

The Auditor-General
Audit Report No.37 2012–13
Performance Audit

Administration of Grants from the Education Investment Fund

**Department of Industry, Innovation, Climate Change, Science,
Research and Tertiary Education**

Australian National Audit Office

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Canberra ACT
22 May 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament. The report is titled *Administration of Grants from the Education Investment Fund*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', with a long horizontal flourish extending to the left.

Ian McPhee
Auditor-General

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

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Contents

| | |
|---|-----------|
| Abbreviations..... | 8 |
| Glossary | 9 |
| Summary and Recommendations | 11 |
| Summary | 12 |
| Introduction | 12 |
| Audit objective and scope | 16 |
| Overall conclusion..... | 17 |
| Key findings by chapter..... | 20 |
| Summary of agency's response to the proposed report..... | 27 |
| Recommendations | 28 |
| Audit Findings | 29 |
| 1. Introduction | 30 |
| Supporting tertiary education and research infrastructure in Australia..... | 30 |
| The Education Investment Fund..... | 32 |
| The Australian Government's grants administration framework..... | 37 |
| Audit approach..... | 38 |
| 2. The Second Round of Assessment and Selection | 42 |
| Introduction | 42 |
| A planned approach to the second funding round..... | 44 |
| Program guidelines..... | 45 |
| The application assessment process..... | 46 |
| Funding recommendations and approvals..... | 54 |
| Conclusion | 57 |
| 3. The Third Round of Assessment and Selection | 59 |
| Introduction | 59 |
| A planned approach to the third funding round..... | 61 |
| Program guidelines..... | 62 |
| The application assessment process..... | 63 |
| Funding recommendations and approvals..... | 70 |
| Conclusion | 74 |
| 4. Implementing and Managing Funding Agreements | 76 |
| Introduction | 76 |
| The time taken to sign funding agreements..... | 77 |
| The form and content of funding agreements..... | 79 |
| Monitoring the progress and performance of funded projects..... | 87 |
| Making grant payments..... | 90 |
| Meeting financial management requirements..... | 93 |
| Conclusion | 96 |

| | |
|--|------------|
| 5. Performance Measurement and Monitoring..... | 98 |
| Introduction | 98 |
| Performance measures..... | 98 |
| Monitoring the administration of the EIF | 103 |
| Evaluating the EIF..... | 104 |
| Conclusion | 106 |
| Appendices | 109 |
| Appendix 1: Agencies' responses to the proposed report..... | 110 |
| Appendix 2: Description of EIF funding components | 114 |
| Appendix 3: Details of the 50 projects approved in the second and third funding rounds..... | 115 |
| Appendix 4: The EIF mandatory criteria | 119 |
| Index..... | 120 |
| Series Titles..... | 122 |
| Current Better Practice Guides | 127 |

Tables

| | | |
|-----------|---|----|
| Table S.1 | Responsibility for the Education and Research Minister functions described in the <i>Nation-building Funds Act 2008</i> | 14 |
| Table S.2 | Details of approved funding in the second and third funding rounds..... | 17 |
| Table 1.1 | EIF financial position as at 31 December 2012..... | 33 |
| Table 1.2 | Responsibility for the Education and Research Minister functions described in the <i>Nation-building Funds Act 2008</i> | 34 |
| Table 1.3 | Details of approved funding in the second and third funding rounds..... | 39 |
| Table 1.4 | Structure of the report..... | 41 |
| Table 2.1 | Evaluation criteria used in the second funding round | 47 |
| Table 2.2 | Assessment of the evaluation criteria used in the second funding round..... | 48 |
| Table 2.3 | Overall indicative rating methodology in the second funding round..... | 51 |
| Table 3.1 | Evaluation criteria used in the third funding round | 64 |
| Table 3.2 | Assessment of the evaluation criteria used in the third funding round..... | 65 |
| Table 3.3 | Numbers and value of projects recommended for funding and agreed by government in the third funding round | 73 |

| | | |
|-----------|---|-----|
| Table 4.1 | Desirable elements in examined funding agreements | 80 |
| Table 4.2 | Examined projects with irregular spread of scheduled payments | 84 |
| Table 4.3 | Errors and omissions in project reporting systems | 89 |
| Table 4.4 | EIF general drawing rights limits and expenditure by Portfolio Special Account..... | 93 |
| Table 5.1 | Information about the EIF contained in PBS | 101 |
| Table 5.2 | Reported performance in annual reports against EIF-specific key performance indicators | 103 |

Figures

| | | |
|------------|---|----|
| Figure 1.1 | Key steps in the assessment and approval of projects | 36 |
| Figure 1.3 | Grant values in the second and third funding rounds..... | 40 |
| Figure 2.1 | The second funding round's assessment process | 50 |
| Figure 3.1 | The third funding round's assessment process..... | 66 |
| Figure 4.1 | Number of days between announcement of approved projects and execution of funding agreements | 78 |
| Figure 4.2 | Methods of making grant payments | 91 |

Abbreviations

| | |
|-----------------|--|
| ANAO | Australian National Audit Office |
| BPG | Better Practice Guide |
| CGGs | Commonwealth Grant Guidelines |
| DEEWR | Department of Education, Employment and Workplace Relations |
| DIISR | Department of Innovation, Industry, Science and Research |
| DIICCSRTE | Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education |
| DIISRTE | Department of Industry, Innovation, Science, Research and Tertiary Education |
| EIF | Education Investment Fund |
| Finance | Department of Finance and Deregulation |
| FMA Act | <i>Financial Management and Accountability Act 1997</i> |
| FMA Regulations | <i>Financial Management and Accountability Regulations 1997</i> |
| HEEF | Higher Education Endowment Fund |
| PBS | Portfolio Budget Statements |
| The Act | <i>Nation-building Funds Act 2008</i> |
| VET | Vocational education and training |

Glossary

| | |
|----------------------------|--|
| Education Minister | For the purposes of the <i>Nation-building Funds Act 2008</i> , the Minister who administers Part 2-2 of the <i>Higher Education Support Act 2003</i> . |
| EIF Advisory Board | The body established under section 170 of the <i>Nation-building Funds Act 2008</i> to provide advice to the Ministers about making grants from the EIF, including advising which proposals the Board has assessed as satisfying the EIF's evaluation criteria. |
| Evaluation criteria | The measures against which applications are judged to assess their relative merits in terms of the program's objectives. |
| Funding agreement | A contract setting out the terms and conditions on which a grant is provided. |
| Grant | The provision of public money to a recipient other than the Australian Government: <ul style="list-style-type: none">• which is intended to assist the recipient achieve the recipient's goals;• which is intended to promote one or more of the Australian Government's policy objectives; and• under which the recipient is required to act in accordance with any specified terms and conditions. |
| Grant guidelines | Publicly available documents designed to facilitate potential funding recipients' understanding of the program and encourage the submission of high quality applications. |
| Key Performance Indicators | Measures established to provide qualitative and quantitative information on the effectiveness of a program in achieving its objectives. |
| Milestones | Key dates, events or deliverables contained in the funding agreement. |

| | |
|-------------------|---|
| Ministers | The ministers fulfilling the responsibilities of the Education Minister and the Research Minister as described in the <i>Nation-building Funds Act 2008</i> . |
| Research Minister | For the purposes of the <i>Nation-building Funds Act 2008</i> , the Minister who administers the <i>Australian Research Council Act 2001</i> . |
| Special Account | Appropriation mechanism that sets aside amounts within the Consolidated Revenue Fund for expenditure for special purposes. |

Summary and Recommendations

Summary

Introduction

1. Australia's higher education and vocational education and training (VET) sectors make a significant contribution to Australia's economic and social development. In undertaking research work, the higher education sector also contributes to, or otherwise works in collaboration with, Australia's public research agencies, and with industry-based organisations and other private sector bodies that undertake research.

2. In the 2008–09 Budget, the Government announced the establishment of the Education Investment Fund (EIF) to provide funding to help meet the capital costs of developing or renewing major infrastructure in the higher education, research and VET sectors.¹

3. The EIF was established by the *Nation-building Funds Act 2008* (the Act), and became operative on 1 January 2009. By funding infrastructure projects in the higher education, research and VET sectors, the EIF aims to:

- transform Australia's knowledge generation and teaching capabilities;
- boost participation in tertiary education;
- position Australia to meet domestic skills needs now and into the future;
- enhance Australia's innovation capacity;
- invigorate the growth of Australia's research capabilities; and
- enhance Australia's international competitiveness in education and research.²

4. The EIF replaced the Higher Education Endowment Fund (HEEF) that had been established in 2007 under the *Higher Education Endowment Fund Act 2007* to provide funding to support infrastructure projects in the higher education sector. By 31 December 2012, \$6.5 billion had been allocated to the

¹ As well as the EIF, the 2008–09 Budget also included the establishment of two other infrastructure related funds—the Building Australia Fund, which is designed to provide funding for transport and communications infrastructure and the Health and Hospitals Fund, which is designed to provide funding for health infrastructure.

² Australian Government, *EIF Program Guidelines—Round 2*, p. 4 and *EIF Program Guidelines—Round 3 and Sustainability Round*, p. 7.

EIF; \$4.6 billion of these funds had been committed in the form of grants over eight funding components³, and \$3.4 billion of the committed funds had been paid to grant recipients.

The EIF Special Account and the EIF Investments

5. The EIF comprises two inter-related parts—the EIF Special Account and the EIF investments.

6. The EIF Special Account, which is administered by the Department of Finance and Deregulation (Finance), was established under the Act. The Act provides that money held against the EIF Special Account may be used, among other things, to make grant payments to eligible organisations in relation to the creation or development of infrastructure in the higher education, research and VET sectors.

7. The Future Fund Board of Guardians is responsible for managing the EIF investments. Specifically, the Act provides that the Future Fund Board of Guardians is responsible for maximising the EIF's returns and, in doing so, enhancing the Australian Government's ability to make payments towards the EIF's objectives.

Administering the EIF

8. Under the Act, responsibility for the EIF is shared by the Minister responsible for Part 2-2 of the *Higher Education Support Act 2003* (described in the Act as the Education Minister) and the Minister responsible for the *Australian Research Council Act 2001* (described in the Act as the Research Minister). As shown in Table S.1, during the period 1 January 2009 to 1 March 2012, separate Ministers were responsible for the Education and Research Minister functions described in the Act. From 2 March 2012, responsibility for the Education and Research Minister functions described in the Act vested in the Minister for Tertiary Education, Skills, Science and Research.

³ The eight funding components are outlined in Appendix 2.

Table S.1**Responsibility for the Education and Research Minister functions described in the *Nation-building Funds Act 2008***

| Date | Education Minister function | Research Minister function |
|-------------------|--|---|
| 1 January 2009 | Minister for Education (The Hon Julia Gillard, MP) | Minister for Innovation, Industry, Science and Research (Senator the Hon Kim Carr) |
| 28 June 2010 | Minister for Education (The Hon Simon Crean, MP) | Minister for Innovation, Industry, Science and Research (Senator the Hon Kim Carr) |
| 14 September 2010 | Minister for Tertiary Education, Skills, Jobs and Workplace Relations (Senator the Hon Chris Evans) | Minister for Innovation, Industry, Science and Research (Senator the Hon Kim Carr) |
| 2 March 2012 | Minister for Tertiary Education, Skills, Science and Research (Senator the Hon Chris Evans) | |
| 4 February 2013 | Minister for Tertiary Education, Skills, Science and Research (The Hon Chris Bowen, MP) | |
| 25 March 2013 | Minister for Tertiary Education, Skills, Science and Research (The Hon Dr Craig Emerson, MP) | |

Source: ANAO analysis.

9. Prior to machinery of government changes announced by the Prime Minister on 11 December 2011, the EIF was jointly administered by the Department of Education, Employment and Workplace Relations (DEEWR) and the then Department of Innovation, Industry, Science and Research (DIISR). Under the Administrative Arrangements Order made on 14 December 2011, the then DIISR was renamed the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE)⁴—since late March 2013, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE).⁵

⁴ The then DIISR's responsibilities were expanded to incorporate DEEWR's tertiary education functions, including DEEWR's responsibilities in relation to the EIF.

⁵ On 25 March 2013, DIISRTE's responsibilities were expanded to incorporate parts of the former Department of Climate Change and Energy Efficiency and the department was renamed the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE). Throughout this report the department is referred to as DIISRTE; the department's name at the time the audit was being undertaken.

The EIF Advisory Board

10. The EIF Advisory Board (the Advisory Board) was established under the Act to assess applications against the EIF evaluation criteria and provide advice to the Education and Research Ministers about making grants from the EIF, including advising which projects satisfy the evaluation criteria.

Consideration and approval of proposals

11. The process of assessing, advising and approving projects for funding from the EIF⁶ was complex and involved a number of administrative and legislatively determined steps, as follows:

- DIISRTE undertook a preliminary analysis to determine the extent to which eligible applications addressed the evaluation criteria;
- the Advisory Board assessed the eligible applications against the evaluation criteria and advised the Education Minister and the Research Minister on which projects satisfied the evaluation criteria;
- following receipt of the Advisory Board's assessments, the Education Minister and the Research Minister submitted, for government consideration, details of the projects assessed by the Board as satisfying the evaluation criteria and a proposed funding envelope;
- project proposals were considered by the Government⁷ in the context of agreeing a funding envelope for each grant round;
- as required by the Act, the Education Minister and the Research Minister wrote to the Minister for Finance and Deregulation (Finance Minister) recommending authorisation to enable future grants payments to be made for those projects within the funding envelope;
- under the Act, the Finance Minister may authorise the release of funds from the EIF for the nominated projects; and

⁶ The audit examined the EIF's second, third and sustainability funding rounds.

⁷ Estimates Memorandum 2009/36, *Payment Arrangements for the Nation-building Funds* advises that the Government is not providing approval to commit public moneys pursuant to the financial framework at this stage. The responsible Ministers or departmental officials provide the requisite financial approval after the Ministers have sought the Minister for Finance and Deregulation's authorisation (under the Act) to release funds from the EIF, but prior to entering into funding agreements, taking into account whether all necessary legal and procedural steps have been complied with.

- DIISRTE provided the necessary financial management approvals to enable the commitment of the grant funding, and if approved, entered into a funding agreement for individual projects.

Audit objective and scope

12. The audit objective was to assess the effectiveness of DIISRTE's administration of the Education Investment Fund grants program. To address this objective, the design and operation of processes were examined against the following high level criteria:

- grant application assessment and approval processes were planned and undertaken effectively;
- appropriately structured funding agreements were established and managed for approved grants; and
- performance information was collected, evaluated, reported and used to inform the administration of the EIF.

13. The audit focused on processes and decision-making associated with the EIF's second, third and sustainability funding rounds.⁸ The audit did not examine the administration of the EIF Special Account by Finance or the functions of the Future Fund Board of Guardians associated with the EIF investments.

14. As DIISRTE was the department that had responsibility for the administration of grants from the EIF during the course of the audit, this report mainly refers to DIISRTE's administration. The recommendations and suggestions for improvement are, however, directed to DIICCSRTE because this department now has responsibility for the administration of the program.

Overview of the funding rounds examined

15. A total of 50 projects were approved for funding from the EIF in the second and third⁹ funding rounds—31 in the second funding round and 19 in the third funding round. In the second funding round, the Australian Government agreed to a funding envelope of \$934 million on 17 April 2009,

⁸ The second, third and sustainability funding rounds were each conducted as open, merit-based, and competitive funding rounds. In each round, applications for funding were publicly invited from eligible organisations.

⁹ The EIF's third funding round and the EIF's sustainability funding round were conducted concurrently. References in this report to the third funding round, include the sustainability round.

sufficient for the 31 projects; the successful projects were announced in the 2009–10 Budget. In the third funding round, the Government agreed to a funding envelope of \$350 million on 19 May 2010, sufficient for 11 of the 19 projects, and agreed to fund the remaining eight projects (a further \$200 million) on 27 May 2010; the successful projects were announced progressively over the period 21 May to 15 July 2010.

16. The level of funding approved for these 50 projects is shown in Table S.2.

Table S.2

Details of approved funding in the second and third funding rounds

| Sector | Funding approved (\$'m) | Proportion of total approved funds (%) | Number of approved projects | Average value of grant (\$'m) |
|------------------|-------------------------|--|-----------------------------|-------------------------------|
| Higher Education | 621.6 | 41.9 | 15 | 41.4 |
| VET | 235.1 | 15.8 | 18 | 13.1 |
| Research | 627.8 | 42.3 | 17 | 36.9 |
| Total | 1484.5 | 100.0 | 50 | 29.7 |

Source: ANAO analysis.

17. The value of the 50 approved grants in the second and third funding rounds ranged from \$5 million to \$90 million. The smallest grants were provided to two organisations in the VET sector for the construction of new trades-related teaching and learning facilities. The largest grant was provided to a university to expand its science education and research facilities. Details of each of the 50 projects funded in the second and third funding rounds are shown in Appendix 3.

Overall conclusion

18. The Australian Government has allocated \$6.5 billion to the EIF to support the development, renewal and refurbishment of infrastructure in the higher education, research and VET sectors. By 31 December 2012, a total of \$4.6 billion in funding has been committed from the EIF across eight grant funding rounds, including \$1.5 billion for 50 projects in the second and third funding rounds—the subject of this audit. At the end of September 2012, 17 of the 50 projects approved in the second and third funding rounds had been completed, with the majority of the remaining projects proceeding in accordance with their approved schedules. Responsibility for EIF grants

administration changed in late 2011 to become the responsibility of the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE).¹⁰

19. The administration of the second and third EIF grant funding rounds by DIISRTE and its predecessor departments has been in the main satisfactory. While aspects of the departments' grants administration were managed well, such as program planning and design and recipients' funding agreements, there were also some shortcomings in administration relating to the maintenance of complete records of the EIF Advisory Board's assessments, the extent of advice provided to Ministers, and the provision of financial approvals. There is also scope to develop a longer-term performance framework to monitor and report on achievement of the EIF's strategic outcomes.

20. The department published clear and informative program guidelines for potential grant applicants, and developed and executed formal plans for the conduct of the funding rounds. The department also supported the Advisory Board by providing preliminary assessments of grant applications against the evaluation criteria. Further, the department put in place effective arrangements for overseeing the funded projects, including monitoring compliance with the terms and conditions of their grant funding agreements.

21. To further inform its administration of the program, DIISRTE developed an evaluation strategy for the EIF focussing on three broad elements: administrative processes; the implementation and management of funded projects; and the projects' contribution to achieving the EIF's objectives. At the date of preparation of this report, the department has completed work on the first element of the evaluation strategy, and the second element of the strategy is programmed to be conducted during 2013.

22. In terms of shortcomings in administration, the department did not maintain records of the Advisory Board's assessments against the individual evaluation criteria. However, the Board's overall merit assessment of projects against the evaluation criteria was clear and well documented. This was the

¹⁰ Prior to December 2011, the EIF was jointly administered by the Department of Education, Employment and Workplace Relations (DEEWR), which was responsible for administering grants in the education and VET sectors, and the then Department of Innovation, Industry, Science and Research (DIISR), which was responsible for administering grants in the research sector. References to DIISRTE and the department in this report summary include those functions in DEEWR and the then DIISR that were formerly responsible for the administration of the EIF. As explained in footnote 5, since 25 March 2013, responsibility for the administration of the EIF rests with the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

case in both of the funding rounds examined. The department advised that pertinent details of the Board's consideration of the individual evaluation criteria were recorded by the departmental secretariat during Board meetings and documented in supporting records. However, the supporting records containing this information could not be located during the course of the audit.¹¹

23. The other areas where there was scope for improvement in DIISRTE's administration of the funding rounds examined by the ANAO included that:

- the departments' advice to the responsible Ministers for the third funding round did not inform the Ministers that should they decide not to support some projects, due to funding constraints or other reasons, the Ministers should have regard to the EIF's evaluation criteria in setting out the basis for their decisions. In the event, the Ministers recommended to government that 19 of the 22 projects that had been proposed by the Advisory Board should be funded. While the reasons advanced for two of the projects aligned with the evaluation criteria, the reasons advanced in the third case did not;
- contrary to the requirements of the Australian Government's financial management framework, officials in DIISRTE's predecessor departments did not obtain relevant approvals for the commitment of public monies totalling \$912 million for 34 of the 50 projects funded.¹² The majority of financial management framework breaches occurred after the release of the *Commonwealth Grant Guidelines* (CGGs) in July 2009; a time of heightened awareness around improving the accountability of grants administration; and
- six of the 24 projects examined by the ANAO, with combined grant funding of \$222 million, were scheduled to receive all of their funding relatively early during the life of the project. In these cases, there would have been merit in DIISRTE establishing whether there was a net

¹¹ The adequacy of agency record-keeping in grants administration, particularly in support of advisory bodies, has arisen in recent ANAO audits. See ANAO Audit Report No.1, 2012–13, *The Administration of the Renewable Energy Demonstration Program*, p. 22, and ANAO Audit Report No.17, 2012–13, *Design and Implementation of the Energy Efficiency Information Grants Program*, p. 17.

¹² In giving approval, the officials would be expected to have appropriate regard to the Advisory Board's assessment of the merits of the applications, government decisions on the funding of projects, and whether all necessary legal and procedural requirements had been completed with.

benefit to the Commonwealth in providing these grant funds early, and advising the financial approvers accordingly.

24. DIISRTE did not have processes in place for monitoring and reporting on progress against the Australian Government's strategic objectives in establishing the EIF. While the department captured information on the implementation of individual infrastructure projects, the construction of infrastructure and the acquisition of attendant equipment are only a means to the achievement of the EIF's strategic objectives, not an end in themselves. To better assist the department and stakeholders assess the outcomes achieved by the EIF, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE) should take steps to develop a longer-term performance monitoring and reporting framework for the EIF.

25. The audit has made two recommendations aimed at improving the recording (and retention) of details of the Advisory Board's assessment of applications, as well as improving the performance measurement and reporting arrangements for the EIF.

Key findings by chapter

The Second Round of Assessment and Selection (Chapter 2)

26. DIISRTE adopted a planned approach to the conduct of the second funding round. Significant activities included:

- a series of consultations with key stakeholders, including other departments involved in the administration of the Government's Nation-building funds;
- the development of a formal plan for the conduct of the funding round, including identifying key tasks and deliverables;
- identification and assessment of potential risk factors;
- the design and publishing of program guidelines containing clear and informative guidance for potential applicants; and
- the development of an assessment plan to help guide staff in the conduct of preliminary assessments—each of the assessments examined by the ANAO had assessed the application against the EIF's evaluation criteria.

