In 2002, DCITA developed a revised evaluation strategy, which encompasses outcomes from the broader group of NTN programs in addition to the General Fund. This second evaluation is being conducted over a two-year period, with a final report expected in mid-2004. It is designed according to ANAO's Better Practice Guide on the *Administration of Grants* and the Department of Finance and Administration's *Program Evaluation—A Guide for Program Managers*.

5.24 The revised evaluation exercise has several objectives. Principally, it is expected to report on the outcomes achieved for the community that would not otherwise have occurred without Government assistance, and the efficiency of program administration. As such, the Department expects to gain an understanding of the lessons learned, both from a policy perspective and in an administrative sense. In terms of outcomes, this will involve case studies of a number of successful projects, as well as the identification of all projects that have failed to achieve their intended objectives to a significant degree. To deliver this, the evaluation has three components that include:

- an assessment of the outcomes achieved, including how well they matched the three objectives of enhanced telecommunications infrastructure and services, increased service availability, and reduced disparities in access to services;

- a stock-take of the tangible assets and services delivered by the program, such as the number of computers purchased and types of training delivered; and

- an assessment of the efficiency of the program's administration, which covers the activities of both the NTN Secretariat and the NTN Board and their compliance with better practice.

5.25 The Department is conducting the outcomes component, with the assistance of consultants. At the time of the audit, the Department's Communications Research Unit was being used to develop the evaluation framework and methodology, with the consultants largely involved in the collection of performance information. The reporting is expected in two parts, the first draft report was expected in December 2002, and the final report at the conclusion of the evaluation process in March 2004. However, at the time of the audit, the milestone for the first report had not been met and the methodology was still being refined.

5.26 DCITA subsequently advised that to evaluate the outcomes and impacts of the NTN program the evaluation team will draw on:

- The final report submitted by each project on completion. Since 2000, these reports have been prepared according to a standard format, enhancing their consistency and ensuring information on the achievements of the project can be linked to the NTN program objectives

- Case studies and focus groups in selected locations across regional Australia. These activities will seek to establish the impact of NTN and the outcomes of the program at a community level.

- Analysis of changes in the disparities in communications infrastructure and services between metropolitan and non-metropolitan areas.

- Spatial mapping of NTN funded communications infrastructure, to measure the extent to which NTN has increased infrastructure development in regional areas.

5.27 The Department is also conducting the stock-take component of the exercise. Questionnaires were sent to all funded projects in June 2002. This was a condition of funding, which had been introduced into agreements across the program following the move to NTN Online. At the time of the audit, DCITA advised that the response rate to questionnaires had been poor. While this affected the quality of the Department's analysis, a report was still produced.

5.28 The low response rate was not surprising at this point in the program. Many projects have finished. By contrast, good planning might have avoided or

reduced DCITA's dependence on grant recipients for information at the end of the program. For example, had DCITA identified the need to record assets purchased with NTN funds at the commencement of the program, it would have been able to track what was expected to be purchased against actual purchases as reported in project reports and project acquittals.

5.29   In order to ensure appropriate expertise and objectivity, a consultant was engaged to conduct the administrative efficiency component of the evaluation. The areas of administrative efficiency covered by the evaluation are expected to include: the application process, including the assessment and decision-making processes; grant agreement management; and audit control and risk management.

RTC program

5.30   An evaluation exercise is being conducted by DOTARS in two phases, as part of the Post-Implementation Review of the RTC program. Phase One involved a two-month evaluation exercise, conducted by a consultant in May-June 2002— this was after a full three years of program administration and over two years of the FON. Phase Two commenced in February 2003, and is due to report in June 2003.[37]

5.31   Phase One focussed on whether Rural Transaction Centres were providing, or potentially providing, improved access to services for rural communities and whether Centres were likely to be sustainable. However, it did not focus on administrative efficiency or the timeliness of the establishment of Centres.[38]

5.32   The Review has involved only a limited number of Rural Transaction Centre locations, five in phase one and nine in phase two.

5.33   Phase One of the Review found:

> The RTC Programme appears to be very effective in its primary objective of improving access to services for rural communities.

5.34   However, it identified significant issues in terms of financial sustainability that were affecting the current performance of the five Centres involved in the Review. These issues were considered likely to also affect longer-term outcomes for the program. The central issues included:

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[37]   DOTARS has advised that the Phase Two report has now been received.