27. The support provided to the Advisory Board by DIISRTE in the second funding round enabled the Board to fulfil its responsibilities under the Act, and was particularly important in view of the truncated timeframe requested by the Government. The department's secretariat functions for the Board included providing guidance on probity issues faced by the Board and preparing the minutes of Board meetings. To further support the Board in their assessment of applications for funding from the EIF, the department provided the Board with details of the department's preliminary assessments, and other analysis of the applications. The Chair of the Board acknowledged the support provided by the secretariat in his advice to the Education and Research Ministers.

28. The CGGs state that good record keeping of the assessment of applications for grants helps agencies meet accountability obligations and demonstrates that due process has been followed in actions and decisions.¹³ The department advised that pertinent details of the Board's assessment of applications was captured by secretariat staff during Board meetings and either recorded in the meetings' minutes or in other supporting records.

29. The minutes of Board meetings in the second funding round describe the approach taken by the Board to assess applications and contained details of the Board's overall merit assessment for each application. Other details relating to the Board's assessment of each application—such as the Board's overall assessment comment and details of assessments against the individual evaluation criteria—were not reflected in the final minutes. Rather, the department advised that this information was documented in supporting spreadsheets. While details of the Board's overall assessment comments were available, details of the Board's assessments at the individual criteria level were unable to be located by the department during the course of the audit.

30. The Education and Research Ministers, and the Australian Government, were each provided with sufficiently detailed information to assist their decision-making in the second funding round. This included the results of the Advisory Board's assessment of applications, clear recommendations about the projects that should be funded and an analysis of the merits of each of the projects recommended for funding. In April 2009, the

¹³ Department of Finance and Deregulation, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 25.

Australian Government agreed to fund the 32¹⁴ projects that had been recommended for funding by the Ministers—these 32 projects had previously been recommended to the Ministers by the Advisory Board.

The Third Round of Assessment and Selection (Chapter 3)

31. DIISRTE also adopted a planned approach to the conduct of the third funding round. In particular, the design of the third funding round was informed by a review of the department’s experiences from the second funding round and further consultations with relevant stakeholders. This approach enabled the department to build on the arrangements and processes that it had put in place for the second funding.

32. DIISRTE continued to provide the Advisory Board with a high level of support during the third funding round. Again, the Chair of the Board acknowledged the work of the secretariat in his correspondence with the Ministers. However, as was the case with the second funding round, and as discussed in paragraph 29, details of the Board’s assessment of applications at the individual evaluation criteria level, which the department advised were documented in supporting records, could not be located by the department during the audit.

33. In the main, the advice provided to the Education and Research Ministers and the Australian Government to assist decision-making in the third funding round was clear, detailed and informative. Nevertheless, the departments’ advice to the responsible Ministers did not inform the Ministers that any decisions by them not to support some of the projects recommended by the Advisory Board should have regard to the EIF’s evaluation criteria. Providing such advice to the Ministers in the third funding round was important given the context in which the Ministers made their recommendations to government—that is, that the funding envelope announced by government was not sufficient to fund each of the 22 projects recommended to the Ministers by the Advisory Board.

34. In May 2010, the Government agreed with the Ministers’ recommendation that the level of financial assistance provided in the third funding round should stay within the funding limit that had previously been announced in the 2009–10 Budget (\$550 million). The Ministers recommended

¹⁴ 31 of these projects were funded from the EIF’s second funding round and one project was funded from the EIF’s Super Science Initiative. The administration of the Super Science Initiative was outside the scope of this audit.

and the Government agreed to fund 19 of the 22 projects that the Advisory Board had assessed as meeting the evaluation criteria. The Government was provided with the details for each of the 22 projects, together with advice on the basis of the Ministers' recommendation not to fund three of the projects. While the documented basis for not supporting two of the three projects aligned with the EIF's evaluation criteria, in one case, the documented reason was not framed in the context of the EIF's evaluation criteria.

Implementing and Managing Funding Agreements (Chapter 4)

35. The funding agreements for the 50 projects approved in the second and third funding rounds were generally signed in a timely manner. However, the time taken to execute several funding agreements was affected by the then DIISR's decision to delay negotiations with project proponents due to competing priorities. In one case, the department delayed the commencement of the negotiation of the funding agreement by more than a year. With one exception, the funding agreements examined by the ANAO contained terms and conditions that were commensurate with the size and nature of the funded projects. Only the funding agreements administered by the former DIISR contained requirements relating to the development and reporting of performance measures during the projects' construction. Rather than require regular reporting against performance measures, the proponents of the projects formerly administered by DEEWR are only required to provide, as part of their final report, information on the project's achievements. While accepting that the most beneficial performance information is likely to be available following the completion of construction of the infrastructure, the performance information captured for the projects administered by DIISR usefully informed the department about the early benefits of these projects.

36. For each of the 24 projects examined, the approved grant amount was scheduled to be paid in instalments, on the receipt (and acceptance) of a performance report showing satisfactory achievement against one or more milestones. In 18 of the examined projects, the scheduled instalment payments were generally well spread over the project's life and the scheduled milestones. However, six projects with combined grant funding of \$222 million were scheduled to receive the full amount of their funding relatively early in the life of the project. DIISRTE advised, and project proponents interviewed by the ANAO confirmed, that the scheduling of payments was designed to meet the cash flow requirements of each project.

37. The department required any interest earned on EIF funds held by project proponents to be spent on the funded project. To help monitor whether proponents are complying with this requirement, the department captured details of interest earned (and used) in project reports. The opportunity for project proponents to earn interest effectively increases the quantum of the grants provided by the Australian Government and represents an opportunity cost for the Commonwealth. In this regard, DIISRTE advised the ANAO that because the 'interest earned by the project proponent is required to be used for the benefit of the funded project and enhance its outcomes, any short-term gain by the Commonwealth from withholding funding would be offset by the long-term gain for the project and the nation'.

38. Making early payments provides the funded projects, rather than the Commonwealth, with the benefits from holding the funds, and it is desirable to weigh-up the respective interests of the parties when considering this course of action.¹⁵ While there was evidence that DIISRTE had queried some of the individual proponents' funding requests, in the case of the six projects scheduled to receive the full amount of their funding relatively early in the life of the project, there would have been merit in DIISRTE establishing whether a net benefit to the Commonwealth could be demonstrated.¹⁶ Providing financial approvers with such advice would have helped inform their decision-making on the proper use of Commonwealth resources, including whether interest on funds clearly surplus to immediate project requirements should accrue to a project or to the Commonwealth.¹⁷

39. DIISRTE actively monitored the progress of each approved project, primarily through the review of performance reports. The assessments of project reports examined by the ANAO were thorough, well documented, and generally completed in a timely manner. However, the records of when reports from project proponents are due to be received, as well as the dates reports are received and assessed, were not being accurately maintained. Each quarter, DIISRTE provided an EIF project progress report to the Advisory Board. The

¹⁵ The issue of advance payments also arose in the administration of the Health and Hospitals Fund, examined in ANAO Report No.45 2011–12, *Administration of the Health and Hospitals Fund*, June 2012, pp. 20–21 and pp. 103–104.

¹⁶ Finance Circular 2004/14, *Discounts for prepayment and early payment*, provides advice on calculating opportunity costs.

¹⁷ During the second and third funding rounds, 'proper use' was defined in subsection 44(3) of the *Financial Management and Accountability Act 1997* (FMA Act) to mean 'efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth'. Often, this is referred to as a 'value for money' test.

report for 30 September 2012 shows that 17 of the second and third round projects have been completed and the constructed infrastructure is in use, 21 projects are on (or ahead of) schedule and 12 projects are slightly behind schedule or behind schedule.

40. The Australian Government's financial management and accountability framework, as set out in the FMA Act and the FMA Regulations, applies to the EIF. FMA Regulation 9 requires an approver to decide if a proposal to commit public money represents a proper use of Commonwealth resources. Approvals under FMA Regulation 9 were not obtained by DEEWR officials for the 33 second and third funding round grants in the higher education and VET sectors worth \$857 million. The failure to obtain the necessary financial approvals for the two funding rounds represents a breach of the Australian Government's financial framework. While the requisite approvals (under FMA Regulation 9) were obtained for the 17 second and third round projects in the research sector, in one case, further approval was not obtained for a variation in the timing of the spending proposal agreed to before the funding agreement was signed.¹⁸ This also represents a breach of the financial framework.

41. Most of the financial framework breaches occurred in the second half of 2009 and during 2010–11, after the release of the CGGs in July 2009. The CGGs were released by the Australian Government as a means of improving the transparency and accountability of grants administration, and emphasise the importance of properly applying framework requirements.

Performance Measurement and Monitoring (Chapter 5)

42. Following completion of the third funding round, the department developed an evaluation strategy for the EIF. A formal program of ongoing evaluation activities is important to help assess the EIF's processes and performance, particularly given the longer-term nature of many of the infrastructure projects funded. Specifically, the strategy is designed to examine:

- administrative processes associated with the conduct of the funding rounds;
- implementation and management of the funded projects; and

¹⁸ In this case, the department brought forward payment of the total grant of \$55 million from 2011–12 to 2010–11.

- the funded projects' impact on achieving the EIF's objectives.

43. The department commenced a review of the EIF's administrative processes in November 2010. The report was finalised in September 2011 and concluded that the program's processes were operating satisfactorily. The department advised that implementation of the evaluation strategy had, at times, been delayed by competing demands on staff resources. Nevertheless, the department advised that it anticipates conducting the next phase of the evaluation strategy—the implementation and management of the funded projects—during 2013.

44. At the time of the audit, the only publicly reported performance indicators for the EIF related to the number of projects funded. While these indicators provide a measure of the level of financial support provided by the EIF, they provide no insights into the continuing performance of the EIF, including the progress of infrastructure construction and the program's long term benefits and outcomes. A broader set of performance measures would assist DIICCSRTE, and other interested stakeholders, to measure project implementation, as well as progress against the program's objectives. The development of a performance monitoring and reporting framework focussing on the achievement of longer-term outcomes is of particular benefit as the program moves out of the infrastructure construction phase.

45. The department advised that the issues surrounding performance indicators for the EIF are complex because the stated outcomes of the program are generally broad and long term and, in most cases, may not eventuate or be easily measured, until the projects are completed. Nevertheless, preliminary work undertaken by the department in 2009 on the development of performance indicators, together with further scheduled evaluation work, particularly the examination of the funded projects' contribution to achieving the EIF's objectives, provide a basis for DIICCSRTE to enhance the longer-term performance framework for the EIF.

Summary of agency's response to the proposed report

46. DIICCSRTE's summary response is provided below, while the full response is shown at Appendix 1.

The Department welcomes the ANAO's assessment that the competitive funding rounds of the Education Investment Fund (EIF) have generally been administered effectively, with good program planning and design, particularly given the short timeframe in which the Department had to deliver EIF rounds two and three.

The Department agrees with ANAO's recommendations to improve records management for grant assessment decisions by the EIF Advisory Board, and to develop and report against performance indicators relevant to the Australian Government's objectives for the EIF.

The Department will develop performance indicators that are in line with current departmental activities in relating to key performance measures.

Recommendations

Recommendation No.1

Paragraph 3.29

The ANAO recommends that, consistent with the accountability principle for grants administration set out in the *Commonwealth Grant Guidelines*, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education ensures that the assessment decisions of grant applications by the EIF Advisory Board are appropriately documented and retained by the department.

DIICCSRTE response: Agreed.

Recommendation No.2

Paragraph 5.13

To assist the department, as well as other interested stakeholders, assess the long term performance of the EIF, the ANAO recommends that the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education develops and reports against performance indicators relevant to the Australian Government's objectives for the EIF.

DIICCSRTE response: Agreed.

Audit Findings

1. Introduction

This chapter describes key aspects of the Education Investment Fund and outlines the audit approach, including the audit objective and scope. The chapter also describes the structure of the report.

Supporting tertiary education and research infrastructure in Australia

1.1 Australia's higher education and vocational education and training (VET) sectors make a significant contribution to Australia's economic and social development. In particular, the sectors can help individuals and their families secure higher living standards by providing a range of pathways to develop (or upgrade) the knowledge, skills and experiences that will help them move into (or transition between sectors in) the workforce. The higher education sector is also a major source of research and development activity in Australia, and plays a key role in the development, extension and dissemination of research skills, knowledge and techniques. In undertaking research work, the higher education sector also contributes to, or otherwise works in collaboration with, Australia's public research agencies and other bodies that undertake research.

1.2 Most organisations require access to high performing facilities that will provide benefits over a long period to support the achievement of their business objectives. In particular, access to contemporary and well designed buildings, equipment and associated resources can help produce better teaching and research outcomes by boosting capability, productivity and the ability of staff and students to acquire and develop requisite skills and knowledge.¹⁹

1.3 In the 2008–09 Budget, the Government announced the establishment of the Education Investment Fund (EIF) to provide funding to help meet the capital costs of developing or renewing major infrastructure in the higher education, VET and research sectors.²⁰ The EIF replaced (and extended the

¹⁹ Productivity Commission, *Public Support for Science and Innovation—Research Report*, March 2007, p. 205.

²⁰ As well as the EIF, the 2008–09 Budget also included the establishment of two other infrastructure related funds—the Building Australia Fund, which is designed to provide funding for transport and communications infrastructure and the Health and Hospitals Fund, which is designed to provide funding for health infrastructure. The 2008–09 Budget also allocated \$500 million, through the *Better Universities Renewal Funding* initiative, to improve higher education institutions' infrastructure for teaching, learning and research, as well as student amenities.

breadth of financial assistance from) the Higher Education Endowment Fund (HEEF) that had been established in 2007 under the *Higher Education Endowment Fund Act 2007* to provide funding to support infrastructure projects in the higher education sector. By funding infrastructure projects in the higher education, research and VET sectors, the EIF aims to:

- transform Australia’s knowledge generation and teaching capabilities;
- boost participation in tertiary education;
- position Australia to meet domestic skills needs now and into the future;
- enhance Australia’s innovation capacity;
- invigorate the growth of Australia's research capabilities; and
- enhance Australia's international competitiveness in education and research.²¹

1.4 Subsequently, as part of the \$4.7 billion Nation-building infrastructure package announced in December 2008, the Government allocated:

- \$580 million for 11 infrastructure development projects in universities (funded through round one of the EIF); and
- a further \$1 billion for infrastructure development works in the higher education and VET sectors through the establishment of the Teaching and Learning Capital Fund for Higher Education (funded from the EIF); and the Teaching and Learning Capital Fund for Vocational Education and Training.

1.5 Further, in its response to the 2008 report on the Review of Australia’s Higher Education system, commonly known as the Bradley review²², the Australian Government announced a phased 10-year reform agenda for higher education and research, including an additional \$5.5 billion in funding over the first four years. One of the key components of the reform agenda was a further \$3.2 billion in the level of capital investment in relation to education and

²¹ Australian Government, *EIF Program Guidelines—Round 2*, p. 4 and *EIF Program Guidelines—Round 3 and Sustainability Round*, p. 7.

²² Commonwealth of Australia, *Review of Australian Higher Education—Final Report*, December 2008.

research infrastructure through the EIF.²³ The additional allocation of funds for infrastructure works (from the EIF) was announced in the 2009–10 Budget.

The Education Investment Fund

1.6 The EIF, comprising two interrelated parts, the EIF Special Account and the EIF investments, was established by section 131 of the *Nation-building Funds Act 2008* (the Act) and became operative on 1 January 2009.²⁴

The EIF Special Account and the EIF investments

1.7 The EIF Special Account was established by section 132 of the Act, as a special account for the purposes of the *Financial Management and Accountability Act 1997* (FMA Act).²⁵ The Act states that money held against the EIF Special Account may be used to:

- make grant payments to eligible organisations in relation to the creation or development of infrastructure in the higher education, research and VET sectors;
- make payments relating to the EIF's predecessor fund, the HEEF (known as transitional HEEF payments);
- pay expenses associated with the administration of the EIF investments, including costs apportioned to the EIF by the fund manager, the Future Fund Board of Guardians (see paragraph 1.9); and
- meet any (undischarged) costs or obligations associated with the administration of the HEEF that were incurred before the EIF came into operation on 1 January 2009.

1.8 The EIF special account is administered by the Department of Finance and Deregulation (Finance).

²³ Commonwealth of Australia, *Transforming Australia's Higher Education System*, 2009, p.9, p.28 and Appendix 1. The increase in capital funding for infrastructure development through the EIF was complemented by an increase in funding through a new initiative known as Sustainable Research Excellence (SRE), which is designed to support universities meet the indirect costs of their competitive grant research activities. The SRE is examined by the ANAO in *Audit Report No.27, 2012–13, Administration of the Research Block Grants Program*.

²⁴ The two other nation-building funds announced in the 2008–09 Budget were also established by the Act (see footnote 20). The ANAO has undertaken an audit to examine the effectiveness of the Department of Health and Ageing's administration of the Health and Hospitals Fund. The results of the audit were reported as *Audit Report No.45, 2011–12, Administration of the Health and Hospitals Fund*.

²⁵ Specifically, section 21 of the FMA Act states that if another Act establishes a special account and identifies the purposes of that account then the Consolidated Revenue Fund is appropriated for making expenditure for those purposes, up to the balance of the special account.

1.9 Under Part 3.3 of the Act, the Future Fund Board of Guardians is responsible for managing the EIF investments. Specifically, the Future Fund Board of Guardians is responsible for maximising the EIF's returns and, in doing so, enhancing the Australian Government's ability to make payments towards the EIF's objectives.

The financial position of the EIF

1.10 Table 1.1 illustrates the financial position of the EIF as at 31 December 2012.

Table 1.1

EIF financial position as at 31 December 2012

| Item | Amount (\$'m) |
|--|---------------|
| Opening balance ^A | 6 484 |
| Funds committed ^B | 4 554 |
| Net earnings of the fund | 1 023 |
| Grant payments made | 3 440 |
| Uncommitted balance of the fund—31 December 2012 | 2 952 |
| Cash balance of the fund—31 December 2012 | 4 067 |

Note A: Represents the balance of the former HEEF, which was credited to the EIF on 1 January 2009 pursuant to section 135 of the Act.

Note B: The amount of \$4.5 billion has been committed from the EIF across eight funding components. A description of each of the eight components is shown in Appendix 2.

Source: Department of Finance and Deregulation website, available from <http://www.finance.gov.au/investment-funds/nation-building-funds/financials/index.htm>.
[Date Accessed: 11 February 2013].

Administering the EIF

1.11 Under the Act, responsibility for the EIF is shared by the Minister responsible for Part 2-2 of the *Higher Education Support Act 2003* (described in the Act as the Education Minister) and the Minister responsible for the *Australian Research Council Act 2001* (described in the Act as the Research Minister). As shown in Table 1.2, during the period 1 January 2009 to 1 March 2012, separate Ministers were responsible for the Education and Research Minister functions described in the Act. From 2 March 2012, responsibility for these functions vested in the Minister for Tertiary Education, Skills, Science and Research.

Table 1.2

Responsibility for the Education and Research Minister functions described in the *Nation-building Funds Act 2008*

| Date | Education Minister function | Research Minister function |
|-------------------|--|---|
| 1 January 2009 | Minister for Education (The Hon Julia Gillard, MP) | Minister for Innovation, Industry, Science and Research (Senator the Hon Kim Carr) |
| 28 June 2010 | Minister for Education (The Hon Simon Crean, MP) | Minister for Innovation, Industry, Science and Research (Senator the Hon Kim Carr) |
| 14 September 2010 | Minister for Tertiary Education, Skills, Jobs and Workplace Relations (Senator the Hon Chris Evans) | Minister for Innovation, Industry, Science and Research (Senator the Hon Kim Carr) |
| 2 March 2012 | Minister for Tertiary Education, Skills, Science and Research (Senator the Hon Chris Evans) | |
| 4 February 2013 | Minister for Tertiary Education, Skills, Science and Research (The Hon Chris Bowen, MP) | |
| 25 March 2013 | Minister for Tertiary Education, Skills, Science and Research (The Hon Dr Craig Emerson, MP) | |

Source: ANAO analysis.

1.12 Prior to the machinery of government changes announced by the Prime Minister on 11 December 2011, the EIF was jointly administered by the Department of Education, Employment and Workplace Relations (DEEWR) and the then Department of Innovation, Industry, Science and Research (DIISR). DEEWR was responsible for administering grants in the education and VET sectors, and the then DIISR was responsible for administering grants in the research sector. Specifically, the two departments were responsible for:

- providing advice about the administration of the EIF to their respective Ministers;
- the conduct of the funding rounds, including providing administrative support and information to the EIF Advisory Board;
- negotiating and managing funding agreements for the projects funded from the EIF; and
- liaising with Finance about expenditure requirements, including requesting the release of funds from the EIF Special Account for the purposes of making grant payments.

1.13 Under the Administrative Arrangements Order made on 14 December 2011, DIISR's responsibilities were expanded to incorporate DEEWR's tertiary education functions, including that department's responsibilities in relation to the EIF. As a result, DIISR was renamed the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE)—since late March 2013, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE).²⁶

The EIF Advisory Board

1.14 Section 170 of the Act establishes the EIF Advisory Board (the Advisory Board) and states that its members are to be appointed, in writing, by the Education and Research Ministers.²⁷ The key functions of the Advisory Board are to assess applications against the EIF evaluation criteria and provide advice to one or both of the Ministers about making grants from the EIF, including advising which projects satisfy the evaluation criteria.

1.15 Under the terms of the Act, the Education and Research Ministers, in consultation with the Treasurer and the Finance Minister, are responsible for formulating the evaluation criteria to be applied by the Advisory Board in its assessment of applications. The evaluation criteria were required to be based on the following principles approved by the Australian Government in September 2008:

- projects should address national infrastructure priorities;
- projects should demonstrate high benefits and effective use of resources;
- projects should efficiently address infrastructure needs; and
- projects should demonstrate that they achieve established standards in implementation and management.

²⁶ On 25 March 2013, DIISRTE's responsibilities were expanded to incorporate parts of the former Department of Climate Change and Energy Efficiency and the department was renamed the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE). Throughout this report the department is referred to as DIISRTE; the department's name at the time the audit was being undertaken.