[38]   The scope of the Review was narrowed due to time constraints. The initial objectives included providing indicative data which:

- identified whether objectives were being met;
- piloted a model for development of an evaluation framework for program review that can be applied to other departmental regional programs; and
- provided data and information for the 2001–2002 Portfolio Budget Statement and Annual Report reporting requirements.

- confusion about what was meant by 'self-funding', in the context of the program's objective that Rural Transaction Centre have long-term sustainability;

- confusion about ownership and what this implied, especially with respect to projects that involved applications from community associations but involving councils as sponsors for the project;

- the quality of business plans underpinning Rural Transaction Centres, especially in terms of their operation as businesses; and

- the need for a more coordinated, whole-of-government approach to guaranteeing and providing a package of government services to Rural Transaction Centres.

5.35 The Review made some seven recommendations, based on these findings and observations of success factors identified during the Review. DOTARS has subsequently implemented, or commenced implementing, several exercises in response to Phase One of the Review.

5.36 First, the former Minister approved a package of four Sustainability Initiatives. These are aimed at maintaining and enhancing the sustainability of Rural Transaction Centres. They include:

- creating an RTC network of key stakeholders to develop a strategy to address the creation of a sustainable national network of Rural Transaction Centres;

- developing an Internet-based network, or 'Extranet', to support the proposed RTC Network;

- developing a website to act as a 'front end' to the proposed Rural Transaction Centre network; and

- developing a standard technology package to support Rural Transaction Centres acting as 'hubs' for people in small communities to access home-based work opportunities.

5.37 Second, DOTARS extended the GRM contract by one year. The extension was to maximise field assistance provided to applicants and funded projects, especially in terms of assisting funded projects to establish Rural Transaction Centres and to build their sustainability.

5.38 Third, the DOTARS reviewed the ownership and business models for Rural Transaction Centres and the Minister subsequently approved changes to the program to increase flexibility, as described in Chapter 2.

5.39 The Department has also advised that a data collection exercise is now underway involving 65 RTCs that have been operational for six months or more. A database is being finalised that will permit a rigorous analysis of factors associated with successful RTCs. If the results of regression analysis prove satisfactory, they will enable further efficiencies in assessment processes to be implemented. Part of the analysis is also designed to estimate the net present value of costs and benefits of the program.

Conclusion

5.40 Both Departments have databases to record data on the administration of grants for their respective programs. These contain both performance and financial information for individual projects for monitoring program outcomes.

5.41 NTN Online provides monthly reports on both financial and performance aspects of the NTN programs. There are, however, some shortcomings in NTN Online's capacity to report on program outcomes, due in part to the limited scope of the performance reports that are produced. This shortcoming is due to insufficient consideration at the planning stage of the types of performance information that is required for monitoring at the program level. There are also no links between DCITA's financial management system and NTN Online. The proposed introduction of the GMS was designed to address some of these issues but it will not remedy the shortage of performance information.

5.42 DOTARS monitors the RTC program through a number of small, independent databases. An internal audit review in August 2001 identified shortcomings with the main database and recommended an upgrade of the database to improve data integrity and monitoring capacity. It also recommended regular reconciliations between the database and payments made through DOTARS' payments system to ensure consistency between payments and funding decisions. These recommendations, however, had been only partially addressed. This limits the Department's ability to monitor progress against program outcomes as well as program expenditure. A GMS is also being developed by DOTARS that may address some of these issues.

5.43 Both DCITA and DOTARS have conducted some evaluations of their respective programs, and have other evaluation work in progress. However, despite these efforts, neither Department is in a position to fully evaluate the success of their programs.

5.44 DCITA abandoned its first attempt to evaluate the NTN General Fund after three years of trying as a result of methodological and data collection problems A second evaluation exercise, which commenced in 2002, has also experienced difficulties with data collection that has setback timing. The scope

of the revised evaluation, however, is consistent with better practice to the extent that it has a focus on both the administrative efficiency and program effectiveness of the NTN initiatives.

5.45 The Department is aiming to report on the extent of the increase in telecommunications infrastructure development in regional areas. However, as no baseline data was collected at the start of the program and no targets were set, what constitutes good performance is not clear. This will make it difficult to demonstrate the success, or otherwise, of the program.

5.46 DOTARS' review of the RTC program in 2002 found the program appeared to be meeting its objective to improve access for small rural communities to basic government, financial and other services. It also identified the financial viability of some of the Centres as a key constraint that could affect the longer-term success of the program. DOTARS, however, has taken a number of steps to try to overcome this issue.

5.47 At present, DOTARS is not in a position to determine the efficiency and effectiveness of the RTC program. However, the Department has advised that it is now undertaking a data collection exercise that is designed to enable further efficiencies in assessment processes to be implemented and to estimate the net present value of costs and benefits of the program.

5.48 Some of the shortcomings with both the evaluation of NTN and the RTC program can be traced to insufficient strategic and operational planning at the commencement of the programs. Neither Department established the range of performance information and targets needed for evaluation purposes, nor the associated data collection processes and mechanisms that needed to be put in place early in their programs' implementation. In future it is important that both Departments ensure that evaluations are properly planned at the outset of programs to ensure efficient, effective and accountable outcomes.

6. Meeting External Accountability Requirements

This Chapter reviews the external reporting of NTN and the RTC program to stakeholders through annual reports, including the links between the performance indicators in the Portfolio Budget Statements and the actual reporting in the Annual Reports.

Introduction

6.1   Public reporting of results is a key element of accountability for the expenditure of Commonwealth funds. The intention is to enable Parliament and other stakeholders to make an informed assessment of a program's performance during its implementation. The Annual Report is the key accountability document for Commonwealth agencies, which reports on performance against indicators identified in agencies' Portfolio Budget Statements (PBS) for the same year. With respect to NTN, the NTN Board produces a separate Annual Report. DCITA publishes this report as an Appendix to its Annual Report.

6.2   Commonwealth agencies are required to account for performance according to the Outcomes and Outputs Framework. Introduced in 1999–2000, this includes reporting on the outcomes and outputs achieved, as well as the cost-effective use of inputs. In other words, it should provide a clear understanding of achievements in terms of progress made against the outcomes sought by Government, and the efficiency with which they were achieved. Discussion of progress should be consistent over time and be presented in the context of the risks, challenges and priorities for the year ahead. The audit examined the external reporting of NTN and the RTC program for 2001–02, as this was the most recent full-cycle at the time of the audit.

Planned and actual Departmental reporting

6.3   The DCITA PBS for 2001–02 specifies the performance indicators for NTN under two separate headings, the *Regional Telecommunications Infrastructure Fund* (RTIF) for the NTN General Fund and the *Telstra Social Bonus 2* (TSB 2) for the other programs. The details of the performance indicators for 2001–02 are provided in Table 9.

Table 9

NTN—PBS Performance indicators 2001–02

Outcome 2	
Competitive and effective communications and information technology industries and services and improved access to Government information.	
Regional Telecommunications Infrastructure Fund	**Telstra Social Bonus 2**
Efficient, timely and proper program administration	Efficient program administration; timely funding agreement management; and tenders conducted with probity
Satisfaction of the Networking the Nation Board and other stakeholders with the quality of Secretariat support	Extent to which the Government targets for rollouts are met
Percentage of applications fully administered in accordance with timeframes and to the standards described in the program guidelines	Percentage of applications fully administered in accordance with timeframes and to the standards described in the program guidelines
Percentage of deed proposals made to applicants within one month of announcement of Board decisions	Percentage of deed proposals made to applicants within one month of announcement of Board decisions

Source: DCITA Portfolio Budget Statements 2001–02

6.4 The DOTARS PBS for 2001–02 specifies the performance indicators for the RTC program. These are set out in Table 10.

Table 10

RTC program—PBS Performance indicators 2001–02

Key Result 2	
Regional communities which have better access to economic opportunities and services and which are able to take the lead in their own planning and development	
Effectiveness	Small communities develop their own centres providing services such as banking, postal, internet, phone and fax, Medicare claim services and access to appropriate Federal, State and local government services.
Quality	RTCs report satisfaction with the programme. Meeting expressed community need.
Cost	$18.4 million.
Location	Regional, rural and remote communities of less than 3,000 residents.

Source: DOTARS Portfolio Budget Statements 2001–02

Quality of Reporting

6.5 Neither of the Departments' Annual Reports provide Parliament, stakeholders or the public with the information needed to assess whether the telecommunications grants programs are being administered in an efficient, effective and economic manner. This is due to the broad nature of the effectiveness indicators specified in the PBS' and the subsequent reporting in annual reports.

This primarily focuses on giving an overview of the programs, their objectives, and total funds expended over the year. Similarly, efficiency indicators tend to report specific levels of program activity without context. As a result, it is difficult to ascertain from the data reported:

- whether the program objectives are being achieved;

- whether the programs are being delivered in a cost-effective manner; or

- the nature of the benefits to rural and regional areas.