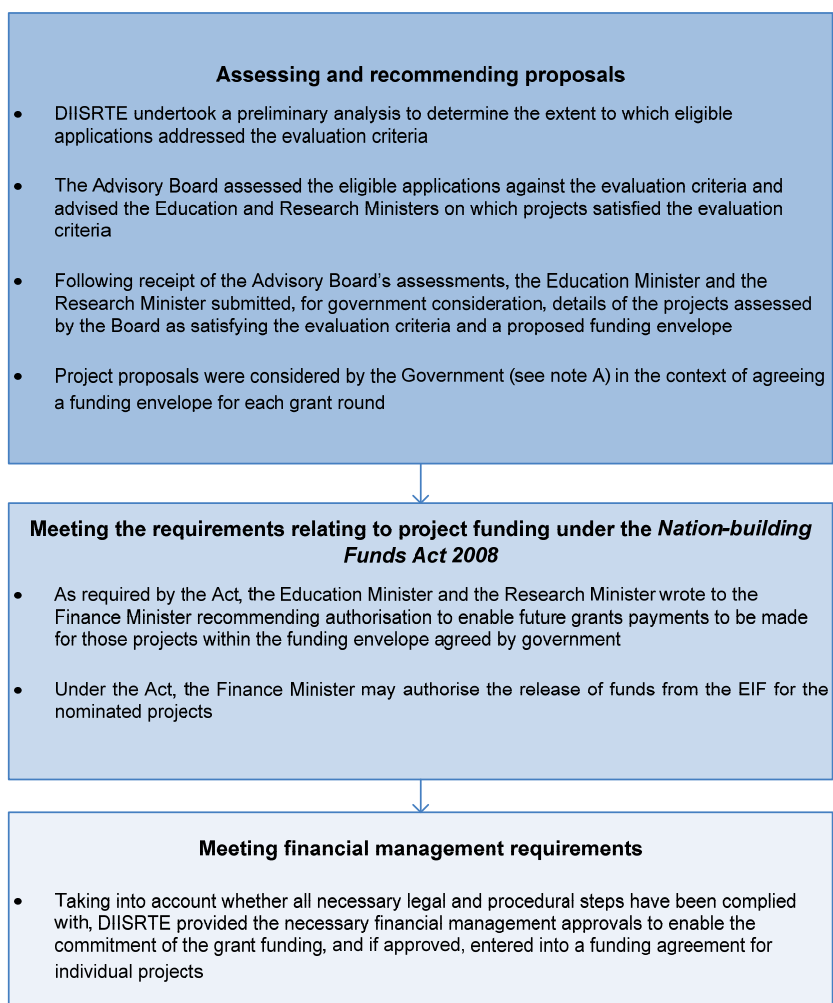
²⁷ Details of the current membership of the Advisory Board are available from DIICCSRTE's web-site at <http://www.innovation.gov.au/HigherEducation/Funding/EducationInvestmentFund/Pages/AdvisoryBoard.aspx>. [Date Accessed: 9 May 2013].

Consideration and approval of proposals to be funded from the EIF

1.16 As shown in Figure 1.1, the process of assessing, advising and approving projects for funding from the EIF²⁸ was complex and involved a number of administrative and legislatively determined steps.

Figure 1.1

Key steps in the assessment and approval of projects



Note A: Estimates Memorandum 2009/36, *Payment Arrangements for the Nation-building Funds* advises that the Government is not providing approval to commit public moneys pursuant to the financial framework at this stage.

Source: ANAO analysis, based on Estimates Memorandum 2009/36.

²⁸ The audit examined the EIF's second, third and sustainability funding rounds.

The Australian Government's grants administration framework

1.17 In December 2008, the Australian Government agreed to a range of measures²⁹ designed to improve the administration of grants, including the establishment of a grants-specific policy and legislative framework. The new framework commenced on 1 July 2009 with amendments to the FMA Regulations and the promulgation by the Finance Minister of the Commonwealth Grant Guidelines (CGGs).³⁰

1.18 The requirements in the CGGs, which apply to all agencies subject to the FMA Act, are designed to promote transparency and accountability in grants administration. The CGGs are in two parts:

- Part One outlines the legislative and policy requirements relating to grants administration; and
- Part Two outlines seven principles of sound grants administration and provides guidance within each of these principles.

1.19 The Finance Minister has approved the release of updated CGGs, which take effect from 1 June 2013.³¹ Among other things, the new CGGs:

- build upon existing rules relating to ministerial briefings by introducing further minimum requirements designed to improve the information provided to Ministers and promote consistency in briefing practices across government;
- clarify that the CGGs apply where expert committees and advisory panels provide recommendations or advice that 'directly inform decisions about grants expenditure'³²;
- extend the timeframe for publishing details of approved grants on agency websites; and

²⁹ The measures were recommended in the July 2008 report of the *Strategic Review of the Administration of Australian Government Grant Programs*. The Australian Government gave immediate effect to some of the measures relating to grants approval and reporting in Estimates Memorandum 2009/09, which was issued on 16 January 2009.

³⁰ Department of Finance and Deregulation, *Commonwealth Grant Guidelines – Policies and Principles for Grants Administration*, Financial Management Guidance No.23, July 2009.

³¹ The updated CGGs are available from <<http://www.finance.gov.au/publications/fmg-series/3-commonwealth-grant-guidelines.html>>. [Date Accessed: 12 February 2013].

³² This is because the provision of such advice is the performance of a 'financial task' within the meaning of FMA Regulation 3. Persons performing financial tasks are officials under the FMA Act and are therefore considered to be agency staff for the purposes of the CGGs.

- encourage stronger collaboration and relationships between government and potential grant recipients, particularly those in the not-for-profit sector.

1.20 There would benefit in DIICCSRTE examining the implications of the updated CGGs on the administration of the EIF, and other grant programs for which the department is responsible. In particular, there would be benefit in identifying any changes affecting the role and functions of the Advisory Board.

Audit approach

Audit objective

1.21 The objective of the audit was to assess the effectiveness of DIISRTE's administration of the EIF grants program. To address this objective, the audit examined the design and operation of processes against the following high level criteria:

- grant application assessment and approval processes were planned and undertaken effectively;
- appropriately structured funding agreements were established and managed for approved grants; and
- performance information was collected, evaluated, reported and used to inform the administration of the EIF.

Audit scope

1.22 The audit focused on processes and decision-making associated with the EIF's second, third and sustainability funding rounds.³³ In particular, in order to assess whether practices and controls were in place and operating as intended, the audit interviewed DIISRTE staff involved in the administration of the EIF and examined departmental files, records and management reports. The audit did not examine the administration of the EIF Special Account by Finance or the functions of the Future Fund Board of Guardians associated with the EIF investments.

³³ The second, third and sustainability funding rounds were each conducted as open, merit-based, and competitive funding rounds. In each round, applications for funding were publicly invited from eligible organisations.

1.23 A total of 50 projects were approved for funding from the EIF in the second and third³⁴ funding rounds—31 in the second funding round and 19 in the third funding round. The level of funding approved for these projects is shown in Table 1.3.

Table 1.3

Details of approved funding in the second and third funding rounds

| Sector | Funding approved (\$'m) | Proportion of total approved funds (%) | Number of approved projects | Average value of grant (\$'m) |
|------------------|-------------------------|--|-----------------------------|-------------------------------|
| Higher Education | 621.6 | 41.9 | 15 | 41.4 |
| VET | 235.1 | 15.8 | 18 | 13.1 |
| Research | 627.8 | 42.3 | 17 | 36.9 |
| Total | 1 484.5 | 100.0 | 50 | 29.7 |

Source: ANAO analysis.

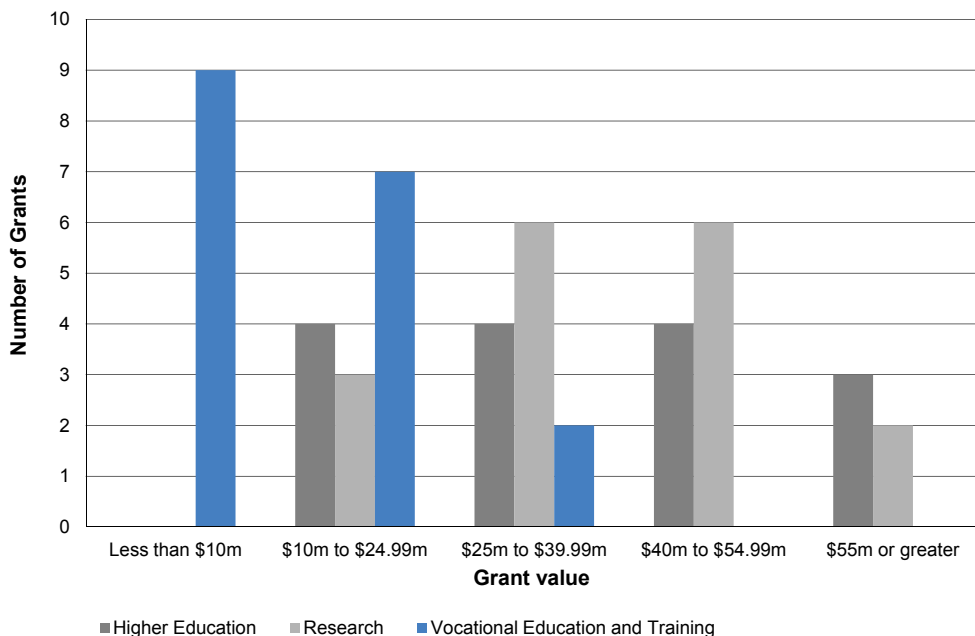
1.24 Appendix 3 contains a description of each of the 50 projects approved in the second and third funding rounds. The value of the 50 approved grants ranged from \$5 million to \$90 million. The smallest grants were provided to two organisations in the VET sector for the construction of new trades-related teaching and learning facilities. The largest grant was given to a university to enhance its capacity for science education and research, including the refurbishment of existing facilities and the construction of three new buildings to house workshops, laboratories, flexible learning spaces, and outdoor teaching areas.

1.25 As illustrated in Figure 1.2, just over half of the approved grants were for amounts greater than \$25 million.

³⁴ The EIF's third funding round and the EIF's sustainability funding round were conducted concurrently. References in this report to the third funding round, include the sustainability round.

Figure 1.2

Grant values in the second and third funding rounds



Source: ANAO analysis.

Audit methodology

1.26 The ANAO undertook a detailed examination of:

- files and attendant documentation relating to the department’s preliminary assessment of:
 - 30 of the 154 eligible and compliant applications received in the second funding round; and
 - 30 of the 192 eligible and compliant applications received in the third funding round;
- funding agreements for 10 of the 31 projects approved in the second funding round, and seven of the 19 projects approved in the third funding round;
- payment schedules for 15 projects from the second funding round and nine projects from the third funding round; and

- reports received (and assessed) for 14 of the projects approved in the second funding round, and eight of the projects approved in the third funding round.

1.27 In addition, the audit visited eight of the approved projects to confirm their progress and status, and to interview key stakeholders to gauge their views on DIISRTE's administration of the EIF.

1.28 As DIISRTE was the department that had responsibility for the administration of grants from the EIF during the course of the audit, this report mainly refers to DIISRTE's administration. The recommendations and suggestions for improvement are, however, directed to DIICCSRTE because this department now has responsibility for the administration of the program.

1.29 The audit was conducted in accordance with ANAO Auditing Standards at an approximate cost to the ANAO of \$380 000.

Structure of the report

1.30 Table 1.4 outlines the structure of the discussion of the audit findings and conclusions contained in this report.

Table 1.4

Structure of the report

| | |
|--|--|
| Chapter 2 The Second Round of Assessment and Selection | Examines the administration of the second funding round, including the support provided to the Advisory Board in its assessment of proposals against the evaluation criteria. |
| Chapter 3 The Third Round of Assessment and Selection | Examines the administration of the third funding round and the sustainability round, including the support provided to the Advisory Board in its assessment of proposals against the evaluation criteria. |
| Chapter 4 Implementing and Managing Funding Agreements | Examines arrangements for implementing and managing funding agreements, including processes for monitoring the status and performance of the funded projects. It also examines whether the departments met financial management requirements relating to the administration of grants. |
| Chapter 5 Performance Measurement and Monitoring | This chapter examines processes for measuring and monitoring the EIF's performance, including whether the program is meeting the Australian Government's objectives. |

Source: ANAO.

2. The Second Round of Assessment and Selection

This chapter examines the administration of the second EIF funding round, including the support provided to the Advisory Board in its assessment of proposals against the evaluation criteria.

Introduction

2.1 The Commonwealth Grant Guidelines (CGGs) state that achieving value with public money should be a primary consideration in all aspects of grants administration.³⁵ An important aspect of realising value for money outcomes is the design of application assessment and selection processes that are commensurate with the scale, nature, complexity and risks involved in the granting activity. For instance, well-designed processes can contribute to better outcomes by promoting (and helping to preserve) equity and fairness in the treatment of applicants, and by enabling informed comparisons of the relative strengths (and weaknesses) of proposals.

Overview of the second funding round

2.2 The second funding round of the EIF was launched on 16 February 2009 in the context of the Australian Government's response to the global financial crisis. The published program guidelines stated that the round:

will be conducted within a very short timeframe and priority will be given to projects which are ready to proceed immediately.³⁶

2.3 A total of 166 applications (seeking funding of \$5.6 billion) were received in the second funding round. Twelve of the applications were assessed by DIISRTE³⁷ to be ineligible in terms of the EIF's mandatory criteria.³⁸ In the main, these applications were assessed as ineligible because they were not from eligible organisations or did not meet minimum project size

³⁵ Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 30.

³⁶ Australian Government, *Education Investment Fund—Program Guidelines, Round 2*, p. i.

³⁷ As the processes and decisions examined in this chapter relate to the period prior to the creation of DIISRTE (in December 2011), references to DIISRTE and the department in this chapter include those functions in DEEWR and the then DIISR that were formerly responsible for the administration of the EIF.

³⁸ The EIF's mandatory criteria are set out in Appendix 4.

requirements. The department provided the Board with advice on each of the 12 ineligible applicants and the Board agreed that no further assessment of these applications should be undertaken.

2.4 The Advisory Board's initial examination of the 154 eligible applications against the evaluation criteria resulted in 53 applications being selected to proceed to further assessment. Following the Advisory Board's further assessment of the merits of these 53 applications, the Chair of the Board advised the Education and Research Ministers on 9 April 2009 that:

- 16 proposals strongly satisfy the evaluation criteria and are highly recommended for EIF funding;
- 16 proposals satisfy the evaluation criteria and are recommended for EIF funding should the government wish to make a larger investment; and
- 21 proposals do not satisfy the evaluation criteria and are not recommended for EIF funding.

2.5 The Ministers agreed with the Advisory Board's recommendations and, on 15 April 2009, submitted details of the 32 projects assessed as meeting the evaluation criteria to the Prime Minister, recommending that the projects be considered for funding. On 28 April 2009, the Australian Government agreed to fund³⁹ the 32 recommended projects within a funding envelope of \$1 billion. Specifically, the Australian Government decided that funding for:

- 31 of the projects (worth \$934 million) would be announced as part of the 2009–10 Budget; and
- one project (worth \$88 million) would be announced at a later date.⁴⁰

Audit approach

2.6 To assess the effectiveness of the processes associated with the second funding round, the ANAO examined whether DIISRTE had:

- adopted a planned approach to the conduct of the funding round;

³⁹ Estimates Memorandum 2009/36, *Payment Arrangements for the Nation-building Funds* advises that the Government is not providing approval to commit public moneys pursuant to the financial framework at this stage. The responsible Ministers or departmental officials provide the requisite financial approval after the Ministers have sought the Minister for Finance and Deregulation's authorisation (under the Act) to release funds from the EIF, but prior to entering into funding agreements, taking into account whether all necessary legal and procedural steps have been complied with.

⁴⁰ This funding was subsequently announced on 20 July 2009, to coincide with the 40th anniversary of the first manned moon landing.

- developed informative grant guidelines;
- put in place and properly executed a well-designed application assessment process;
- prepared clear and informative advice for the relevant Ministers and the Australia Government that was consistent with the outcomes of the Advisory Board's assessment of applications and funding recommendations; and
- obtained authorisation from the Finance Minister for the release of funding from the EIF Special Account for each of the approved projects in accordance with the requirements in the *Nation-building Funds Act 2008* (the Act).

A planned approach to the second funding round

2.7 Planning plays a key role in the effective management of grant funding rounds. A structured and planned approach can help agencies better align resources with key priorities, requirements and risks, as well as respond to emerging issues.

Planning and design

2.8 An important part of the planning and design activities associated with the conduct of the second funding round was a series of consultations with a range of key stakeholders, including bodies in each of the three sectors, relevant representative and industry associations, and state and territory government representatives. Among other things, the consultations were designed to explain the transition from the former HEEF to the EIF, to identify the needs and requirements of stakeholders, and to discuss the EIF's key parameters, such as: purposes and objectives; application and assessment processes, including eligibility requirements, the evaluation criteria and the role of the Advisory Board.

2.9 To assist in the management and delivery of the second funding round, DIISRTE also developed a planning schedule setting out the critical dates to be achieved and the key tasks to be undertaken. For each key task, the plan detailed the attendant deliverables and responsibilities.

Managing risks

2.10 DIISRTE developed a risk plan containing a series of strategic and operational risks associated with the implementation and management of the

second funding round, including a series of fraud-related risks. The categories of risk contained in the plan included:

- program design and implementation;
- management of relationships;
- having people with the right skills; and
- changes in the external environment.

2.11 Each of the risks identified in the plan was assessed by the department to be acceptable after taking into account the strength of the processes and controls that were already in place, or that were proposed.

Program guidelines

2.12 To assist in the development of the guidelines for the second funding round, DIISRTE undertook a series of consultations, including discussions with the Department of Finance and Deregulation (Finance). Following the Prime Minister's endorsement of the proposed guidelines on 10 February 2009, the Education Minister approved the final version of the guidelines on 16 February 2009. Given the tight timeframes associated with the launch of the second funding round, the department advised that there was insufficient time to receive formal approval of the guidelines from the Expenditure Review Committee as required, at the time, by Estimates Memorandum 2009/09.

2.13 A grants program's guidelines should contain sufficient information to promote fair, transparent and equitable access to the program. In this regard, the ANAO's grants administration Better Practice Guide (BPG) identifies a series of common information elements that grant guidelines should address.⁴¹ This includes information on the:

- program's purpose, scope, and objectives;
- roles and responsibilities of the parties involved in the administration of the program;
- processes by which organisations are able to access the program;

⁴¹ ANAO, *Implementing Better Practice Grants Administration*, Better Practice Guide, June 2010, p. 59. While the 2010 guide was released after the guidelines for the second funding round were published, the information elements contained in the guide represent well-established principles that are applicable to any grants program.

- processes by which successful proposals will be assessed and selected, including details of the eligibility and assessment criteria; and
- terms and conditions that will apply to grants, including the reporting and other accountability arrangements.

2.14 The guidelines developed for the second funding round largely addressed the information elements contained in the BPG. In particular, the evaluation criteria outlined in the guidelines were the same as the evaluation criteria set out in *EIF Evaluation Criteria No.1 of 2009*, the legislative instrument issued by the Education and Research Ministers on 13 February 2009. Feedback obtained during the ANAO's discussions with successful and unsuccessful applicants was that the guidelines for the second funding round were informative and useful.

The application assessment process

2.15 Applications for funding should be assessed in a way that treats all applicants fairly and equitably. Well-defined and carefully structured assessment processes offer potential benefits such as:

- enabling more discerning and consistent comparisons of the relative merits of each proposal; and
- selecting applications that are more likely to contribute to the achievement of the grants program's objectives and provide better value for money.⁴²

2.16 To evaluate if DIISRTE had put in place and properly executed appropriate application assessment processes in the second funding round, the ANAO examined whether the:

- evaluation criteria were suitable and appropriate;
- design of application assessment processes was robust;
- department's preliminary assessments had been undertaken consistently against the evaluation criteria contained in the approved program guidelines; and
- department effectively supported the Advisory Board.

⁴² ANAO, BPG, op. cit., p. 42.

The evaluation criteria

2.17 In a competitive, merits-based grants program, the evaluation criteria provide the basis for assessing the relative merits of the eligible applications. The evaluation criteria for the second funding round are set out in Table 2.1.

Table 2.1

Evaluation criteria used in the second funding round

| Criteria |
|---|
| Extent to which the project addresses national priorities |
| Alignment of the project with the applicant organisation's priorities and strategic directions |
| Projected positive impact on enhancing capacity |
| Projects result in improvements consistent with the level of investment |
| Extent of co-investment and collaboration |
| Project quality and readiness |
| Capacity of the organisation to support, maintain and integrate new infrastructure into ongoing business operations |

Source: *EIF Evaluation Criteria No.1 of 2009*, which was made on 13 February 2009 and registered on the Federal Register of Legislative Instruments on 16 February 2009.

2.18 During the audit, DIISRTE advised that the development of the evaluation criteria for the second funding round drew on:

- the overarching principles approved by the Australian Government in September 2008—see paragraph 1.15;
- insights gained during the first funding round;
- feedback obtained during the consultations with stakeholders;
- discussions with Finance, Treasury and other departments involved in the administration of the three Nation-building funds—as required by the Act, the Education and Research Ministers also wrote to the Treasurer and the Minister for Finance about the draft evaluation criteria; and
- the department's own experiences with the three sectors, including administering other infrastructure-related programs.

2.19 The ANAO’s grants administration BPG identifies some common characteristics of sound evaluation criteria.⁴³ As shown in Table 2.2, the evaluation criteria contained in the second funding round’s guidelines generally possessed these characteristics.

Table 2.2

Assessment of the evaluation criteria used in the second funding round

| Characteristic | Result | Comment |
|---|--------|--|
| Outcomes focused and aligned with policy objectives | ✓✓ | The EIF objectives were reflected in the criteria. |
| Promote additionality ^A | ✓✓ | Additionality was reflected in the second criterion. |
| Comprehensive | ✓✓ | The criteria were comprehensive. |
| Clarity | ✓✓ | For the most part, the criteria contained easy to understand and unambiguous terminology. |
| Objectively assessable | ✓ | A number of parts of some of the criteria were mainly assessable on the basis of statements made by applicants. ^B |
| Internally consistent | ✓✓ | The criteria were internally consistent. |

Key: ✓✓-criteria meet characteristic; ✓-criteria partly meet characteristic.

Note A: Additionality means that a grant should add value by achieving something worthwhile that would not occur without grant assistance.

Note B: This was largely due to the second funding round’s short timeframe and also to the challenges associated with the quantification of intangible educational and research outcomes, as reported by the Productivity Commission in *Public Support for Science and Innovation*, March 2007.

Source: ANAO analysis.

Robustness of assessment methodology

2.20 The second funding round involved a two-stage assessment process. At each stage, departmental officials undertook preliminary assessments of the applications received against the evaluation criteria contained in the program guidelines approved by the Education Minister. These preliminary assessments were designed to support the Advisory Board fulfil its responsibilities under the Act. Specifically, DIISRTE advised that the preliminary assessments were conducted:

⁴³ ANAO, BPG, op. cit., p. 62. While this document was published after the EIF selection criteria in the second funding round were established, the characteristics contained in the guide represent well-established principles that are applicable to any grants program.

[T]o ensure that due diligence is exerted and that obligations with regard to accountability, probity, transparency and achieving value with public money are met.⁴⁴

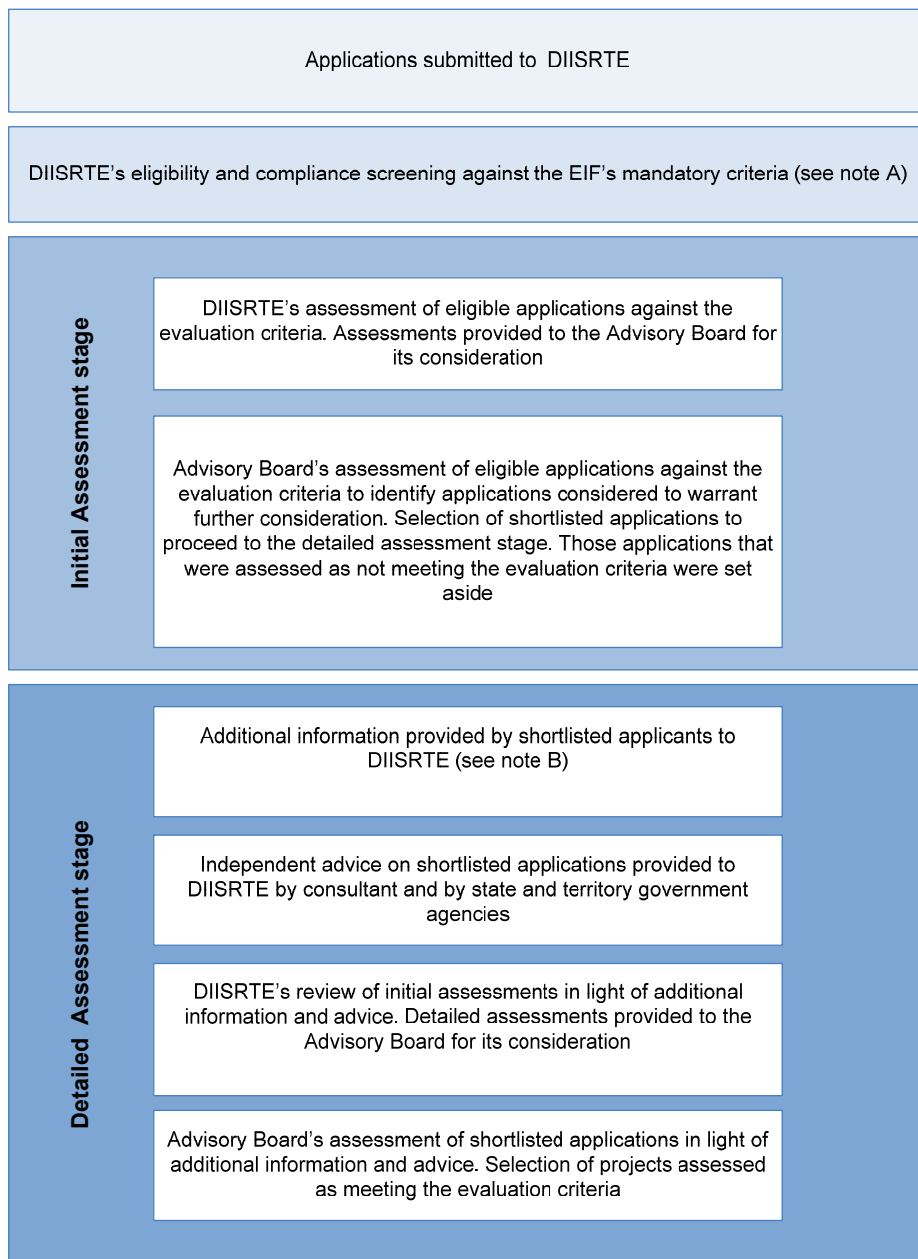
2.21 Such an approach is helpful for advisory boards, for the reasons provided by the department, provided it is clearly understood that the board is responsible for coming to its own views on the basis of the applications received. This was clearly understood by the Advisory Board and the department in this case.

2.22 As mentioned, the second funding round was conducted over a very short time. In particular, DIISRTE undertook the preliminary assessments, as well as prepared advice for the Advisory Board, in a period of four weeks—one week for the initial assessment stage, and a further three weeks for the detailed assessment stage. An overview of the assessment process used in the second funding round is provided in Figure 2.1.

⁴⁴ DIISRTE advice to the ANAO, dated 14 December 2012.

Figure 2.1

The second funding round's assessment process



Note A: The mandatory criteria are outlined in Appendix 4.

Note B: The guidelines provided that the departments and the Advisory Board may seek additional information to assist in the assessment of the relative merits of the applications.

Source: ANAO, based on the department's documentation.

2.23 The department's preliminary assessments of applications were undertaken by three sector-based teams, which rated the applications against each evaluation criterion and assigned an overall indicative rating. At each stage of the second funding round, the number of ratings for each criterion was tallied to obtain an overall indicative rating for each application (see Table 2.3). These preliminary assessments were reviewed and cleared by senior officials before they were provided to the Advisory Board.

Table 2.3

Overall indicative rating methodology in the second funding round

| Overall indicative rating | Description |
|---------------------------|--|
| Initial assessment stage | |
| Should proceed | Strongly meets most of the criteria and meets all other criteria |
| Possibly should proceed | Meets all of the criteria and may strongly meet some criteria |
| Should not proceed | Does not meet some of the criteria |
| Detailed assessment stage | |
| Strongly satisfies | Strongly meets most (5 to 7) of the criteria and meets all other criteria |
| Satisfies | Strongly meets some (1 to 4) of the criteria and meets all other criteria. |
| Possibly satisfies | Meets all of the criteria |
| Does not satisfy | Does not meet one or more of the criteria |

Source: ANAO analysis.

2.24 At the detailed assessment stage, DIISRTE also sought independent advice to support the preliminary assessment of the applications. Specifically:

- an external consultant provided advice on technical aspects of each application, including an analysis of: each applicant's project implementation plan; risk management strategy; financial plan; and cost-benefit analysis; and
- relevant state and territory government agencies were asked about the strengths and merits of proposals, and to confirm the status of any state and territory government co-investment in the proposals.

2.25 The information provided by the external consultant and the state and territory government agencies was also provided to the Advisory Board to help inform their assessment of the applications.

Guidance to staff involved in the assessment process

2.26 To guide the conduct and moderation of the preliminary assessments, DIISRTE developed an assessment plan. Among other things, the assessment plan outlined the:

- importance of principles such as integrity and accountability in the assessment process;
- assessment methodology, including guidance of how to assess and rate applications;
- key stakeholders involved in the assessment process; and
- process of reporting and approving the results of the assessments.

2.27 The assessment plan included a scoring guide designed to assist staff in rating applications against each evaluation criterion. For each criterion, the scoring guide outlined a list of 'guide points' to help assessors interpret the evaluation criteria, and specified the requirements to be met for each rating (the rating requirements). Overall, the plan was comprehensive and provided a key point of reference for the assessment of applications. DIISRTE advised that application of the scoring guide, including clarification of terminology⁴⁵ used in the guide, was canvassed during assessment training. Issues around the interpretation of terms in the guide, and the exercise of judgement, were also addressed through regular feedback discussions between assessors and managers, which occurred in the context of moderation and other review processes.

The preliminary assessment of applications

2.28 The ANAO reviewed a sample of 30 of the 154 preliminary assessments undertaken by DIISRTE in the second funding round to assess whether they:

- were conducted in accordance with the department's scoring methodology; and
- contained sufficient explanation to support the assigned ratings.

⁴⁵ For some of the evaluation criteria, the scoring guide used terminology that was potentially open to different interpretation. For instance, the 'strongly meets' and 'meets' ratings of the criterion relating to collaboration and co-investment required assessors to determine whether co-investment or collaboration arrangements were a 'significant proportion' of the total investment, and 'significantly enhanced' the outcomes of the project.

2.29 Each of the preliminary assessments examined by the ANAO had: assessed the application against the EIF’s evaluation criteria contained in the approved program guidelines; been conducted in accordance with the scoring methodology; and reflected information obtained from applicants. Overall, the assessments examined also contained a level of explanation and justification that adequately supported the ratings assigned.

Support to the Advisory Board

2.30 DIISRTE was responsible for providing secretariat functions to support the Advisory Board in fulfilling its roles and meeting its obligations. The responsibilities of the secretariat included preparing agenda papers, managing administrative arrangements, and taking the meetings’ minutes. Further, the secretariat supported Board members by:

- providing members with copies of the Advisory Board’s Charter and Terms of Reference—which informed Board members on their roles and responsibilities under the Act, as well as on other issues such as meeting arrangements;
- developing and disseminating the *Personal Interest Guidelines*—which were designed to assist Board Members meet the requirements of the Act relating to the disclosure and management of material personal interests; and
- arranging for the attendance of a probity advisor at all Advisory Board meetings.

2.31 The department’s preliminary assessment comments and indicative ratings at both the initial and detailed stages were provided to the Board to assist in its assessment of applications. DIISRTE also provided the Board with a range of other supporting documentation, such as:

- an outline of the assessment methodology;
- application forms;
- additional information obtained from applicants;
- advice from the external consultant; and
- advice from state and territory government agencies.

2.32 In addition, departmental officials attended the Board’s meetings, and as required, provided further information or clarification about the preliminary assessments.

2.33 In his letter to the Education and Research Ministers on the outcome of the Advisory Board’s deliberations for the second funding round, the Chair of the Board acknowledged the support provided by the departments, especially its timeliness and high standards. During discussions with the ANAO, the Chair of the Board expressed high regard for the support provided by the departments, noting that he considered the EIF to be well administered. He also noted that the secretariat had provided the Board with comprehensive and timely agenda papers for each Board meeting.

2.34 The only records available of the Advisory Board’s deliberations in the second funding round were:

- minutes of the relevant meetings—the minutes described the approach taken by the Board to assess applications, including details of the rating categories the Board agreed to use. The minutes also included listings of applications within each of the agreed categories; and
- spreadsheets showing the Advisory Board’s overall assessment comment for each application—these comments formed the basis of the feedback subsequently provided to the unsuccessful applicants.

2.35 The department advised that a greater level of detail about the Board’s assessments, including comments at the individual evaluation criteria level, were captured by secretariat staff during relevant Board meetings. The department further advised that while the details of the Board’s assessments at the individual criteria level were not reflected in the official meeting minutes, they were recorded in supporting spreadsheets.⁴⁶ However, the secretariat’s working observations or notes and the supporting spreadsheets were unable to be located by the department during the course of the audit. In this respect, DIISRTE did not maintain sufficient records of a key aspect of the Board’s assessment of applications.⁴⁷

Funding recommendations and approvals

2.36 The CGGs state that decision-makers should not approve grants without first receiving advice on the merits of the proposed grant.⁴⁸ In this

⁴⁶ DIISRTE advice to the ANAO, dated 15 January 2013.

⁴⁷ The issue of the retention of records relating to the deliberations of the Advisory Board for the third funding round is discussed at paragraph 3.27.

⁴⁸ Estimates Memorandum 2009/09 contained the same requirement.

regard, the ANAO's grants administration BPG indicates that advice on the merits of a grant application should include a clear recommendation whether or not a grant should be approved for funding.⁴⁹

Funding advice to the Ministers and the Australian Government

2.37 On 9 April 2009, the Chair of the Advisory Board advised the Education and Research Ministers of the outcomes of Board's assessment of applications in the second funding round. The advice stated that the Board had agreed that 32 projects satisfied the EIF evaluation criteria and that 122 projects did not satisfy the criteria. The successful applications were grouped into two categories:

- 16 projects (seeking EIF funding of \$475 million) were rated as strongly satisfying the evaluation criteria—highly recommended for funding; and
- 16 projects (seeking EIF funding of \$547 million) were rated as satisfying the evaluation criteria—recommended for funding should the Government wish to make a larger investment.

2.38 Attached to the letter were schedules of the successful and unsuccessful projects showing the project proponent, project title, location, amount of EIF funding and total project value. Further, the schedule of unsuccessful projects contained the Board's overall assessment comment for each proposal. To further assist the Ministers, the Chair stated in his letter that:

[T]he Board undertook a rigorous assessment process that involved input and advice from your respective departments, state and territory governments and contracted advisers. Each application was assessed in a fair and objective manner against the EIF evaluation criteria and the funding round was conducted in a way that ensured the integrity of our advice.⁵⁰

2.39 On the same day, both DEEWR and the then DIISR provided briefings to the Education and Research Ministers respectively. The departments' briefings:

- outlined the outcomes of the Advisory Board's assessments;
- provided details of relevant requirements of the Act;

⁴⁹ ANAO BPG, *op. cit.*, p. 77.

⁵⁰ Letter from the Chair of the Advisory Board, Mr Phillip Clark AM, to the Hon Julia Gillard MP, Minister for Education, and Senator the Hon Kim Carr, Minister for Innovation, Industry, Science and Research, dated 9 April 2009.

- advised the Ministers to recommend the 32 projects assessed by the Advisory Board as satisfying the evaluation criteria to the Australian Government for consideration; and
- provided new policy proposals, known as Infrastructure Proposals for each of the 32 projects—each proposal described the proposed project, outlined the funding for the project, and set out the merits of the proposal, including stating that the project was suitable for funding under the Act.

2.40 On 15 April 2009, the Ministers wrote to the Prime Minister providing the proposals for each of the 32 projects that the Board had assessed as satisfying the evaluation criteria. The Ministers recommended that the projects be considered for funding in the context of the 2009–10 Budget.

2.41 On 17 April 2009, the Australian Government agreed to allocate funding of \$934 million for 31 of the 32 projects recommended by the Ministers, and to consider funding the remaining proposal (known as the *Giant Magellan Telescope* project) at a later date. Subsequently, on 28 April 2009, the Government agreed: that funding for the 31 projects would be announced in the 2009–10 Budget as the outcome of the EIF’s second funding round; and to a further funding allocation from the EIF of up to \$88 million for the *Giant Magellan Telescope* project.⁵¹

Meeting the approval requirements of the Act

2.42 As set out in Chapter 1, the Act requires that the release of funding from the EIF Special Account be authorised by the Minister for Finance. Estimates Memorandum 2009/36 states that in seeking the authorisation of the Minister for Finance, the Education Minister and the Research Minister must make a recommendation advising, among other things, that the projects:

- have been assessed by the Advisory Board as meeting the evaluation criteria; and
- are for the creation or development of education, research or VET infrastructure and funding is directed towards capital expenditure and does not involve expenditure of a recurrent nature relating to running costs.

⁵¹ This funding was subsequently announced on 20 July 2009, to coincide with the 40th anniversary of the first manned moon landing.

2.43 The Ministers submitted recommendations to the Finance Minister covering each of the 32 projects agreed to by government that their respective departments were responsible for administering. The Minister for Finance responded favourably (to each Minister) and authorised the release of funds from the EIF for each of the 32 projects.

Conclusion

2.44 DIISRTE's planning and design work leading up to the conduct of the second funding round was sound. In particular the department:

- undertook a series of consultations with key stakeholders, including other departments involved in the administration of the Government's Nation-building funds;
- developed a formal plan for the conduct of the funding round, including identifying key tasks and deliverables;
- identified and assessed potential risk factors associated with the implementation and ongoing management of the funding round;
- developed and published program guidelines containing clear and informative guidance for potential applicants; and
- developed an assessment plan to help guide staff in the conduct of preliminary assessments.

2.45 The department's preliminary assessments examined by the ANAO were conducted in a consistent manner against the EIF's evaluation criteria, and contained a level of explanation and justification that adequately supported the ratings assigned.

2.46 Overall, the assistance provided to the Advisory Board by DIISRTE well supported the Board to fulfil its responsibilities under the Act. In his letter to the Education and Research Ministers on the outcome of the Advisory Board's deliberations for the second funding round, the Chair of the Board acknowledged the support provided by the departments.

2.47 Minutes of board meetings in the second funding round, which were prepared by the department in its role as Board secretariat, describe the approach taken by the Board to assess applications and contained details of the Board's overall merit assessment for each application. The department advised that other details relating to the assessment of each application—such as the Board's overall assessment comments and details of assessments against the

individual evaluation criteria—were documented in supporting spreadsheets. However, the supporting records containing the Board’s assessments at the individual criteria level were unable to be located by the department during the course of the audit. In this respect, DIISRTE did not maintain sufficient records of a key aspect of the Board’s assessment of applications.

2.48 The advice provided to the Education and Research Ministers and to the Australian Government was sufficiently detailed to inform their decision making in the second funding round. The advice included details of the outcomes of the Advisory Board’s assessment of applications, a clear recommendation about the projects that should be funded and an analysis of the merits of each of the projects recommended for funding.

3. The Third Round of Assessment and Selection

This chapter examines the administration of the EIF's third funding round and the sustainability round, including the support provided to the Advisory Board in its assessment of proposals against the evaluation criteria.

Introduction

3.1 In addition to announcing the outcome of the EIF's second funding round, the Australian Government announced in the 2009–10 Budget that \$550 million was to be allocated from the EIF for a third funding round and a sustainability round. The third round, which was launched on 4 August 2009, had the same objectives as the second funding round. However, the sustainability round, which was conducted concurrently with the third funding round, had the following additional objectives:

- advance teaching and/or research in areas relating to climate change and environmental sustainability;
- display leadership in the development and demonstration of environmentally sustainable infrastructure; and
- contribute towards the Australian Government's priorities concerning climate change and sustainability.

3.2 As in the second funding round, applications in the third funding round⁵² were assessed using a two-stage process. A total of 199 applications (seeking funding of \$4.7 billion) were received in the first stage. Of these, seven were assessed by DIISRTE⁵³ as ineligible in terms of the EIF's mandatory criteria. In two of these seven cases, the applicants were assessed as not being eligible organisations, and the majority of the remaining applications were submitted too late. The department provided the Board with advice on each of the seven ineligible applicants and the Board agreed that no further assessment of these applications should be undertaken.

⁵² References to the third funding round in the remainder of this report include the sustainability round.

⁵³ As the processes and decisions examined in this chapter relate to the period prior to the creation of DIISRTE (in December 2011), references to DIISRTE and the department in this chapter include those functions in DEEWR and the then DIISR that were formerly responsible for the administration of the EIF.

3.3 Following its assessment of the relative merits of the 192 eligible applications against the relevant evaluation criteria, the Advisory Board selected a shortlist of 48 applications (seeking funding of \$1.3 billion) to proceed to the second stage. On 10 November 2009, the proponents of the 48 shortlisted proposals were invited to submit stage two applications. At around the same time as stage two of the third funding round opened, the Government announced, in the 2009–10 Mid-Year Economic and Financial Outlook (MYEFO) statement, that the amount of funding allocated for the third funding round would be reduced from \$550 million to \$350 million.

3.4 In late February 2010, following the Advisory Board’s assessment of the 46 stage two applications that had been submitted⁵⁴, the Chair of the Board advised the Education and Research Ministers that:

- 12 projects (seeking funding of \$354 million) were rated as strongly satisfying the evaluation criteria and were highly recommended for funding;
- 10 projects (seeking funding of \$265 million) were rated as satisfying the evaluation criteria, but less strongly, and were recommended for funding should the government wish to make a larger investment; and
- 168 projects (144 from stage one and 24 from stage two) were rated as not satisfying the EIF evaluation criteria and were not recommended for funding.

3.5 On 3 May 2010, the Education and Research Ministers advised the Prime Minister that if the Government ‘was of a mind’ to spend the \$550 million that had been originally announced in the 2009–10 Budget, that a total of 19 of the 22 projects assessed by the Advisory Board as meeting the evaluation criteria should be funded. On 19 May 2010, the Australian Government agreed⁵⁵ to fund 11 of the projects recommended by the Ministers, and on 27 May 2010, agreed to fund the eight further projects recommended by the Ministers.

⁵⁴ Two of the 48 proponents invited to submit a stage two application withdrew from the assessment process.

⁵⁵ Estimates Memorandum 2009/36, *Payment Arrangements for the Nation-building Funds* advises that the Government is not providing approval to commit public moneys pursuant to the financial framework at this stage. The responsible Ministers or departmental officials provide the requisite financial approval after the Ministers have sought the Minister for Finance and Deregulation’s authorisation (under the Act) to release funds from the EIF, but prior to entering into funding agreements, taking into account whether all necessary legal and procedural steps have been complied with.

3.6 To assess the effectiveness of the process associated with the third EIF funding round, the ANAO examined whether DIISRTE had:

- adopted a planned approach to the conduct of the funding round, including assessing and monitoring risks;
- developed informative grant guidelines;
- put in place and properly executed a well-designed application assessment process;
- prepared clear and informative advice for the Education and Research Ministers and the Australian Government that was consistent with the outcomes of the Advisory Board’s assessment of applications and funding recommendations; and
- obtained authorisation from the Minister for Finance for the release of funding from the EIF Special Account for each of the approved projects in accordance with the requirements in the *Nation-building Funds Act 2008* (the Act).

A planned approach to the third funding round

Project planning

3.7 As part of its preparation for the third funding round, DIISRTE conducted a review of experiences from the conduct of the second funding round. In particular, it examined the effectiveness of the administrative processes to identify what elements worked well and to identify opportunities for re-design and improvement. Among other things, the review considered the following processes:

- document management and record keeping;
- identifying and managing conflicts of interest;
- staffing arrangements and communication flows;
- Advisory Board support and documentation; and
- supporting documents and tools.

3.8 As well as identifying many positive aspects in the approach used in the second funding round, the review identified several opportunities to enhance administrative processes and arrangements for future funding rounds—including minor changes to staffing arrangements.