6.6   For example, DCITA's 2001–02 Annual Report gives an overview of the NTN General Fund and its purpose, numbers of assessments and project approvals, and funds expended for the year. Examples of projects that have been approved over the year are also included, as well as an indication of the remaining unallocated funds for the program. Under the TSB 2 heading, the Annual Report provides an explanation of the different programs and their purposes, with only a brief explanation of the funds that were expended over the year. In both cases, this makes it difficult to determine actual performance, since reporting is not against the performance indicators specified in the PBS.

6.7   On the other hand DOTARS' does report consistently against the performance indicators in the PBS. DOTARS' performance indicators in its 2001–02 Annual Report address *cost* and *location* indicators, providing information on the number of projects approved, the funds expended over the year, and the average size of communities to have received funding. The Report, however, does not facilitate an understanding of how the outcome indicators, *effectiveness* and *quality*, are considered and evaluated. This is despite the statement that performance indicators have been 'substantially achieved' and that Rural Transaction Centres have assisted the development of rural, regional and remote areas.

6.8   A further difficulty is the inconsistency in the performance indicators that DOTARS uses to report performance from one year to the next. For example, the quality indicators used in 2001–02 were different to those used in 2000–01.

6.9   Similarly, earlier DOTARS PBS' also had a *quantity* performance measure that was reported against in the 1999–2000 and 2000–01 Annual Reports. In 1999–2000, an indicator was specified of 'up to 500 RTCs in the life of the program'. In 2000–01, the measure read 'up to 500 centres over five years'. Due to the lack of detail in reporting, there was no explanation as to whether or how the Department was achieving its target.[39] The *quantity* indicator was not reported against in 2001–02. This makes it difficult to assess what has been achieved across years, in terms of the program's contribution to the Portfolio outcome.

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[39] In relation to these, the Department had set a target in the 1999–2000 PBS of 70 Rural Transaction Centres to be established over the course of the year.

6.10   Finally, neither DCITA nor DOTARS discuss emerging trends and challenges for program management in their respective annual reports. As such, stakeholders do not have a context for assessing the level of achievement in terms of factors that might have affected their performance for the year in question, or from one year to the next.

NTN Board Annual Reports

6.11   The NTN Board prepares an Annual Report in accordance with its Terms of Reference. The Annual Reports also provide an overview of NTN, its administrative arrangements, a listing and brief explanation of the projects approved throughout the course of the year, and any policy changes affecting the implementation of the programs. Over the course of NTN, the Reports have been expanded to cover funding activities of the TSB 2 programs. The Reports, however, do not provide an analysis of the contribution of the projects to the achievement of the Government's stated objectives for the program. Instead, they focus on activities rather than outcomes.

6.12   The report also contains a section on 'Monitoring and Review'. This section provides an overview of planned evaluation activities for the coming year. For example, the 2000–01 Report lists a number of initiatives that were to take place in 2001–02, such as a program of compliance checks of NTN-funded projects, the development of evaluation questionnaires on NTN-funded projects, and the engagement of independent consultants to conduct ongoing evaluation. The Reports, however, do not report on progress against planned activities. For example, the 2001–02 Report does not discuss progress against the initiatives identified in the 2000–01 report.

Conclusion

6.13   The Departmental Annual Reports and the NTN Board Annual Report provide a measure of accountability through public reporting. The Reports provide information on key statistics, such as numbers of projects approved and expenditure for the year. The additional information provided in the NTN Board's Annual Report enhances accountability with respect to NTN, especially in relation to administration arrangements, type and nature of projects approved, and identification of planned evaluation activities.

6.14   Current reporting, however, falls short of providing the range of information that would assist stakeholders to make an informed assessment of program performance over time. This is because performance information is predominantly focused on activities undertaken by the Departments, rather than outcomes being achieved. The choice of performance indicators serves to provide

only partial information needed to determine both Departmental efficiency and program effectiveness. Furthermore, there is little reporting on trends, risks and challenges for the future. In terms of program effectiveness, the NTN Board Report also falls short of the information needed to assess the level of achievement against the outcomes sought by Government.

6.15 Accountability for the programs would be enhanced by more effective reporting that focuses on program outcomes and efficiency of delivery, as well as a discussion on trends, risks and challenges for the future.

Recommendation No.4

6.16 The ANAO recommends that both DCITA and DOTARS review the content of annual reports with a view to improving the quality of reporting on program outcomes, efficiency of program delivery and discussion on trends, risks and challenges facing the various programs.