3.9 As it did for the second funding round, DIISRTE prepared a project timeline to assist in the management and delivery of the third funding round. The plan contained the same type of information as the plan used in the second funding round, but as the third round was expected to be conducted over a longer period of time, contained significantly more tasks and deliverables.

3.10 As well as the timeline, the department prepared a more detailed implementation plan for the third funding round. Among other things, the implementation plan set out details of:

- objectives of the funding round, including expected benefits;
- evaluation methodology, including potential performance indicators (see further discussion in chapter 5);
- governance arrangements, including key roles and responsibilities;
- key deliverables, including an implementation schedule; and
- stakeholder management.

Managing risks

3.11 The risk plan developed for the second funding round was updated for the third funding round. To a large extent, the risk factors and associated risk treatments contained in the plan were unchanged. However, a number of risks associated with the preliminary assessment processes, including risks relevant to skills and resource allocation, were added to the plan. As was the case in the second funding round, the department assessed that each of the risks contained in the plan was acceptable after taking into account the processes or controls in place or proposed.

Program guidelines

3.12 DIISRTE undertook a series of consultations to assist in the development of the guidelines for the third funding round. This included seeking comments from the Finance and Treasury departments, and discussing a draft of the guidelines with the Advisory Board. The proposed guidelines were approved by the Education and Research Ministers on 20 July 2009 and, as required by the CGGs, were endorsed by the Expenditure Review Committee on 28 July 2009. The guidelines in the third funding round addressed each of the key information elements outlined in the ANAO's grants

administration BPG.⁵⁶ In particular, the evaluation criteria outlined in the guidelines were the same as the evaluation criteria set out in *EIF Evaluation Criteria No.2 of 2009*, the legislative instrument issued by the Education and Research Ministers in July 2009. Feedback obtained during the ANAO's discussions with successful and unsuccessful applicants was that the guidelines for the third funding round were informative and useful.

The application assessment process

3.13 To evaluate if the department had put in place and properly executed well designed application assessment processes in the third funding round, the ANAO examined whether the:

- evaluation criteria were suitable and appropriate;
- design of application assessment processes was robust;
- the department's preliminary assessments had been undertaken consistently against the evaluation criteria contained in the approved program guidelines; and
- the department effectively supported the Advisory Board.

The evaluation criteria

3.14 The department sought to update the evaluation criteria used in the second funding round to reflect, among other things, the:

- Australian Government's responses to the Review of the National Innovation System (the Cutler review) and the Review of the Australian Higher Education System (the Bradley review)⁵⁷;
- decision to conduct the sustainability round (as part of the Government's Clean Energy Initiative) concurrently with the third funding round; and

⁵⁶ ANAO, BPG, op.cit. p. 59. While the 2010 guide was released after the guidelines for the third funding round were published, the information elements contained in the guide represent well-established principles that are applicable to any grants program

⁵⁷ The Australian Government's responses to these reviews are contained in the following publications: *Powering Ideas: An Innovation Agenda for the 21st Century* and *Transforming Australia's Higher Education System*, both published in 2009.

- lessons learned from the second funding round, including incorporating more details of the factors the Advisory Board was likely to consider in assessing applications.

3.15 The proposed changes to the evaluation criteria were canvassed with the Finance and Treasury departments, as well as with the Advisory Board. As required by the Act, the Education and Research Ministers also wrote to the Treasurer and the Minister for Finance about the proposed evaluation criteria.

3.16 The evaluation criteria used in the third funding round are shown in Table 3.1.

Table 3.1

Evaluation criteria used in the third funding round

| Criteria |
|---|
| Extent to which the project will address national infrastructure priorities |
| Extent to which the project is clearly aligned with the organisations' priorities and strategic directions |
| Extent to which there will be a positive impact on enhancing capacity |
| Extent to which the project will result in improvements consistent with the level of investment |
| Project determination |
| Extent of collaboration |
| Extent of co-investment |
| Project readiness |
| Capacity of the organisation to support, maintain and integrate new infrastructure into ongoing business operations |

Source: *Education Investment Fund (EIF) Evaluation Criteria No.2 of 2009*, which was made on 31 July 2009 and registered on the Federal Register of Legislative Instruments on 4 August 2009.

3.17 As mentioned in Chapter 2, the ANAO's grants administration BPG states that there are some common characteristics of sound evaluation criteria.⁵⁸ As shown in Table 3.2, the evaluation criteria used in the third funding round addressed these characteristics.

Table 3.2

Assessment of the evaluation criteria used in the third funding round

| Characteristic | Result | Comment |
|---|--------|---|
| Outcomes focused and aligned with policy objectives | ✓✓ | The EIF objectives were reflected in the criteria. |
| Promote additionality ^A | ✓✓ | Additionality was reflected in the fourth criterion. |
| Comprehensive | ✓✓ | The criteria were assessed to be comprehensive. |
| Clarity | ✓✓ | For the most part, the criteria contained easy to understand and unambiguous terminology. |
| Objectively assessable | ✓✓ | The criteria were more objectively assessable than in the second funding round. |
| Internally consistent | ✓✓ | The criteria were internally consistent. |

Key: ✓✓-criteria meets characteristic.

Note A: Additionality means that a grant should add value by achieving something worthwhile that would not occur without grant assistance.

Source: ANAO analysis.

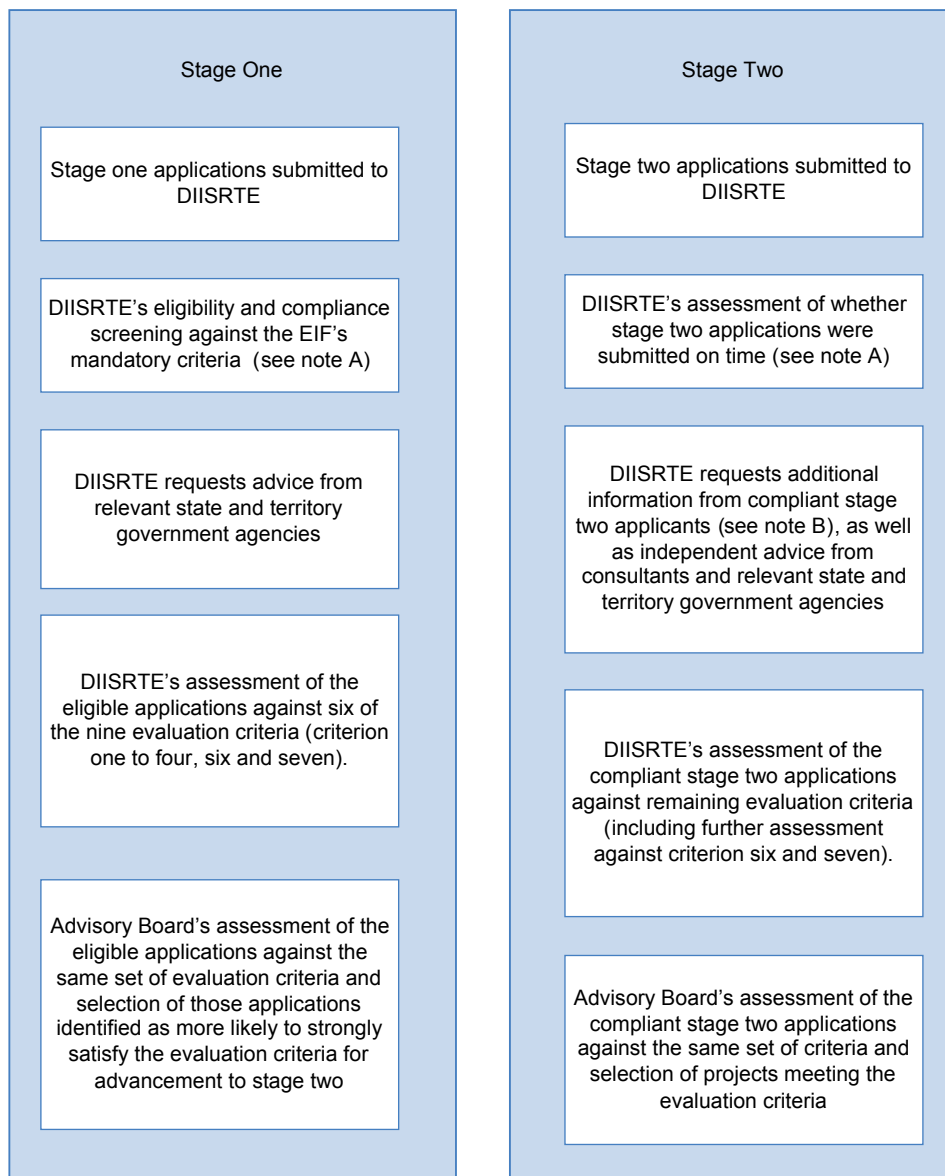
Robustness of the assessment methodology

3.18 As was the case in the second funding round, DIISRTE undertook preliminary assessments of the applications received to support the Advisory Board fulfil its responsibilities under the Act. An overview of the assessment process in the third funding round is provided in Figure 3.1.

⁵⁸ ANAO, BPG, op. cit., p. 62. This document was published around the same time that the EIF selection criteria in the third funding round were approved. Nevertheless, the characteristics contained in the guide represent well established principles that are applicable to any grants program.

Figure 3.1

The third funding round's assessment process



Note A: The mandatory criteria, including lodgement deadlines are outlined in Appendix 4.

Note B: The EIF's guidelines provide that the departments and the Advisory Board may seek additional information as part of the assessment of the relative merits of the applications.

Source: ANAO, based on the department's documentation.

3.19 As was the case in the second funding round, the department's preliminary assessments were undertaken by three sector-based teams of assessors, which rated the applications against each evaluation criterion and

assigned an overall indicative rating. The overall rating system was the same as used in the second funding round (see Table 2.3), with the addition of two minor refinements in the second stage. Specifically:

- a further category was added—‘very strongly satisfies’ if all nine evaluation criteria were rated ‘strongly meets’; and
- the meaning of ‘most’ in the strongly satisfies category was amended to mean that five to eight of the criteria (rather than five to seven) were rated ‘strongly meets’.

3.20 As in the second funding round, DIISRTE sought advice from an external consultant to inform the assessment process. As well as reviewing a small sample of the department’s preliminary assessments (as part of the department’s moderation processes), the consultant was engaged to develop a methodology to help the department analyse factors such as: project benefits; project readiness; construction costs and project cash flow. DIISRTE indicated that a team of departmental officers led by staff with relevant technical experience subsequently analysed these factors using the methodology developed by the consultant. The results of the analysis were provided to the Advisory Board.

3.21 Again, DIISRTE consulted with relevant state and territory government agencies during both stages of the third funding round. In the first stage, state and territory government agencies were asked whether the proposals submitted (in their respective jurisdictions) represented a high, medium or lower priority for the state or territory.⁵⁹ In the second stage, the relevant state and territory government agencies were asked about the merits of the shortlisted proposals. In addition, where support from the state or territory was identified in applications, the state and territory government agency was asked to confirm the status of the level of co-investment. At both stages, the information provided by state and territory government agencies was provided to the Advisory Board to inform their assessment of the applications.

Guidance to staff involved in the assessment process

3.22 The department updated the assessment plan from the second funding round prior to the conduct of the third funding round. For instance, more

⁵⁹ In assigning a priority, DIISRTE asked each state and territory government agency to consider whether the proposal aligned with the state or territory’s broad strategic direction, and also whether the proposed infrastructure supported the state or territory’s infrastructure, education, workforce and/or economic development priorities and plans.

details were included on the objectives of the assessment process and on key responsibilities. As was the case in the second funding round, the updated assessment plan included a scoring guide that outlined a list of guide points designed to help assessors interpret the evaluation criteria and also specified the requirements to be met for each criterion rating (the rating requirements). Again, the department advised that use of the scoring guide, including clarification on terminology in the guide, was addressed during assessment training, and through regular feedback discussions between assessors and managers.

The preliminary assessment of applications

3.23 The ANAO reviewed a sample of 30 of the 192 preliminary assessments undertaken by DIISRTE in the third funding round to assess whether they were:

- conducted in accordance with the department's scoring methodology; and
- contained a sufficient level of explanation to support the assigned ratings.

3.24 Each of the preliminary assessments reviewed by the ANAO had examined proposals against the EIF's evaluation criteria contained in the approved program guidelines. The assessments were also conducted in accordance with the scoring methodology and reflected the information provided by the applicant. Further, the preliminary assessments examined generally contained an appropriate level of analysis and justification to support the ratings assigned.

Support to the Advisory Board

3.25 The nature of support provided to the Advisory Board by the department in the third funding round was comparable to the second funding (see paragraphs 2.30 to 2.32). An enhancement was the provision of an induction briefing to the Advisory Board members appointed in September 2009. This briefing provided:

- background information on the EIF;
- information on the role of the Advisory Board, including probity related responsibilities; and

- an overview of the current funding rounds, including details of the assessment process and the evaluation criteria.

3.26 The Chair of the Advisory Board again acknowledged the work of the departments in his letter to the Ministers. In particular, the letter stated:

Your departments have worked very hard and effectively to facilitate the Board’s task. The quality of the support received from them continues to be of a high standard.⁶⁰

3.27 As was the case in the second funding round, details of the Board’s assessments of applications in the third funding round were recorded in the minutes from the Board’s meetings, which describe the approaches taken by the Board and contain lists of the assessed applications within each of the agreed rating categories, and in spreadsheets, which contained the Advisory Board’s overall assessment comment for each application. The department again advised that a greater level of detail about the Board’s assessments was captured by secretariat staff during the relevant Board meetings, but these details were not reflected in the official meeting minutes. However, as in the second funding round, records of the board’s assessment of applications at the individual evaluation criteria level could not be located by the department.

3.28 The adequacy of agency record keeping in grants administration, particularly in support of advisory bodies, has arisen in recent ANAO audits.⁶¹ In this regard, confidence in the transparency and robustness of grants administration is improved where agencies implement arrangements that document key assessment decisions. Creating and maintaining appropriately detailed records associated with the Advisory Board’s assessments would be consistent with the principles of transparency and accountability set out in the CCGs. Specifically, the CCGs state that:

Good record keeping assists to meet [public] accountability obligations, demonstrate compliance with the CCGs and the financial management framework, and demonstrates that due process has been followed in actions and decisions.⁶²

⁶⁰ Letter from the Chair of the Advisory Board, Mr Phillip Clark AM, to the Hon Julia Gillard MP, Minister for Education, and Senator the Hon Kim Carr, Minister for Innovation, Industry, Science and Research, dated 25 February 2010.

⁶¹ ANAO Audit Report No.1, 2012–13, *The Administration of the Renewable Energy Demonstration Program*, p. 22, and ANAO Audit Report No.17, 2012–13, *Design and Implementation of the Energy Efficiency Information Grants Program*, p. 17.

⁶² Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 25.

Recommendation No.1

3.29 The ANAO recommends that, consistent with the accountability principle for grants administration set out in the Commonwealth Grant Guidelines, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education ensures that the assessment decisions of grant applications by the EIF Advisory Board are appropriately documented and retained by the department.

DIICCSRTE response:

3.30 *Agreed. Board decisions on grant applications have always been based on assessments against the publicly available evaluation criteria. The decisions have been documented and retained by the Department, and accurate decisions have, in all cases, been conveyed to the Designated Minister/s. However, the Department agrees that there is merit in better capturing Board decisions at the criterion level, not just the overall rating. The Department has already developed a records management system to ensure that this level of detail is documented and retained, and this system was implemented successfully for the current Regional Priorities Round of EIF.*

Funding recommendations and approvals

Funding advice to the Ministers and to the Australian Government

3.31 On 25 February 2010, the Chair of the Advisory Board advised the Education and Research Ministers of the outcomes of the Board's assessment of applications in the third funding round. To assist the Ministers' consideration of the Board's recommendations, the Chair's letter outlined the approach taken by the Board to assess applications. Specifically, the letter stated that:

... we used a two-stage process for round three and the sustainability round. The Board agrees that this worked well. In accordance with the guidelines the Board undertook a rigorous assessment process that involved input and advice from your respective departments, state and territory governments and contracted advisers.⁶³

⁶³ Mr Phillip Clark AM, op. cit.

3.32 The Chair advised the Ministers that of the 192 applications assessed by the Board:

- 12 proposals (seeking funding of \$354 million) strongly satisfied the EIF evaluation criteria and were highly recommended for funding;
- 10 proposals (seeking funding of \$265 million) satisfied the EIF evaluation criteria and were recommended for funding should the government wish to make a larger investment—the Advisory Board prioritised these 10 projects (within each of the three sectors);
- 168 proposals (seeking funding of \$3.9 billion) did not satisfy the evaluation criteria and were not recommended for funding; and
- two proposals had been withdrawn.

3.33 As was the case in the second funding round, schedules of the successful and unsuccessful projects were attached to the Chair’s letter. However, unlike the second funding round, the list of unsuccessful projects did not include the Advisory Board’s overall assessment comment for each application.

3.34 Both DEEWR (on 24 February 2010) and the then DIISR (on 1 March 2010) briefed their respective Ministers about the outcome of the Advisory Board’s deliberations. The departments’ briefs to their respective Ministers contained a similar level of detail to the briefs provided in the second funding round, including details of the outcomes of the Advisory Board’s assessment of applications, details of each of the projects assessed by the Board as meeting the evaluation criteria, and clear recommendations on the projects that should be funded. While the departments’ advice to the responsible Ministers highlighted that funding the 22 projects assessed by the Advisory Board as satisfying the evaluation criteria would require \$619.1 million—which was more than the funding envelope previously announced by government—the Ministers were not advised that, should they decide not to support some of the projects recommended by the Advisory Board, the basis for their decisions should have regard to the EIF’s evaluation criteria.

3.35 On 3 May 2010, the Ministers wrote to the Prime Minister submitting details of the 22 projects that the Advisory Board had assessed as meeting the EIF evaluation criteria. In their advice to the Prime Minister, the Ministers observed that funding the 22 projects would require \$619.1 million. The Ministers proposed that 11 of the 22 projects be funded if only the \$350 million funding limit announced in the 2009–10 MYEFO in November 2009 was

available.⁶⁴ The Ministers further advised the Prime Minister that if the government ‘was of a mind to spend the \$550 million originally earmarked in the 2009–10 Budget’, they (the Ministers) recommended that 19 of the 22 projects should be funded.

3.36 On 19 May 2010, the Australian Government agreed to fund the 11 projects recommended by the Ministers within the \$350 million funding limit. Subsequently, on 27 May 2010, the Australian Government agreed to fund the further eight projects recommended by the Ministers—bringing the total amount of funding agreed to by government for the third funding round to \$550 million for 19 projects.

3.37 Of the three projects that were not recommended for funding by the Ministers, one—the *Robotics Institute* project—was rated by the Advisory Board as strongly satisfying the evaluation criteria, and the other two were rated as satisfying the criteria. The two projects that had been rated as satisfying the evaluation criteria were the *National Simulator Centre* project, which was the equal-first ranked VET project (out of five projects) and the *Hub for Ecosystem and Restoration Storage* project, which was the fourth ranked research project (out of four projects).

3.38 The reasons why these three projects were not recommended for funding were not originally outlined in the Ministers’ letter to the Prime Minister, although the basis for the Ministers’ recommendation not to fund these projects was documented in subsequent papers considered by the Government. While the documented reasons for not supporting two of the projects aligned with the EIF’s evaluation criteria, in the case of the *Robotics Institute* project the documented basis for not supporting the project was not framed in the context of the EIF’s evaluation criteria. Rather, the basis related to the equity of funding two projects from the proponent university in round three (which were both rated as strongly satisfying the criteria by the Advisory Board), as well as the fact that the proponent received a grant in round one of the EIF.

3.39 Table 3.3 summarises the different numbers of projects (and their value) recommended for funding by the Advisory Board, the departments and

⁶⁴ The 11 projects nominated by the Minister comprised nine of the 12 projects that the Advisory Board had rated as strongly satisfying the evaluation criteria and two of the 10 projects that the Advisory Board had rated as satisfying the criteria.

the Ministers, as well as the number of projects (and their value) which the Government agreed to fund.

Table 3.3

Numbers and value of projects recommended for funding and agreed by government in the third funding round

| Sectors (and ratings) | Recommended by Advisory Board | Recommended by Departments | Recommended by Ministers | Agreed by Australian Government |
|---------------------------------------|-------------------------------|----------------------------|--------------------------|---------------------------------|
| VET (strongly satisfied) | 2 (\$20.4m) | 2 (\$20.4m) | 2 (\$20.4m) | 2 (\$20.4m) |
| VET (satisfied) | 5 (\$98.8m) | 5 (\$98.8m) | 4 (\$82.8m) | 4 (\$82.8m) |
| Higher education (strongly satisfied) | 4 (\$134.3m) | 4 (\$134.3m) | 3 (\$111.1m) | 3 (\$111.1m) |
| Higher education (satisfied) | 1 (\$30m) | 1 (\$30m) | 1 (\$30m) | 1 (\$30m) |
| Research (strongly satisfied) | 6 (\$199.7m) | 6 (\$199.7m) | 6 (\$199.7m) | 6 (\$199.7m) |
| Research (satisfied) | 4 (\$135.9m) | 4 (\$135.9m) | 3 (\$106.4m) | 3 (\$106.4m) |
| Totals | 22 (\$619.1m) | 22 (\$619.1m) | 19 (\$550m) | 19 (\$550m) |

Source: ANAO analysis.

Meeting the approval requirements of the Act

3.40 As outlined at paragraph 2.42, the Act requires that the Education and Research Minister seek the Finance Minister's authorisation to release funding from the EIF Special Account for the agreed projects. The Education and Research Ministers each submitted recommendations to the Minister for Finance for the projects agreed to by government that their respective departments were responsible for administering. In turn, the Minister for Finance provided authorisation for the release of EIF funds for each of these projects.

Conclusion

3.41 DIISRTE administered many aspects of the third funding round well. In particular, the department:

- conducted a review the conduct of the second funding round, including examining the effectiveness of administrative processes;
- prepared an implementation plan, including setting out key tasks and deliverables;
- updated the risk assessment used in the second funding round;
- undertook consultations on the development of the program's guidelines and evaluation criteria; and
- updated the assessment plan used in the second funding round, among other things, to include more details on key responsibilities.

3.42 As for the second funding round, each of the department's preliminary assessments examined by the ANAO had assessed proposals against the EIF's evaluation criteria. Further, the preliminary assessments examined generally contained an appropriate level of analysis and justification to support the ratings assigned.

3.43 DIISRTE continued to provide the Advisory Board with a high level of support during the conduct of the third funding round. However, as was the case with the second funding round, details of the Board's assessment of applications at the individual evaluation criteria level, which the department advised were documented in supporting records, could not be located by the department. Creating and retaining appropriately documented records associated with the Advisory Board's assessment of applications would be consistent with the principles of transparency and accountability set out in the CCGs.

3.44 The advice provided to the Education and Research Ministers and the Australian Government to assist their decision-making in the third funding round was clear, detailed and informative. In particular, both the Ministers and government were provided with details of each of the 22 projects assessed by the Board as meeting the evaluation criteria, together with clear funding recommendations. However, while the departments' advice to the Ministers highlighted that the 22 projects assessed by the Advisory Board as satisfying the evaluation criteria (and recommended for funding by the Board) would require more funding than had been previously announced by government,

the Ministers were not advised that any decisions by them not to support some of the projects recommended by the Advisory Board should have regard to the EIF's evaluation criteria.

3.45 Importantly, government was provided with advice that set out the basis of the Ministers' recommendation not to fund three of the 22 projects. However, in one of the three cases, the documented basis for not supporting the project was not framed in the context of the EIF's evaluation criteria.

4. Implementing and Managing Funding Agreements

This chapter examines arrangements for implementing and managing funding agreements, including processes for monitoring the status and performance of the funded projects. It also examines whether the departments met financial management requirements relating to the administration of grants.

Introduction

4.1 A well designed grant funding agreement will help establish the basis for a constructive and cooperative relationship between the Australian Government and the entity provided with a grant of financial assistance.⁶⁵ In particular, the funding agreement should provide for a common understanding about the outcomes expected from provision of the grant, as well as the payment arrangements, the accountability requirements and other conditions or obligations. Once a funding agreement has been executed, regular monitoring is important to help ensure that the funded project is performing appropriately, to identify emerging issues and risks, and to inform decisions on the payment of funds.

4.2 In this part of the audit, the ANAO examined whether:

- written funding agreements were signed in a timely manner;
- the form and content of funding agreements aligned with the objectives of the EIF and were commensurate with the risks, size and nature of funded projects;
- the progress of each project, including compliance with funding terms and conditions, was being monitored; and
- payments were only made when agreed milestones and other funding terms and conditions were being met, and were processed in accordance with requirements in the *Nation-building Funds Act 2008* (the Act).

⁶⁵ Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 22.

4.3 In addition, the ANAO assessed whether the departments met the following financial management requirements relating to the administration of grants:

- obtained approval to commit public money, pursuant to FMA Regulation 9—such approval is required to be given after the Government has agreed to project funding and the Finance Minister had authorised the release of EIF funds for the projects, but prior to signing the projects’ funding agreements; and
- posted the correct details of each approved grant on the internet pursuant to relevant grants policy.⁶⁶

The time taken to sign funding agreements

4.4 The timely execution of funding agreements is an important part of effective grants administration. Undue delay in negotiating the terms and conditions associated with the delivery of approved projects can affect the timing of the realisation of the projects’ planned outputs and benefits.

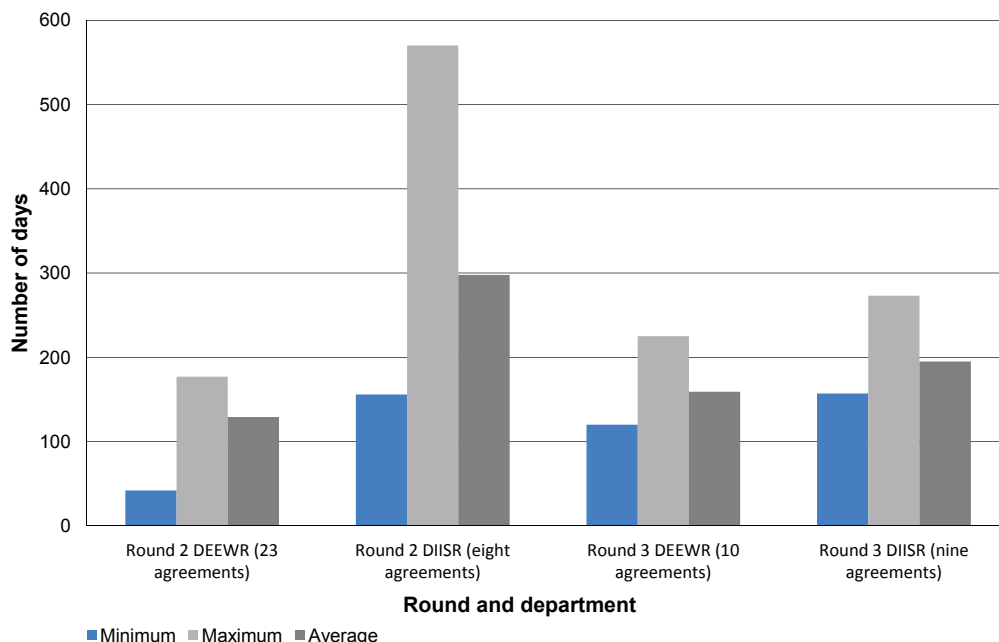
4.5 Once the projects were announced by the Australian Government, DIISRTE⁶⁷ commenced negotiations on the detailed form and content of funding agreements. Figure 4.1 shows the time taken to execute the funding agreements for the 50 projects approved in the second and third funding rounds (measured from the date of the respective public announcement of each grant) for each of the two departments. As shown, the average time to execute funding agreements for projects administered by the then DIISR in the second funding round was significantly longer.

⁶⁶ Estimates Memorandum 2009/09 (from January 2009 to June 2009) and the *Commonwealth Grant Guidelines* (from July 2009 onwards).

⁶⁷ As many of the processes and decisions examined in this chapter relate to the period prior to the creation of DIISRTE (in December 2011), references to DIISRTE and the department in this chapter include those functions in DEEWR and the then DIISR that were formerly responsible for the administration of the EIF. As mentioned in chapter 1, DEEWR was responsible for administering the projects in the higher education and VET sectors, and the then DIISR was responsible for administering the projects in the research sector.

Figure 4.1

Number of days between announcement of approved projects and execution of funding agreements



Source: ANAO analysis.

4.6 During the audit, DIISRTE advised the ANAO that the longer timeframes for the funding agreements administered by the then DIISR in the second funding round was due to a combination of factors, namely: extended negotiations in the case of several funding agreements; limited staff resources; and competing priorities for staff time. In particular, due to the workload in the department at the time⁶⁸, DIISRTE advised that the then DIISR risk-managed the timing of the negotiation of the funding agreements for the EIF round two projects that it was responsible for administering. Specifically, the department advised that those approved projects with payments scheduled to occur earlier in the project’s life were negotiated before projects with later scheduled payments. DIISRTE also advised that in most cases the delay in the commencement of negotiations of the funding agreements was around six

⁶⁸ This included the negotiation and execution of the funding agreements associated with the Super Science Initiative, which was also announced in the 2009–10 Budget.

months. However, in one case—the *Smart State Medical Research Centre* project—DIISRTE advised that negotiations did not commence until mid July 2010, which was some 420 days after the project was announced in the 2009–10 Budget.⁶⁹

The form and content of funding agreements

4.7 The design of funding agreements should be tailored to suit the scale and nature of the granting activity. In this regard, the Commonwealth Grant Guidelines (CGGs) state that relevant considerations include the: purpose, value and duration of the grant; risks involved in the project being funded; and funded project's deliverables.⁷⁰

4.8 While the Act requires the terms and conditions of each grant to be set out in a written agreement between the Commonwealth and the grant recipient, it does not mandate the form of the agreement. Both DEEWR and the then DIISR developed standard funding agreements for use with EIF funded projects, based on their respective long-form funding agreement templates. DIISRTE advised that prior to each funding round, the templates were cleared with the respective department's risk management and legal sections.

4.9 To assess the sufficiency and appropriateness of the content of funding agreements, the ANAO examined a sample of 17 signed funding agreements to determine whether they contained a set of desirable provisions.⁷¹ As outlined in Table 4.1, with one exception, the examined funding agreements contained details consistent with these provisions.

⁶⁹ DIISRTE advice to the ANAO, dated 21 December 2012.

⁷⁰ Finance, CGGs, op.cit., p. 19.

⁷¹ These elements are based on information contained in the *Commonwealth Grant Guidelines*, the ANAO's *Grants Administration* BPG and *Legal Briefing 83—Grants and Funding Programs* by the Australian Government Solicitor (published in November 2009).

Table 4.1**Desirable elements in examined funding agreements**

| Elements | Contained in the examined funding agreements |
|--|--|
| Signature page | √√ ^A |
| Description of the project/purpose of the grant | √√ |
| Period covered by the funding agreement | √√ |
| Amount of the grant | √√ |
| Schedule of payments | √√ |
| Description and expected completion date of project milestones | √√ |
| Rights of access | √√ |
| Use and ownership of the facilities once the project is complete | √√ |
| Requirements relating to insurance | √√ |
| Performance measures | √ |
| Reporting requirements | √√ |
| Evaluation arrangements | √√ |
| Withholding funds in instances of insufficient progress/performance | √√ |
| Processes for varying the agreement | √√ |
| Processes for terminating the agreement, including recovery of unspent funds | √√ |
| Acquittal arrangements, including arrangements relating to unspent monies | √√ |
| Project period | √√ |

Key: √√ - element addressed in each examined funding agreements; √ - element only addressed in the funding agreements administered by the former DIISR.

Note A: Each of the examined agreements was signed by an appropriate departmental official and an appropriate representative of the project proponent.

Source: ANAO analysis.

Indicators to measure the performance of the project

4.10 Funding agreements should be designed to elicit information that assists in monitoring the performance of the funded project, including the project's contribution to the objectives of the grants program. While each of the examined funding agreements describes the goals of the funded project, including the outputs to be delivered, only the agreements administered by the

former DIISR contained requirements relating to performance measures. Specifically, these funding agreements state that project proponents are required to develop, and report against, a set of performance indicators. The funding agreement template contains a set of model indicators in the following areas:

- providing research infrastructure—incorporating value, location and quality elements;
- addressing the four overarching EIF principles; and
- meeting anticipated benefits—including meeting the needs of researchers and fostering collaborative and world-class research.

4.11 Six of the nine projects administered by the former DIISR that were examined had developed performance indicators, or had adopted the model indicators. At the time of the audit:

- one project had advised the department that the development of indicators was in progress; and
- the remaining two projects had advised the department that the performance indicators to be used to measure the project’s performance had yet to be developed.

4.12 Rather than require regular reporting against performance measures, DEEWR required the proponents of the projects that it administered to provide, as part of their final report, information on the project’s achievements, including details of the project’s outcomes. In this regard, DIISRTE advised that:

Performance measure reporting was not included in the funding agreements administered by DEEWR as most of the benefits of the funded projects would not eventuate until after the infrastructure was complete.⁷²

4.13 While accepting that the most beneficial performance information is likely to be available following the completion of construction of the infrastructure, the performance information captured during the life of the research sector projects that was examined by the ANAO usefully informed the former DIISR about the early benefits of these projects.

⁷² DIISRTE advice to the ANAO, dated 14 December 2012.

4.14 Also, as explained in chapter 5, grant recipients are required to cooperate in reviews and evaluations of the EIF program. During the audit, DIISRTE advised that it intends to obtain performance information from project proponents as part of the planned evaluation work to measure the achievement of the EIF's objectives.

Scheduling of payments

4.15 Grant payments should be scheduled in a way that supports the achievement of the funded project's objectives, but at the same time, promote compliance with obligations in the funding agreement. In the case of infrastructure projects, it is common for grant funds to be released in instalments, typically on the achievement of milestones.

4.16 In each of the 24 projects examined by the ANAO, the approved grant amount was scheduled to be paid in instalments. In each case, the payments were scheduled to be made on the receipt (and acceptance) by the departments of a performance report showing satisfactory achievement against one or more milestones. Specifically, of the total funding of \$1 billion payable under the 24 funding agreements examined by the ANAO:

- \$151 million (14.6 per cent) was scheduled to be paid against milestones with completion dates earlier than the date that the funding agreement was signed (13 of the projects)—although none of these funds were actually paid to project proponents prior to signing the funding agreements;
- \$884 million (85.3 per cent) was scheduled to be paid against milestones with completion dates occurring during the life of the projects examined; and
- \$1.4 million (0.1 per cent) was due to be paid against milestones at the completion of two of the projects—holding a proportion of funding until a project has been completed can provide an effective incentive for recipients to comply with funding obligations, and there would be merit in DIICCSRTE seeking further opportunities to adopt this approach in future funding rounds.

4.17 In 18 of the 24 projects that the ANAO examined, the schedule of payments was generally well spread over both the project period and the achievement of the project's milestones. On average, for these projects:

- 78 per cent of the project period was scheduled to have elapsed by the time of the final scheduled instalment payment; and
- 85 per cent of milestones were scheduled to have been achieved by the time of the final scheduled instalment payment.

4.18 In the remaining six projects that the ANAO examined, the scheduling of payments was unevenly clustered towards the early stages of the projects. In particular, as shown in Table 4.2:

- in four of these projects, a significant proportion of the project's total funding was scheduled to be paid shortly after the execution of the funding agreement; and
- each of the six projects was scheduled to receive the full amount of their funding relatively early in the life of the project.

4.19 On average, for these six projects, only:

- 25 per cent of the project period was scheduled to have elapsed by the time of the final scheduled instalment payment; and
- 45 per cent of milestones were scheduled to have been achieved by the time of the final scheduled instalment payment.

Table 4.2

Examined projects with irregular spread of scheduled payments

| Project and funding | Term (months) | Milestones ^A | Coverage of scheduled payments |
|---|---------------|-------------------------|---|
| Smart State Medical Research Centre (\$55 m—research) | 37 | 36 | 50 per cent of total funds were payable shortly after the commencement of the funding agreement and all funding scheduled to be paid within the first four months of the project. No payments are attached to the last 24 milestones. |
| Institute for Marine and Antarctic Studies (\$45m—research) | 50 | 27 | 33 per cent of total funds were payable shortly after the commencement of the funding agreement and all funding scheduled to be paid within the first five months of the project. No payments are attached to the last nine milestones. |
| Centre for Climate Change (\$40m—research) | 39 | 56 | 50 per cent of total funds were payable shortly after the commencement of the funding agreement and all funding scheduled to be paid within first five months of the project. No payments are attached to the last 39 milestones. |
| National Imaging Facility (\$40.2 m—research) | 36 | 54 | 25 per cent of total funds were payable shortly after the commencement of the funding agreement and all funding scheduled to be paid within the first 16 months of the project. No payments are attached to the last 24 milestones. |
| Participate at UniSA (\$30m—higher education) | 50 | 17 | All funding is scheduled to be paid within the first 18 months of the project. No payments are attached to the last 11 milestones. |
| Pandulmurra (\$12.2m—VET) | 40 | 14 | All of the funding is scheduled to be paid within first 15 months of the project. No payments are attached to the last seven milestones. |

Note A: The milestones contained in the funding agreements for the four research projects were grouped, typically by quarter. The number of milestones shown in the table for these projects represents the number of individual milestones in the funding agreement calculated by the ANAO.

Source: ANAO analysis.

Justifying making early payments

4.20 The ANAO has observed that in grants administration, there should be a demonstrable net benefit of the Commonwealth paying grants in advance. Specifically, the ANAO's Better Practice Guide on grants administration states:

The net benefit could be demonstrated by:

- comparing the cost of administering payments in arrears to the interest foregone;
- [showing] efficiencies for the recipient; or
- establishing that the funded activity would not proceed (at all or in a timely fashion) without payment in advance.⁷³

4.21 Finance Circular 2004/14 also provides useful guidance on the implications of making advance or early payments. Specifically, it states that:

Efficient, effective and ethical management of Government resources includes making payments no earlier than necessary having regard to programme and service delivery objectives. As such, prepayments and early payments should only be made where there is a benefit to the Australian Government after taking all costs and risks into account.⁷⁴

4.22 DIISRTE advised, and the project proponents interviewed by the ANAO confirmed, that payment schedules contained in funding agreements were typically based on the expenditure profile and cash flow requirements provided by each proponent in their applications and project plans. That is, payments were scheduled so as to ensure that funding was available, subject to satisfactory performance against milestones, to meet a project's planned expenditure and timelines.

4.23 In some cases, further information was also obtained during the development of the funding agreement. For instance, in the case of the *Participate@UniSA* project, the department queried, and accepted, the project's funding requirements during negotiations with the project proponent. In the case of the *Smart State Medical Research Centre* project, DIISRTE agreed to bring forward the project's total funding of \$55 million from 2011–12 to 2010–11

⁷³ ANAO, BPG, p. 93.

⁷⁴ Department of Finance and Deregulation, *Finance Circular No. 2004/14—Discounts for prepayment and early payment*, p. 1. While the circular relates specifically to the consideration of prepayments 'made for the purpose of receiving a discount for goods or services performed or delivered', it also contains prudent advice on the general subject of making early payments, and provides a starting point for calculating the opportunity costs of such payments.

following advice (from the project proponent) of unexpected delays in the provision of co-funding. In particular, the department advised that the delays in co-funding had impacted on the proponent's ability to meet contractually obligated payments and that insufficient funding would be available to enable the project to continue.

4.24 During the audit, DIISRTE advised that any interest earned on EIF funds held by project proponents is required to be spent on the funded project. This is designed to help ensure that the organisations funded from the EIF do not receive unintended windfall gains from holding Australian Government funds. To help manage this requirement, the department obtained details of interest earned in project proponents' quarterly and annual reports. While the department monitored whether details of interest earned were being reported, there was no evidence that the department had assessed whether the amounts being reported were reasonable or appropriate.

4.25 More fundamentally, the opportunity for project proponents to earn interest, effectively increases the quantum of the grants and represents an opportunity cost for the Australian Government. In this case, the party in receipt of an advance payment will receive the benefits deriving from holding these funds rather than the Commonwealth.⁷⁵ In this regard, DIISRTE advised that:

[because the] interest earned by the project proponent is to be used for the benefit of the funded project (and enhance its outcomes), any short-term gain by the Commonwealth from withholding funding would be offset by the long-term gain for the project and the nation.⁷⁶

4.26 Notwithstanding this point of view, and while there was evidence that DIISRTE had queried some of the individual proponents' funding requests, there would have been merit (particularly in the case of the six projects scheduled to receive the full amount of their funding relatively early) in DIISRTE establishing whether a net benefit to the Commonwealth could be demonstrated in providing grant funds early. It is a matter for government to decide whether interest earned on funds clearly surplus to immediate project requirements should accrue to a project or to the Commonwealth, and providing financial approvers with advice on the net benefit of providing

⁷⁵ The issue of advance payments also arose in the ANAO Audit Report No.45, 2011–12, *Administration of the Health and Hospitals Fund*. See pp. 20–21 and pp. 103–104.

⁷⁶ DIISRTE advice to the ANAO, dated 14 December 2012.

grants early would have helped inform their decision-making on the proper use of Commonwealth resources.

Monitoring the progress and performance of funded projects

4.27 DIISRTE had processes in place to monitor the progress and performance of the projects funded from the EIF. Since the machinery of government changes announced in December 2011, responsibility for monitoring the approved EIF projects had been split over two branches in DIISRTE. One branch had responsibility for managing those projects formerly administered by DEEWR, and the other branch had responsible for managing those projects administered by the former DIISR.

Monitoring and assessing project reporting

4.28 The primary mechanism used by DIISRTE to monitor the status and performance of approved EIF projects was the assessment of information provided by project proponents in accordance with the reporting requirements in their funding agreements.⁷⁷ The department had developed guidance material and a series of templates to assist staff in the ongoing assessment of project reporting. These tools help promote consistency and completeness.

4.29 Specifically, the guidance material contains information on the key roles and responsibilities and the steps involved in assessing and approving proponents' reports. Importantly, the guidance includes details of the escalation processes if performance issues or other concerns are identified. The assessment templates also prompt assessors to draw conclusions and record comments, including detailing any further action.

4.30 For each of the projects examined, reports were generally submitted in accordance with funding agreement requirements and assessed appropriately. Specifically, of the proponent reports examined:

- most were received and assessed in a timely manner;
- all were assessed using the respective templates;
- where necessary, there was evidence of follow up action;

⁷⁷ DIISRTE's policy and procedural documentation indicated that the department also used a range of other processes to assist in the monitoring of the approved projects. This included undertaking site visits and environmental scans, such as monitoring information in the media and other pertinent publications, or statements by key stakeholders or officials.

- most reports contained photographic or other sources of independent evidence supporting the claims made by the project proponent; and
- each assessment was reviewed and approved by a senior officer.

Recording the receipt and assessment of reports

4.31 Both DEEWR and the then DIISR had implemented processes designed to provide a central source of information about reports due and received (and assessed) for the projects that they administered. These processes complemented the departments' approaches of retaining copies of reports (and evidence of their assessment) on individual project files.

4.32 For the projects formerly administered by DEEWR a simple spreadsheet is used that contains the following details: organisation name; report name; as well each report's due date and status. For the projects administered by the former DIISR, a suite of four separate workbooks each comprising a summary spreadsheet and individual project spreadsheets is used. The information in the summary spreadsheet for each project, which is drawn from the individual spreadsheets, includes:

- project officer's name;
- details of the milestone report currently due; and
- details of the next scheduled payment.

4.33 As well as this information, the individual project sheets contain:

- schedules of milestone reports, including their due date;
- the status of each milestone report (due, received, or accepted); and
- details of funding, including amount, due date, and date paid.

4.34 However, as shown in Table 4.3, the information in these records is not being maintained accurately. As a result, the systems are currently not a reliable source of management information, nor do they enable the cost-effective analysis of information about compliance with reporting requirements.

Table 4.3**Errors and omissions in project reporting systems**

| Description |
|--|
| For projects formerly administered by DEEWR |
| The status field is blank for a significant number of reports (70) which have a reporting due date between 20 May 2010 and 20 May 2011. |
| Several reports due are not recorded for one project. |
| The details of funding agreement variations for five projects, including amended due dates and additional reports, were not recorded. |
| Two (out of 12) of the reports examined were not included in the spreadsheet, and one of the reports examined was not marked off as received and assessed. |
| For projects administered by the former DIISR |
| Spreadsheets could not be located for three of the projects that were examined. |
| Duplicate records exist for two of the examined projects, and the details in each record do not agree. |
| The details of a funding agreement variation are not recorded for one project. |
| A number of reports (across several projects) with a due date earlier than the date of the ANAO's examination (September 2012) have not been ticked off as received or accepted. |
| Two (out of five) of the examined reports were not marked off as received and assessed. |

Source: ANAO analysis.