Agency Responses

DCITA

6.17 DCITA acknowledges that the quality of its reporting could be improved and has addressed this by undertaking a major review of its Outcomes and Outputs structure and related performance indicators. The new structure will form the basis of reporting from the 2003–04 financial year.

DOTARS

6.18 Agreed. DOTARS will review its approach to the treatment of RTCs in Annual Reports within the context of its overall reporting obligations.

Canberra ACT
5 November 2003

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Agency Responses

DCITA

The Department makes the following comments on the draft Report:

DCITA welcomes the ANAO findings that the NTN programs exhibited transparent decision making processes with clear documentation of reasons for decisions; that there was no evidence of inequities in the decision making process; and that our funding arrangements were consistent with better practice.

DCITA acknowledges the importance of operational objectives as a central element in an overall performance information framework and is working to improve the performance indicators for all the programs that it administers. It notes that, because a very specific focus was established for each of the Social Bonus initiatives, its ability to report on the efficiency and effectiveness of its administration of these initiatives, and on their achievements and outcomes, is considerably enhanced.

DCITA agrees with the Report's conclusion in paragraph 5.48 that it is important that future evaluations are properly planned at the outset to ensure efficient, effective, and accountable outcomes.

In response to Recommendation No 4, DCITA acknowledges that the quality of its reporting could be improved and has addressed this by undertaking a major review of its Outcomes and Outputs structure and related performance indicators. The new structure will form the basis of reporting from the 2003–04 financial year.

DOTARS

The Department notes that the RTC Programme was initiated in an environment of very constrained resources and under significant time pressures. The program is driven by demand from communities. DOTARS welcomes the recognition in the report that the Department has made a range of improvements to the administration of the Programme. The RTC arrangements now form part of Regional Partnerships Programme which is based on the guiding principles set out in the ANAO Better Practice Guide. This includes establishing clear objectives, an accountability framework and performance measures in the design of the programme. Regional Partnerships also uses Standard Funding Agreements and effective monitoring arrangements in managing accountability and risk. DOTARS is also implementing a comprehensive evaluation mechanism for the new programme as well as progressively installing modules of a comprehensive grants management support system.
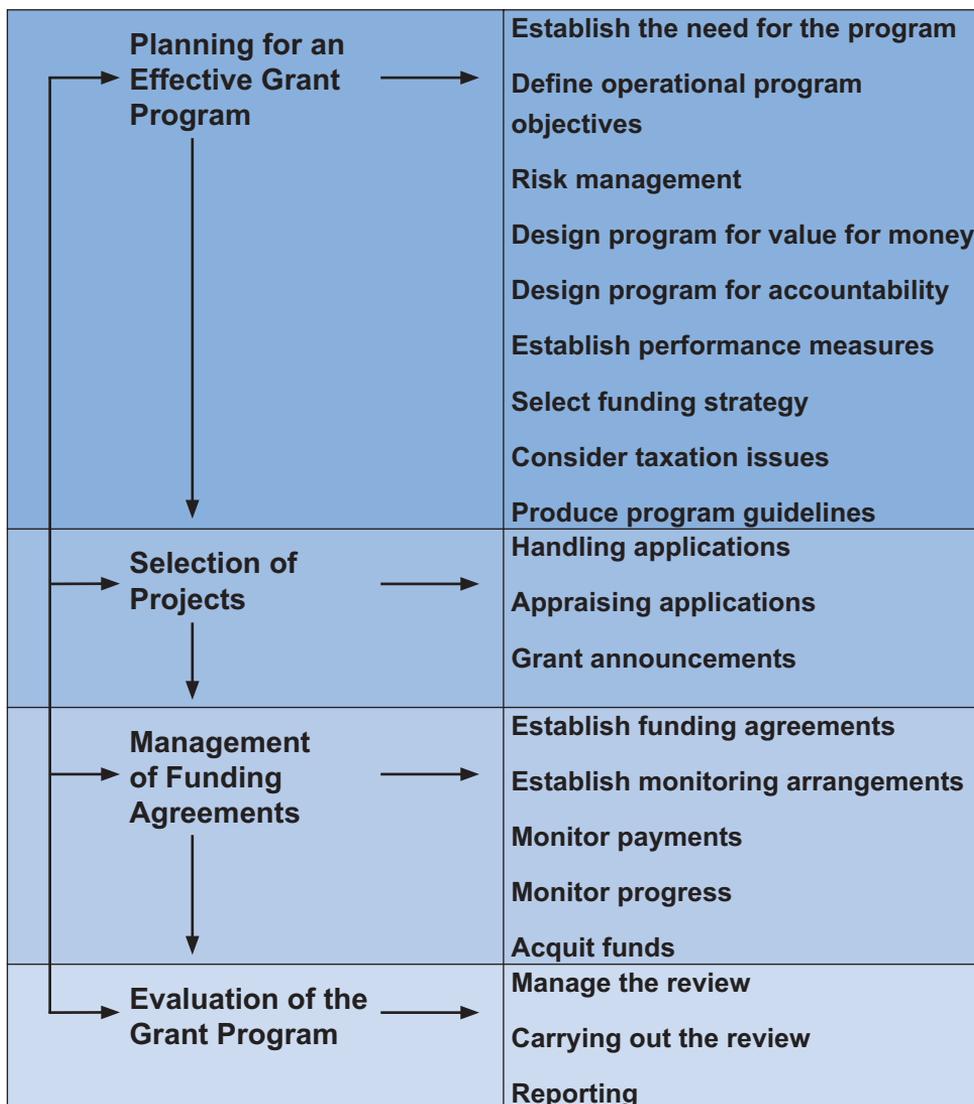
Appendix 2