4.35 There would be benefit in DIICCSRTE reviewing arrangements for maintaining the accuracy and currency of these records. Concomitantly, DIICCSRTE should assess opportunities to put in place a more consistent approach to recording such information across the two branches responsible for monitoring EIF projects. DIISRTE advised that arrangements for recording the submission of project reports would be improved with the proposed transition of EIF grants to the department's Strategic Grant Management System (SGMS).

The status of the examined projects

4.36 DIISRTE prepared a project progress report for the Advisory Board at the end of each quarter. The report for 30 September 2012 shows that the majority of the 50 projects approved in the second and third funding rounds are either completed or are on schedule. Specifically:

- construction work has been completed on 17 of the projects and the infrastructure is being utilised;

- one project is ahead of schedule;
- 20 projects are on schedule (measured by the department as being within one month of the project plan);
- eight projects are slightly behind schedule (measured by the department as being between one and three months of the approved project plan); and
- four projects are behind schedule (measured by the department as being between three months and six months of the approved project plan).

Making grant payments

Paying grants from the EIF Special Account

4.37 Under the Act, payments out of the EIF Special Account to approved grant recipients can occur in one of three ways:

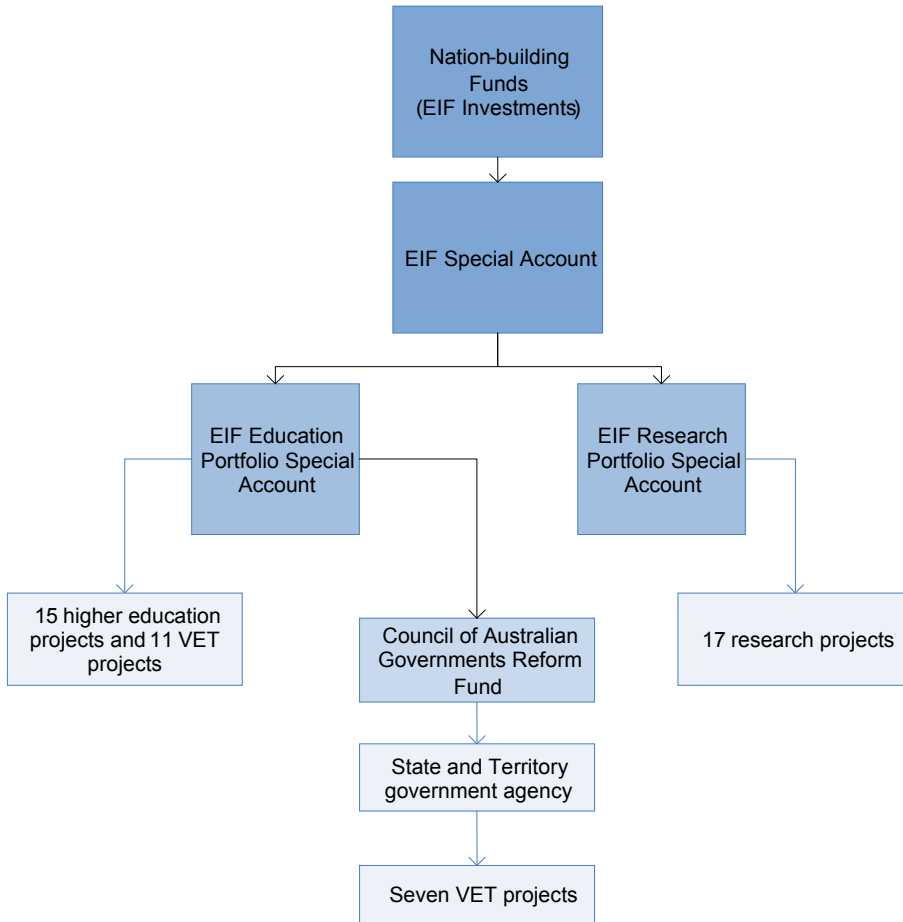
- direct payments to project proponents—although this method has not been used to date;
- payments to project proponents channelled through the two portfolio special accounts—the EIF Education Portfolio Special Account and the EIF Research Portfolio Special Account; and
- payments to state and territory government agencies channelled through the Council of Australian Governments (COAG) Reform Fund⁷⁸ via the EIF Education Portfolio Special Account.

4.38 Figure 4.2 illustrates the flow of funds involved in making grant payments from the EIF Special Account for the 50 projects approved in the second and third funding round.

⁷⁸ The COAG Reform Fund, which is administered by the Treasury, was established as the vehicle by which financial assistance from the three Nation-building funds, as well as direct funding from the budget in relation to infrastructure projects, is distributed to state and territory government agencies.

Figure 4.2

Methods of making grant payments



Key:

- > Nominal flow of funds between accounts within the Consolidated Revenue Fund
- > Actual flow of funds

Source: ANAO analysis.

Payment requests

4.39 To trigger the movement of funds from the EIF Special Account, DIISRTE submitted request certificates to Finance each month setting out details of the proposed payments for individual projects. In turn, the Finance Minister (or delegate) issues a direction authorising the movement of funds from the EIF Special Account into the respective EIF Portfolio Special Account.

4.40 The department had processes in place to ensure the accuracy and completeness of the requests made to Finance. In particular:

- payment profiles for each project, which include details of scheduled and actual payments, have been established and are regularly updated;
- likely payments each month are identified and discussed;
- proposed payments to project proponents are approved by senior staff after assessment of the project's performance; and
- the request certificates are signed by senior staff.

4.41 An examination of the department's assessment of project proponents' reporting, together with a review of selected request certificates, indicates that these processes are working as intended.

Meeting the drawing rights limits

4.42 Section 199 of the Act states that the annual Appropriation Acts will specify a general drawing rights limit in relation to payments from the EIF Special Account in each financial year after the financial year ending on 30 June 2009.⁷⁹ The general drawing rights limits were introduced to provide the Parliament and the Government with a mechanism to control the rate of expenditure out of the Special Account.

4.43 Table 4.4 compares the legislated general drawing right limit for each completed financial year since 2008–09 with the amount of expenditure reported in the departments' annual reports. As shown, the general drawing rights limits have not been exceeded in any of the years.

⁷⁹ In order to give effect to the Government's announcement to fast track its nation-building agenda in response to the global financial crisis, the general drawing rights limit in relation to the financial year ending 30 June 2009 was declared by the Finance Minister in writing.

Table 4.4

EIF general drawing rights limits and expenditure by Portfolio Special Account

| | 2008–09 (\$'m) | 2009–10 (\$'m) | 2010–11 (\$'m) | 2011–12 (\$'m) |
|---|-------------------|-------------------|-------------------|-------------------|
| Portfolio Special Account expenditure reported by DEEWR | 77.8 | 837.3 | 405.0 | 74.8 |
| Portfolio Special Account expenditure reported by DIISR (2008–09 to 2010–11) and by DIISRTE (2011–12) | 28.5 | 410.9 | 501.5 | 771.7 |
| Total Portfolio Special Account expenditure reported | 106.3 | 1248.2 | 906.5 | 846.5 |
| General Drawing Rights Limit ^A | 106.3 | 1311.7 | 1236.9 | 929.6 |

Note A: The General Drawing Rights Limit for 2008–09 is taken from the *Education Investment Fund General Drawing Right Limit Declaration 2009* made by the Finance Minister and in each of the other financial years, from *Appropriation Act (No.4)* for that year.

Source: ANAO analysis, based on the agencies' audited financial statements.

Meeting financial management requirements

Approving proposals to spend public money

4.44 The Australian Government's financial management and accountability framework, as set out in the FMA Act and the FMA Regulations, applies to the three nation-building funds, including the EIF. In particular, FMA Regulation 9 prohibits an approver from approving a spending proposal unless they are satisfied, after making reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources.⁸⁰

Meeting FMA Regulation 9

4.45 For the purposes of approving a spending proposal relating to a grant under FMA Regulation 9, approvers should have regard to the merits of each proposal in terms of the program's evaluation criteria. As shown in Figure 1.1, in the case of the EIF, the approval is required to be given after the Government has agreed on project funding and the Finance Minister has authorised the release of EIF funds for the projects, but prior to signing the

⁸⁰ During the second and third funding rounds, 'proper use' was defined in subsection 44(3) of the FMA Act to mean 'efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth'. The definition of 'proper use' in the FMA Act was amended on 1 March 2011 to be 'efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth'. Often, this is referred to as a 'value for money' test.

projects' funding agreements. In such cases, the approver would be expected to satisfy themselves on the question of proper use by having appropriate regard to the Advisory Board's assessment of applications, government's decisions on the funding of projects, and whether all necessary legal and procedural requirements had been completed with.⁸¹

4.46 Approvals under FMA Regulation 9 were not obtained by DEEWR officials for the 33 second and third funding round grants (worth \$857 million) in the higher education and VET sectors that the department was responsible for administering. This represented a breach of the Australian Government's financial framework. DIISRTE advised that the lack of documentation evidencing FMA Regulation 9 approval by its predecessor department was an administrative oversight. In particular, the department advised that:

[O]fficers were unaware that a breach had occurred as it had been assumed that [FMA] Regulation 9 was approved during the process of raising purchase orders.⁸²

4.47 In each of the second and third funding rounds, officials in the former DIISR provided FMA Regulation 9 approval for the expenditure associated with each of the grants administered by that department. In each case, the approval was given after the Finance Minister had authorised the release of funds for the projects, but prior to signing the projects' funding agreements. This approach was consistent with the financial management framework requirements.

4.48 In both rounds, the officials were provided with an appropriate range of information to assist them decide whether the spending proposals met the requirements of FMA Regulation 9. This included:

- confirmation that funding the grants had previously been agreed by the Australian Government;
- confirmation that the Research Minister had recommended payment of the grants from the EIF Special Account to the Finance Minister;
- confirmation that the Finance Minister had provided the requisite approval under FMA Regulation 10⁸³; and

⁸¹ From 1 July 2009, FMA Regulation 12 was amended to require financial approvers of grants to record the basis on which they are satisfied that the spending proposal meets FMA Regulation 9.

⁸² DIISRTE advice to the ANAO, dated 14 December 2012.

- a statement that the projects would make efficient, effective and ethical use of money as the projects had been assessed by the Advisory Board as leading to improvements consistent with the level of investment.

4.49 As mentioned in paragraph 4.23, during the negotiation of the funding agreement for the *Smart State Medical Research Centre* project, DIISRTE agreed to re-phase the project's funding profile.⁸⁴ In cases where there is a variation to a spending proposal after FMA Regulation 9 approval has been given and before the funding agreement or contract has been entered into, agencies should seek further FMA Regulation 9 approval for the revised spending proposal.⁸⁵ There was no evidence that the amended spending proposal for the *Smart State Medical Research Centre* project was approved under FMA Regulation 9 before the funding agreement was signed. Accordingly, in this case, the then DIISR also breached the financial framework.

4.50 Significantly, most of the financial framework breaches occurred in the second half of 2009 and during 2010–11, after the release of the CGGs in July 2009.⁸⁶ The guidelines were released by the Australian Government as a means of improving the transparency and accountability of grants administration.⁸⁷ Among other things, the guidelines emphasise the importance of properly applying financial framework requirements, including the mandatory FMA Regulation 9 provisions.

Grants reporting

4.51 The CGGs require that agencies publish details, on their website, of each grant that they administer no later than seven working days after the funding agreement takes effect. Finance published guidance on the information required to be reported, including the reporting format to be used, in Finance Circular 2009/04: *Grants—Reporting Requirements*.

⁸³ Regulation 10 prohibits a person entering into an arrangement where sufficient appropriation is not available, unless the Finance Minister (or delegate) has agreed, in writing, to the expenditure that may become payable under the arrangement.

⁸⁴ In this case, the department brought forward payment of the total grant of \$55 million from 2011–12 to 2010–11.

⁸⁵ The approval of variations to spending proposals is discussed in Finance Circular No, 2011/01, *Commitments to spend public money (FMA Regulations 7 to 12)*, p. 22.

⁸⁶ The funding agreements for three projects were signed in June 2009, prior to the release of the CGGs.

⁸⁷ Department of Finance and Deregulation, CGGs, op.cit., p. v.

4.52 The information reported on the websites of DEEWR and DIISRTE⁸⁸ (for projects administered by the former DIISR) was published in a format consistent with the requirements of the Finance Circular. For the most part, the information reported for each of the projects examined by the ANAO was consistent with the details in the signed funding agreements. An exception was that the DEEWR website did not show, for any of the projects funded in the third funding round, the specific purpose that the grants have been provided. Rather, the general description 'Funding for construction and upgrading of tertiary education facilities' was used in each case.

Conclusion

4.53 Each quarter, DIISRTE provided an EIF project progress report to the Advisory Board. The report for 30 September 2012 shows that 17 of the second and third round projects have been completed and the constructed infrastructure is in use, 21 projects are on (or ahead of) schedule and 12 projects are slightly behind schedule or behind schedule.

4.54 The funding agreements in place for the 50 projects approved in the second and third funding rounds were generally signed in a timely manner. However, the time taken to execute several funding agreements in the second funding round was affected by the then DIISR's decision to delay negotiations with project proponents due to, among other things, competing priorities. In one case, the department delayed the commencement of the negotiation of the funding agreement by more than a year.

4.55 The funding agreements examined by the ANAO contained terms and conditions that were commensurate with the size and nature of the funded project. In particular, the examined funding agreements: described the purposes of making the grant; contained schedules of milestones and payments; set out the reporting requirements; and in the case of projects administered by the then DIISR, contained performance measures. Rather than require regular reporting against performance measures, DEEWR required the proponents of the projects that it administered to provide information on the project's achievements as part of their final report.

4.56 For each of the 24 projects examined by the ANAO, the approved grant amount was scheduled to be paid in instalments. In each case, payments were

⁸⁸ The ANAO extracted information relating to EIF grants from the websites of DEEWR and DIISRTE on 23 March 2012.

scheduled to be made on the receipt (and acceptance) of a performance report showing satisfactory achievement against one or more milestones. For most of the examined projects, these scheduled instalment payments were generally well spread over both the project's life and the scheduled milestones. However, in six projects, with combined grant funding of \$222 million, the full amount of funding was scheduled to be paid relatively early in the life of the project.

4.57 DIISRTE required any interest earned on EIF funds held by project proponents to be spent on the funded project. To help monitor compliance with this requirement, the department captured details of interest earned (and used) in project reports. Typically, however, the department did not assess whether the amounts reported by project proponents were reasonable or appropriate. The opportunity for project proponents to earn interest effectively increases the quantum of the grants provided by the Australian Government and represents an opportunity cost for the Commonwealth. In the case of the six projects scheduled to receive the full amount of their funding relatively early in the life of the project, there would have been merit in DIISRTE establishing whether there was a net benefit to the Commonwealth in providing these grant funds early.

4.58 DIISRTE actively monitored the progress of each approved project, primarily through the assessment of performance reports. The assessments of project reports examined by the ANAO were thorough, well documented, and generally completed in a timely manner.

4.59 Approval under FMA Regulation 9—that the proposal to commit public money represents a proper use of Commonwealth resources—was not obtained by DEEWR officials for the 33 second and third funding round grants in the higher education and VET sectors worth \$857 million. The failure to obtain the necessary financial approvals for the two funding rounds represented a breach of the Australian Government's financial framework. The requisite approvals (under FMA Regulation 9) were obtained for the 17 second and third round projects in the research sector. However, in one case worth \$55 million, further approval was not obtained for a variation in the timing of the spending proposal made before the funding agreement was signed. This also represented a breach of the financial framework. Most of the financial framework breaches after the release of the CGGs in July 2009. The guidelines were released by the Australian Government as a means of improving the transparency and accountability of grants administration, and emphasise the importance of properly applying framework requirements.

5. Performance Measurement and Monitoring

This chapter examines processes for measuring and monitoring the EIF's performance, including whether the program is meeting the Australian Government's objectives.

Introduction

5.1 Ongoing monitoring of the performance of a grants program provides a sound basis to assess whether the program is being administered effectively, and is delivering the outcomes expected by the Australian Government. Effective performance monitoring can also help inform decision-making, including decisions on the allocation of resources.

5.2 In assessing whether DIISRTE effectively monitored the performance of the EIF, the ANAO examined whether the department:

- has developed measures addressing the EIF's performance, including measures to assess performance against its objectives and outcomes;
- regularly captured information about the administration of the EIF and reports it to management; and
- has evaluated the performance of the EIF, including assessing outcomes achieved.

Performance measures

5.3 The Commonwealth Grant Guidelines (CGGs) state that performance frameworks providing a link from a grant program's operational objectives to government outcomes should be in place, and that:

Performance information should make clear the extent to which the granting activity is contributing to government outcomes, as well as producing expected outputs.⁸⁹

5.4 A key component of assessing the performance of an activity is the development of performance measures or indicators. Such indicators should be designed to provide management, as well as other interested stakeholders,

⁸⁹ Department of Finance and Deregulation, *Commonwealth Grants Guidelines: Policies and Principles for Grants Administration*, July 2009, p. 18.

with information about performance in terms of the outputs being delivered and the outcomes being achieved. There should be a mix of quantitative (numerical) and qualitative (descriptive) indicators, each with associated targets.

5.5 The objective of the EIF, as set out in the published guidelines for the second and third funding rounds, is to provide funding for projects that create or develop significant infrastructure in higher education institutions, research institutions and vocational education and training providers, in order to:

- transform Australia's knowledge generation and teaching capabilities;
- boost participation in tertiary education;
- position Australia to meet domestic skills needs now and into the future;
- enhance Australia's innovation capacity;
- invigorate the growth of Australia's research capabilities; and
- enhance Australia's international competitiveness in education and research.

5.6 The sustainability round, which was conducted concurrently with the third funding round, had the additional objectives of:

- advancing teaching and/or research in areas relating to climate change and environmental sustainability;
- displaying leadership in the development and demonstration of environmentally sustainable infrastructure; and
- contributing towards the Australian Government's priorities concerning climate change and sustainability.

5.7 As discussed in chapter 4, the department collected a range of information from project proponents. As well as informing the department about the progress and performance of individual projects, such reporting can help the department to measure projects' contributions towards the broader objectives of the EIF. However, there was no evidence that the department had utilised the information collected from individual project proponents more broadly as part of a performance framework for the EIF.

5.8 DIISRTE⁹⁰ undertook some preliminary work on the development of potential indicators for measuring the performance of the EIF. For instance, during the transition from the Higher Education Endowment Fund (HEEF) to the EIF, and again as part of the development of the implementation plan for the third funding round, a series of potential measures of the effectiveness of the EIF were identified. Among others, the potential measures included:

- the number of additional training, higher education and research places made available through the expansion of facilities;
- the number of construction jobs created;
- the relationship between funded projects and the national priorities for the nation-building fund programs;
- any increase in world-leading research in Australia due to EIF funded infrastructure;
- the views of key stakeholders as to the importance of the investments in supporting world-class performance; and
- the number, type and location of users of the infrastructure.

5.9 However, this preliminary work on the development of performance indicators to help measure the EIF's performance has not been concluded.

5.10 The department advised that the issues surrounding the development of performance indicators for the EIF are complex because the stated outcomes are generally broad and long term and, in most cases, the outcomes may not eventuate, or be easily measured, until the attendant infrastructure projects are completed. Nevertheless, development of a performance monitoring and reporting framework focussing on the achievement of longer-term outcomes would be of particular benefit as the program moves out of the infrastructure construction phase.

Performance measures relating to the EIF in Portfolio Budget Statements

5.11 The only performance measures contained in the department's 2012–13 Portfolio Budget Statements (PBS), and prior to that the PBS of DEEWR and

⁹⁰ As many of the processes and decisions examined in this chapter relate to the period prior to the creation of DIISRTE (in December 2011), references to DIISRTE and the department in this chapter include those functions in DEEWR and the then DIISR that were formerly responsible for the administration of the EIF.

the then DIISR, that explicitly related to the EIF was the number of projects funded from the program. This is shown in Table 5.1.

Table 5.1

Information about the EIF contained in PBS

| PBS | Description of performance measure |
|------------------------------|--|
| DIIS RTE | |
| 2012–13 | <p>Program 2.2—The number of institution-based research infrastructure projects supported through the Education Investment Fund competitive rounds over time.</p> <p>(This measure was part of the key performance indicator ‘Increased access to research infrastructure to facilitate and support collaborative research activities’)</p> <p>Program 3.1—The number of projects supported by the Education Investment Fund.</p> <p>(This measure was part of the deliverable ‘Provision of funding to support infrastructure projects at higher education institutions’)</p> |
| DIISR | |
| 2009–10 and 2010–11 | None. ^A |
| 2011–12 | <p>Program 2.2—The number of institution-based research infrastructure projects supported through the Education Investment Fund competitive rounds over time</p> <p>(This measure was part of the key performance indicator ‘Increased access to research infrastructure to facilitate and support collaborative research activities’).</p> |
| DEEWR | |
| 2009–10, 2010–11 and 2011–12 | <p>Program 3.1—The number of projects supported by the Education Investment Fund.</p> |

Note: A: There were a number of deliverables and key performance indicators for Program 2.2. However, it was not clear which of these, if any, related to the operation of the EIF.

Source: ANAO analysis.

5.12 The measures outlined in Table 5.1 only provide a measure of the quantum of the support provided by the EIF. The indicators provide no insights into the continuing performance of the EIF, including measuring the program’s broader impacts and outcomes. In particular, these indicators do not provide any information:

- about the infrastructure being constructed, including its uses and locations;

- on the progress of the funded projects, including the percentage of construction completed; and
- to support an assessment of the outcomes achieved by the EIF, or of progress against its objectives.

Recommendation No.2

5.13 To assist the department, as well as other interested stakeholders, assess the long term performance of the EIF, the ANAO recommends that the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education develops and reports against performance indicators relevant to the Australian Government's objectives for the program.

DIICCSRTE response:

5.14 *Agreed. These performance indicators will be developed in alignment with current departmental activities in relating to key performance measures.*

Reporting against the key performance indicators contained in Portfolio Budget Statements

5.15 As shown in Table 5.2, information about the EIF-specific performance indicators published in the departments' PBS has been reported in the departments' annual reports.

Table 5.2**Reported performance in annual reports against EIF-specific key performance indicators**

| Performance indicator | Reported performance |
|--|--------------------------------|
| DEEWR 2009–10 | |
| Number of projects supported by the Education Investment Fund | 32 ^A |
| DEEWR 2010–11 | |
| Number of projects supported by the Education Investment Fund | 39 (against an estimate of 39) |
| DIISRTE 2011–12 | |
| Number of institution-based research infrastructure projects supported by the Education Investment Fund competitive rounds over time (program 2.2) | 23 (against an estimate of 23) |
| Number of projects supported by the Education Investment Fund (program 3.1) ^B | 46 (against an estimate of 46) |

Note A: Neither DEEWR's 2009–10 PBS nor 2009–10 annual report contained an estimate of the number of projects supported by the EIF. Rather both documents indicated that the number of projects to be funded cannot be estimated ahead of time.

Note B: As a result of the machinery of government changes that occurred in December 2011, details of the 2011–12 performance of program 3.1, which is part of the Tertiary Education outcome previously administered by DEEWR, has been reported in DIISRTE's 2011–12 annual report.

Source: ANAO analysis.

Monitoring the administration of the EIF

5.16 DIISRTE had processes in place to regularly capture and disseminate a wide range of relevant management information about the administration of the EIF. This includes the preparation and dissemination of:

- key activity summaries;
- reports against key priorities, milestones and performance indicators in business plans;⁹¹
- reports against risk assessments; and
- quarterly EIF project progress reports.

⁹¹ Performance indicators relating to the EIF in business plans were focused on project management matters, rather than broader program performance issues. For example, relevant business plans for 2010–11 and 2011–12 contained performance indicators relating to the negotiation and execution of funding agreements and the number of milestone and other performance reports received and assessed.

5.17 In addition, relevant senior staff receive information on the administration of the EIF through:

- regular meetings with key staff; and
- the fulfilment of decision-making responsibilities—for example, both of the responsible Branch Managers:
 - regularly receive advice about project monitoring activities, and are responsible for approving reports submitted by project proponents;
 - approve the monthly payment requests and the quarterly funding profiles provided to Finance; and
 - approve all variations to funding agreements.

Evaluating the EIF

5.18 The regular evaluation of grant programs helps inform decisions about the ongoing design and operation of the programs, and the quality of grants administration. In this regard, an important element is assessing whether programs are achieving, or are well placed to achieve, their objectives.

5.19 Following the completion of the third funding round, DIISRTE commenced work on the development of an evaluation strategy for the EIF. The current version of the strategy, dated July 2012, states that the strategy is designed to inform the department about the appropriateness, efficiency and effectiveness of the EIF, as well as the EIF's ability to achieve its program objectives. Specifically, the strategy was designed to examine the following areas across the EIF's open and competitive funding rounds:

- administrative processes associated with the conduct of the funding rounds;
- implementation and management of funded projects; and
- the funded projects' impact on achieving the EIF's objectives.⁹²

⁹² To support the conduct of such work, clause 11 of funding agreements requires project proponents to cooperate in reviews and evaluations of the program. Further, proponents of completed projects are advised of the department's intention to ask them to participate in an evaluation of the program.

5.20 To help it assess performance and outcomes across these three broad components, the department identified 146 potential evaluation measures over 35 key areas of examination.⁹³ The areas of examination include:

- governance and administration;
- program documentation;
- post-award processes and project management;
- value for money;
- project performance against the EIF's objectives; and
- impacts on the funded institutions and the sectors.

5.21 The collection and analysis of relevant information and data for use in the evaluation of administrative processes commenced in November 2010. A draft report containing the preliminary findings from this phase of the evaluation was prepared in July 2011, and finalised in September 2011. Overall, the evaluation report concluded positively about the design and implementation of administrative processes in the first three funding rounds. The report proposed a number of process improvements to address matters identified during the evaluation, including:

- obtaining a written probity report at the conclusion of each funding round; and
- incorporating structured internal and external stakeholder consultation and feedback processes into the design of future competitive funding rounds, including processes for capturing feedback from the Advisory Board.

5.22 During the audit, DIISRTE advised that scheduled evaluation work had, at times, been delayed by competing demands on the department's resources. For instance, the launch of the Regional Priorities funding round in October 2011, and the transfer of DEEWR's Higher Education Division to DIISRTE (as a result of the machinery of government change announced in December 2011) both adversely affected the department's capacity to undertake evaluation activities. The department also advised that:

⁹³ As a result of work by the department to examine data availability and the viability of the evaluation methodology, three of the 146 measures were subsequently removed.

The [evaluation] group is currently finalising a data collection tool to be used to analyse the efficiency and effectiveness of our post-award management of contracts, which we anticipate will be conducted early in 2013. The group will then move on to analysing the impact of completed projects against the objectives of the EIF, but as we have reiterated, this is a long-term project and many of the outcomes will not be realised until some years after construction has been completed.⁹⁴

5.23 The department's earlier work on performance indicators, complemented by the planned evaluation activity, provides a useful basis for the development of an EIF performance framework focussing on the measurement and reporting of achievements against the Australian Government's objectives for the program.

Conclusion

5.24 Following completion of the third funding round, the department developed an evaluation strategy for the EIF. A program of ongoing evaluation activities is important to help assess the program's performance, particularly given the longer-term nature of many of the infrastructure projects funded from the EIF. As part of the strategy, the department commenced a review of the EIF's administrative processes in November 2010, which concluded that the program's processes were operating satisfactorily. The department advised that implementation of the evaluation strategy has, at times, been delayed by competing demands on staff resources. Nevertheless, the department advised that it anticipates conducting the second phase of the evaluation strategy during 2013.

5.25 DIISRTE captured information about the performance of individual infrastructure projects, including progress against proposed outcomes and benefits. However, DIISRTE did not have processes in place for monitoring and reporting on the broader achievements or performance of the EIF, including progress against the Australian Government's strategic objectives in establishing the fund. The development of a performance monitoring and reporting framework focussing on the achievement of longer-term outcomes would be of particular benefit as the program moves out of the infrastructure construction phase. In this regard, the preliminary work commenced by the department in 2009 on the development of broader focussed performance

⁹⁴ DIISRTE advice to the ANAO, dated 15 January 2013.

indicators, together with planned evaluation work, examining the funded projects' contribution to achieving the EIF's objectives, provide a basis for DIICCSRTE to enhance the performance framework for the EIF.

Ian McPhee
Auditor-General

Canberra ACT
22 May 2013

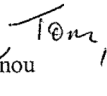
Appendices

Appendix 1: Agencies' responses to the proposed report

Secretary

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
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Dear Dr Ioannou



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Performance Audit: Administration of Grants from the Education Investment Fund

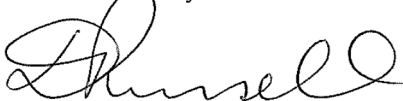
I refer to your letter of 8 April 2013, concerning the Australian National Audit Office (ANAO) draft report on the Administration of Grants from the Education Investment Fund (EIF).

The Department welcomes the ANAO's assessment that the competitive funding rounds of the Education Investment Fund (EIF) have generally been administered effectively, with good program planning and design, particularly given the short timeframe in which the Department had to deliver EIF Rounds 2 and 3.

The Department accepts the two recommendations in the report: to improve records management for grant assessment decisions by the EIF Advisory Board; and to develop and report against performance indicators relevant to the Australian Government's objectives for the EIF.

I acknowledge the ANAO's cooperation during the audit and the assistance provided to the Department.

Yours sincerely



Dr Don Russell

6 May 2013

1. The Department's full response to the audit

The Department welcomes the ANAO's assessment that the competitive funding rounds of the Education Investment Fund (EIF) have generally been administered effectively, with good program planning and design, particularly given the short timeframe in which the Department had to deliver EIF Rounds 2 and 3.

Despite the compressed timeframes between the introduction of the Higher Education Endowment Fund, its transformation into the Education Investment Fund, and the conduct of the first three funding rounds, the Department was able to identify and implement process improvements in each successive round. It is pleasing that the impact of these improvements, which are ongoing, has been identified in the ANAO's report.

Recommendation No. 1

The ANAO recommends that, consistent with the accountability principle for grants administration set out in the *Commonwealth Grants Guidelines*, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education ensures that the assessment decisions of grant applications are appropriately documented and retained by the Department.

Departmental response

Agreed.

Board decisions on grant applications have always been based on assessments against the publicly available evaluation criteria. The decisions have been documented and retained by the Department, and accurate decisions have, in all cases, been conveyed to the Designated Minister/s. However, the Department agrees that there is merit in better capturing Board decisions at the criterion level, not just the overall rating. The Department has already developed a records management system to ensure that this level of detail is documented and retained, and this system was implemented successfully for the current Regional Priorities Round of EIF.

Recommendation No. 2

To assist the department, as well as other interested stakeholders, assess the long term performance of the EIF, the ANAO recommends that the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education develops and reports against performance indicators relevant to the Australian Government's objectives for the EIF.

Departmental response

Agreed.

These performance indicators will be developed in alignment with current departmental activities in relating to key performance measures.

2. Summary of agency response

The Department welcomes the ANAO's assessment that the competitive funding rounds of the Education Investment Fund (EIF) have generally been administered effectively, with good program planning and design, particularly given the short timeframe in which the Department had to deliver EIF Rounds 2 and 3.

The Department agrees with ANAO's recommendations to improve records management for grant assessment decisions by the EIF Advisory Board, and to develop and report against performance indicators relevant to the Australian Government's objectives for the EIF.

The Department will develop performance indicators that are in line with current departmental activities in relating to key performance measures.



Australian Government
Department of Education, Employment and Workplace Relations

Secretary
Lisa Paul AO PSM

Rectangular Snip

Dr Tom Ionnou
Group Executive Director
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Ionnou

Performance Audit of the Administration of Grants from the Education Investment Fund

Thank you for the opportunity to comment on the Australian National Audit Office's (ANAO) performance audit of the *Administration of Grants from the Education Investment Fund* (EIF) through the provision of the relevant Section 19 Report extracts which related to the administration of the EIF prior to the move of the program from the Department of Education, Employment and Workplace Relations (DEEWR) to the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE) as part of the machinery of government.

With the agreement of the ANAO, DEEWR has liaised with DIICCSRTE regarding the Section 19 Report comments. Based on these discussions there is no further commentary from DEEWR for inclusion in the final report.

Yours sincerely

Lisa Paul

May 2013



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Appendix 2: Description of EIF funding components

| Funding Component | Description |
|---|--|
| Round One (\$580m) | A competitive funding round launched in June 2008, with 11 successful projects announced in December 2008. Proposals for funding were assessed and approved pursuant to the <i>Higher Education Endowment Fund Act 2007</i> . |
| Teaching and Learning Fund (\$500m) | An injection, announced in December 2008, of \$500 million for eligible higher education providers towards the development of new, as well as the upgrading of existing, teaching and learning spaces. The distribution of funding among the 41 eligible providers was based on each university's number of domestic students. |
| Round Two (\$934.2m) | A competitive round launched in February 2009 as a part of the Australian Government's response to the global financial crisis. The 31 successful projects were announced in the 2009–10 Budget (May 2009). |
| Super Science Initiative (\$989.4m) | A non-competitive round designed to address three of the priorities identified in the 2008 <i>Strategic Roadmap for Australian Research Infrastructure</i> —space science and astronomy, marine and climate science, and future industries. Potential proposals for funding were identified by an assessment of the alignment between strategic research priorities and the EIF evaluation criteria. Funding for 23 projects (worth \$901 million) was announced in the 2009–10 Budget and funding for a further project (worth \$88.4 million) was announced on 20 July 2009. |
| Round Three and the Sustainability Round (\$550m) | These two competitive rounds were conducted concurrently. The funding for these rounds was announced in the 2009–10 Budget. The funding rounds were launched in August 2009, with 19 successful projects announced over the period May 2010 to July 2010. |
| Clean Energy Initiative (CEI) (\$300m) | \$200 million has been committed from the EIF to support the CEI's Solar Flagships program and \$100 million committed for the CEI's Carbon Capture and Storage Flagships program. These programs, which are administered by the Department of Resources, Energy and Tourism, were launched in July and December 2009 respectively. DIISRTE contributed to the assessment of the applications that sought funding under these programs. |
| Structural Adjustment Round (\$200m) | The 2009–10 Budget allocated \$200 million for capital infrastructure projects associated with higher education providers' adoption of the demand driven funding system for Australian Government-funded higher education places for Australian students. The competitive round was launched in July 2010, with the seven projects successful in obtaining funding from the EIF announced in December 2011. |
| Regional Priorities Round (\$500m) | This competitive round is part of the Australian Government's support for regional Australia. The funding round was launched in October 2011. To date, the Government has announced ten successful projects from the EIF Regional Priorities Round. |

Source: ANAO analysis.

Appendix 3: Details of the 50 projects approved in the second and third funding rounds

| Project Description | Proponent | Funding (\$'m) | Sector |
|--|--|----------------|--------|
| Second Funding Round | | | |
| Advanced Engineering Building | University of Queensland | 50.0 | HE |
| Leadership in Advanced Surgical Education | Macquarie University | 16.6 | HE |
| Engineering Pavilion | Curtin University | 20.5 | HE |
| Science and Technology Precinct | Queensland University of Technology | 75.0 | HE |
| Heavy Vehicle Training Facility | TAFE NSW Western Institute | 9.7 | VET |
| Macarthur Building Industry Skills Centre | TAFE NSW South Western Sydney Institute | 9.9 | VET |
| Chadstone Campus Development | Central Gippsland TAFE | 16.2 | VET |
| Training Centre for Traditional Trades | Bendigo Regional Institute of TAFE | 5.0 | VET |
| Low Carbon Economy Centre | Central West Group Apprentices Ltd | 5.0 | VET |
| A New Facility for Early Childhood Development | Holmesglen Institute of TAFE | 16.8 | VET |
| Sustainable Hydraulic Trades Centre | TAFE NSW Sydney Institute | 6.4 | VET |
| Institute of Molecular Sciences | La Trobe University | 64.1 | Res |
| Smart State Medical Research Centre | Queensland Institute of Medical Research | 55.0 | Res |
| Sydney Institute of Marine Science | Sydney Institute of Marine Science | 19.5 | Res |
| Centre for Neural Engineering | University of Melbourne | 17.5 | Res |

| Project Description | Proponent | Funding (\$'m) | Sector |
|--|--|----------------|--------|
| Science and Engineering Precinct | University of Ballarat | 40.0 | HE |
| National Life Science Hub | Charles Sturt University | 34.0 | HE |
| Transformed Graduate Learning Spaces | University of Melbourne | 16.3 | HE |
| Rural Health School | LaTrobe University | 59.5 | HE |
| Gateway @ College of Fine Arts | University of NSW | 48.0 | HE |
| Australian Centre for Indigenous Knowledge and Education | Charles Darwin University | 30.7 | HE |
| Stage Two of the Chemical Services Hub | Australian National University | 90.0 | HE |
| The Learning Centre | Energy Australia | 25.0 | VET |
| Children's Services Training Facility | TAFE NSW Illawarra Institute | 6.5 | VET |
| Manufacturing Technology Training Centre | University of Ballarat | 18.1 | VET |
| Rural VET Infrastructure | Tocal College | 5.5 | VET |
| Mobile Traditional Trades Training Facility | Industry Services Training Pty Ltd | 7.9 | VET |
| Institute for Marine and Antarctic Studies | University of Tasmania | 45.0 | Res |
| Australian Institute for Innovation Materials | University of Wollongong | 43.8 | Res |
| Centre for Climate Change and Energy Research | University of Western Sydney | 40.0 | Res |
| National Centre for Synchrotron Science | Australian Synchrotron Holding Company | 36.8 | Res |
| Total funding in second funding round | | 934.2 | |

| Project Description | Proponent | Funding (\$'m) | Sector |
|--|--|----------------|------------|
| Third Funding Round and Sustainability round | | | |
| Retrofitting for Resilient and Sustainable Buildings | University of Wollongong | 25.1 | Res (Sust) |
| Australian Institute for Nanoscience | University of Sydney | 40.0 | Res |
| National Imaging Facility | University of Queensland | 40.2 | Res |
| Sustainable Energy for SKA | Commonwealth Scientific and Industrial Research Organisation | 47.3 | Res (Sust) |
| Indian Ocean Marine Research Centre | University of Western Australia | 34.0 | Res |
| Australian Future Fibres Research Innovation Centre | Deakin University | 37.0 | Res |
| Green Chemicals Futures | Monash University | 29.1 | Res |
| Australian Geophysical Observing System | University of Melbourne | 23.0 | Res |
| Newcastle Institute for Energy and Resources | University of Newcastle | 30.0 | Res (Sust) |
| Interactive Learning Environment | University of Technology, Sydney | 50.0 | HE |
| Autocell Transport Technology Centre | Sydney Institute of TAFE NSW | 16.9 | VET |
| Six Green Star-rated Teaching and Research Building | Griffith University | 21.1 | HE (Sust) |
| Graduate Training Hub | Box Hill TAFE | 15.0 | VET |
| Sunshine Construction Futures Centre | Victoria University | 39.0 | VET |
| Advanced Manufacturing Centre | Swinburne University | 40.0 | HE |

| Project Description | Proponent | Funding (\$'m) | Sector |
|---|---|----------------|------------|
| Participate@UniSA | University of South Australia | 30.0 | HE |
| Pandulmurra | Department of Training and Workforce Development (WA) | 12.2 | VET |
| Green Skills Training Centre | Central TAFE | 12.0 | VET (Sust) |
| CivilTrain—Highway to Skilling the Industry | Civil Contractors Federation | 8.2 | VET |
| Total funding in third funding round and sustainability round | | 550.0 | |

Legend:

HE: higher education sector

VET: Vocational Education and Training sector

Res: Research sector

Sust: project was funded under the Sustainability round

Source: ANAO analysis of DIISRTE records.

Appendix 4: The EIF mandatory criteria

| Criteria | Description |
|-----------------------------|---|
| Second funding round | |
| Eligible organisations | <p>Higher Education Institutions—all institutions listed at Table A, Table B or Table C of the <i>Higher Education Support Act 2003</i> and self-accrediting and non self-accrediting higher education providers registered on the Australian Quality Framework Register.</p> <p>Research Institutions—all Higher Education Institutions (as defined); publicly funded research agencies established by a Commonwealth Act of Parliament; research institutions and other research-related organisations that have an affiliation or partnership with a Higher Education Institution (as defined); and Australian organisations primarily involved in undertaking research or research related activities where a significant Australian public benefit can be demonstrated.</p> <p>Vocational Education and Training Providers—all registered training organisations as defined in section 3 of the <i>Skilling Australia's Workforce Act 2005</i>, excluding any school that provides a level of secondary education.</p> |
| Minimum project values | VET projects—\$5 million and higher education and research projects—\$15 million. |
| Lodgement deadline | Applications were required to be received by 4pm on 2 March 2009 (Australian Eastern Daylight Savings Time). |
| Third funding round | |
| Eligible organisations | <p>Higher Education Institutions—all Table A, Table B and Table C providers under the <i>Higher Education Support Act 2003</i> and all self-accrediting and non self-accrediting entities under the <i>Higher Education Support Act 2003</i>.</p> <p>Research Institutions—Table A, Table B and Table C providers under the <i>Higher Education Support Act 2003</i>; publicly funded research agencies established by a Commonwealth Act of Parliament; and Australian organisations primarily involved in undertaking research or research related activities where a significant Australian public benefit can be demonstrated.</p> <p>Vocational Education and Training Providers—unchanged from the second funding round.</p> <p>(The changes to the eligible organisations made for the third funding round were designed to tighten the eligibility requirements).</p> |
| Minimum project values | VET projects—\$10 million and higher education and research sector projects—\$15 million. |
| Lodgement deadlines | <p>Stage one—Electronically by 3.00 pm on 8 September 2009 (Australian Eastern Standard Time) and in hard copy by 15 September 2009.</p> <p>Stage two—3:00pm on 8 December 2009 (Australian Eastern Daylight Savings Time).</p> |

Source: ANAO analysis.

Index

A

Approving spending proposals, 16, 18–19, 25, 78, 94–96, 98

Assessment and approval of applications, 15, 36

Assessment planning and design, 20, 47, 49–50, 53, 58, 64, 66, 68, 75

C

Commonwealth Grant Guidelines, 19, 21, 25, 28, 38–39, 43, 55, 63, 71, 75, 80, 96, 98–99

E

Education Investment Fund

Advisory Board, 15, 18–22, 24, 28, 34–35, 39, 44, 49–50, 52, 54–56, 58, 61, 63, 68–70, 73, 75, 90, 95, 106

evaluation criteria, 15, 18–19, 20–23, 35, 44, 47–48, 49, 54–56, 58, 61, 64–66, 70–72, 75

investments, 13, 16, 32, 39

mandatory criteria, 43, 60, 119

objectives, 12–13, 18, 25, 31, 33, 60, 83, 100, 105, 108

Special Account, 16, 32–33, 34, 39, 57, 74, 91, 93

Engaging stakeholders, 20, 22, 45–46, 58, 63, 75

Evaluation strategy, 18, 25–26, 83, 105–8

F

Funding agreements

interest earned on EIF funds, 24, 87, 98

payment scheduling, 19, 23, 24, 77, 79, 81, 83–86, 93, 97–98

terms and conditions, 18, 23, 77–78, 80–81, 97

time taken to sign, 23, 78–80, 97

Funding decisions, 16, 22, 44, 57, 72

H

Higher Education Endowment Fund, 12, 31–32, 33, 45, 101

M

Machinery of government changes, 14, 34, 88, 104, 106

Making grant payments

drawing rights limits, 93–94

payment requests to Finance, 92–93

Management information, 89, 104

Managing risks, 45, 63

Monitoring performance, 20, 23, 26, 81–82, 97, 99, 101, 107

O

Objective of the audit, 16, 39

P

Program guidelines, 18, 20, 43, 46–47, 49, 51, 58, 63, 67, 69

Project performance reports, 24, 81, 88, 90, 98

R

Records of assessments, 18–19, 21–22, 55, 59, 70, 75

Release of funds, 45, 57, 62, 74

Responsible Ministers, 13–14, 33–35, 47, 58, 63–65, 71

advice to, 15, 19, 21, 44, 55–56, 58, 59, 61, 71, 72, 75

recommendations, 22, 44, 57–58, 61, 72–74, 76

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