Commonwealth Funding for Telecommunications Services

PROGRAM OR INITIATIVE	FUNDING ALLOCATION $ million
Regional Telecommunications Infrastructure Account	
Networking the Nation General Fund	250.0
Telstra Social Bonus 2 Funding	
Telecommunications for Remote and Isolated Island Communities	20.0
Internet Access for Regional and Remote Communities [1]	6.1
Building Additional Rural Networks [2]	35.0
Networking the Nation Local Government Fund	45.0
Expanded Mobile Phone Coverage	3.0
Continuous Mobile Phone Coverage along 16 of the Busiest Highways	25.0
Connecting Tasmanian Schools	15.0
Untimed Local Calls in Remote Australia	150.0
Trials in Innovative Government Electronic Regional Services (TIGERS)	10.0
Television Fund	120.0
Rural Transactions Centres [3]	61.0
Building IT Strengths	158.0
Netwatch/NetAlert	3.0
Launceston Broadband Project	15.0
Telecommunications Service Inquiry (Besley)	
Improved Service Connection Times	Nil
Mobile Phone Coverage for Towns with Populations of 500 or More [4]	21.7
Mobile Phone Coverage for Other Areas/Regional Mobile Phone Program	50.5
Internet Assistance Program [5]	10.0
Other Internet Initiatives	Nil
National Communication Fund	52.2
Community Information Campaign	6.9
Funding for Consumer Representation	3.4
Enhanced Payphone Services for Remote Indigenous Communities	Nil
Telecommunications Needs of Remote Indigenous Communities	0.4
Training in the Use of TTY	Nil

PROGRAM OR INITIATIVE	FUNDING ALLOCATION $ million
Information for Consumers on the Availability of Certain Services	Nil
Reviews of Universal Service Obligation Contestability	Nil
Review of Telecommunication Specific Competition Regulation	Nil
Appointment of a New 'Regional' Member to the ACA	Nil
Reliability Standards and Improved Quality of Service Reporting	Nil
Review of Customer Service Guarantee	Nil
Total	1 061.2

Notes (1) The original allocation was $36 million but $21 million was transferred to other telecommunications initiatives and $8.9 million declared as savings in the 2002–03 Budget.

(2) The original allocation was $70 million but $35 million has been reallocated to other telecommunications initiatives.

(3) The original allocation was $70 million but $9 million was transferred to the Besley Mobile Phone Initiatives.

(4) The original allocation was $37.7 million but $16 million was redirected to other telecommunications initiatives or offered as savings in the budget context.

(5) Commonwealth contribution.

Appendix 3

Steps in the Administration of a Grant Program

Planning for an Effective Grant Program	Establish the need for the program
	Define operational program objectives
	Risk management
	Design program for value for money
	Design program for accountability
	Establish performance measures
	Select funding strategy
	Consider taxation issues
	Produce program guidelines
Selection of Projects	Handling applications
	Appraising applications
	Grant announcements
Management of Funding Agreements	Establish funding agreements
	Establish monitoring arrangements
	Monitor payments
	Monitor progress
	Acquit funds
Evaluation of the Grant Program	Manage the review
	Carrying out the review
	Reporting

Source: *Administration of Grants,* Better Practice Guide, ANAO, Canberra, May 2002, p. X.

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