

The Auditor-General
Audit Report No.18 2008–09
Performance Audit

The Administration of Grants under the Australian Political Parties for Democracy Program

Department of Finance and Deregulation

Australian National Audit Office

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of Australia 2009

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Canberra ACT
3 February 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the *Department of Finance and Deregulation* in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *The Administration of Grants under the Australian Political Parties for Democracy Program*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', written over a horizontal line.

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations and Glossary

ALP	Australian Labor Party
DFAT	Department of Foreign Affairs and Trade
Finance	Department of Finance and Deregulation, formerly the Department of Finance and Administration
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
Liberal Party	Liberal Party of Australia
MYEFO	Mid-Year Economic and Fiscal Outlook
ODA	Official Development Assistance funding administered by AusAID
PBSs	Portfolio Budget Statements
PM&C	Department of the Prime Minister and Cabinet
the Program	Australian Political Parties for Democracy Grants Program

Summary and Recommendations

Summary

Introduction

1. The Australian Political Parties for Democracy Program (the Program) commenced in the latter half of 2005–06. The Program was announced as a new measure in the 2005–06 Mid-Year Economic and Fiscal Outlook (MYEFO). It is a grants program¹ established by a decision of the former Government, which provides annual funding of up to \$1 million to each of the Australian Labor Party (ALP) and the Liberal Party of Australia (Liberal Party—on behalf of the Coalition).

2. The objective of the Program is ‘to strengthen democracy internationally by providing support for the international activities of Australia’s major political parties’. The funding provided under the Program may be used to assist activities consistent with this objective, including:

- providing training, education and advice;
- supporting democratic activities and programs in overseas countries;
- providing assistance in the conduct of local, regional or national elections in overseas countries;
- supporting the involvement of Australia’s political parties in international activities that promote the objectives of the Program, such as liaison with international organisations for the specific purpose of achieving the Program’s objectives; and
- visits by Australian party officials (but not Australian Parliamentarians) to overseas countries or to support visits to Australia.²

3. Total funding made available to the parties under the Program since 2005–06 has been \$5.75 million. As at October 2008, \$4.7 million had been paid

¹ The Program is a non-discretionary grants program. For a discretionary grants program, funding is awarded on a competitive basis, whereas for non-discretionary programs, the amount of funding and the funding recipients are predetermined.

² The Program guidelines note that Australian Parliamentarians have access to other forms of funding for travel purposes such as the overseas study entitlement and Parliamentary delegation travel. In 2001–02, the ANAO conducted a performance audit of Parliamentarians’ entitlements (ANAO Audit Report No. 5 2001–02, *Parliamentarians’ Entitlements: 1999–2000*, Canberra, 7 August 2001). The ANAO is currently conducting a second performance audit of Parliamentarians’ entitlements.

to the parties under the Program,³ with reported expenditure by the parties of \$3.02 million. This funding is in addition to other public funding that is available to political parties.⁴

4. The Program is administered by the Department of Finance and Deregulation (Finance).⁵ Following the October 2005 decision to establish the Program, Finance developed an administrative framework for the Program. Key elements of this framework are: an application form (submitted by the parties following advice from Finance each year that funds will be made available); Program administrative guidelines and grant deeds (to govern the payment and use of grant funds); and acquittal documentation (to be submitted by the parties after the end of each financial year).

5. It was intended that the Program would be reviewed at the end of the 2006–07 financial year. However, Finance has advised ANAO that delays in receiving acquittal documentation for the 2006–07 funding from the parties meant that a meaningful review could not be undertaken until such time as that information was received, and that, in the intervening period, the Program was reviewed as part of the savings measures instigated across a range of areas of government spending following the 2007 federal election.⁶ The 2008–09 Budget included an announcement that arrangements for the Program after 2008–09 would be reviewed to determine whether the Program should be refocused.

Audit scope and objective

6. The objective of the audit was to assess the effectiveness of:

- Finance’s administration of the Program; and
- program accountability arrangements, including any key performance indicators that have been developed for the Program as well as the

³ An amount of \$724 575 was subsequently repaid to Finance by the Liberal Party in respect of its 2006–07 funding. This is discussed in Chapter 2.

⁴ For example, as a result of the 2007 Federal Election, funding payments totalling \$49 million were made to political parties and independent candidates, of which the ALP received \$22 million, the Liberal Party \$18.1 million and the National Party \$3.2 million.

⁵ Prior to the change of Government following the 2007 Federal Election and the issuing of a new Administrative Arrangements Order, the Department of Finance and Deregulation was known as the Department of Finance and Administration. The Department is referred to as Finance throughout this report.

⁶ Total funding available under the Program for 2008–09 was reduced from \$2 million to \$750 000.

reporting of performance information through the Portfolio Budget Statements and Annual Reports.

7. The audit commenced in August 2008 and was conducted under section 15 of the *Auditor-General Act 1997*. The audit involved an examination of Finance's administration of grants made under the Program since its inception in 2005–06.

Audit conclusions

8. Governments have the executive authority to establish and abolish programs, but require the Parliament to appropriate funds to enable expenditure to occur. As providing policy advice to the Government is a core function of the Australian Public Service, programs are often established with the benefit of departmental advice, but this is not always the case. The decision to establish the Australian Political Parties for Democracy Program was made in October 2005, without being informed by departmental analysis of the need for the Program. It was also not evident why the Program was designed to be open only to the two major political parties, given the activities to be supported under the Program.

9. Following the former Government's decision to establish the Program, Finance developed the administrative framework. The framework was developed in consultation with relevant agencies, and through negotiation with the two parties. The result has been that, collectively, the Program guidelines, application forms and grant deeds provide a sound basis for a framework to support cost-effective administration.

10. Although the total quantum of Program funding is relatively small (up to \$2 million per annum), the individual grants are relatively large compared to many grants programs. Recognising the nature of the Program and the experience with its administration to date, there are opportunities for Finance to strengthen the administrative arrangements by:

- more closely linking the projects identified in the funding applications and those reflected in the grant deeds (so as to promote the use of Program funds consistent with Program objectives). At present, the grant deeds entered into between Finance and each of the political parties for each year do not require that the grant funds be used for the purposes outlined by the parties in their annual applications for grant funding under the Program. As a result, there is an insufficient

accountability 'loop' established to link the purposes for which funding has been applied with the purposes for which funding may be validly spent;

- applying greater attention to requiring the parties to adhere to the established acquittal arrangements (bearing in mind that payments are made to the parties in advance of Program activities being undertaken); and
- developing a performance measurement framework combined with public reporting of the extent to which the Program is meeting its objective of 'strengthening democracy internationally'.

11. The ANAO has made four recommendations directed to this end.

Key findings by chapter

Administration of the Program (Chapter 2)

Funding purposes

12. In submitting their annual applications for grant funding under the Program, each party is required to provide details of the purposes for which the grant funding will be used in the year. The grant deeds entered into between Finance and each of the political parties for each year require that the grant funding be spent only in accordance with the grant deed and the Program guidelines. However, there is no requirement in the grant deed for the parties' expenditure to be used for the purposes outlined in their funding application.

13. This approach has the effect that the value of the information provided by the parties in their application forms is diminished, as there is an insufficient accountability 'loop' established to link the purposes for which funding has been applied with the purposes for which funding may be validly spent. Further in this respect, in exercising an FMA Regulation 9 approval, the Finance official approving the grants relies on the information provided by the parties in their application forms.⁷

⁷ Although undertaken in respect of a discretionary grants program, ANAO Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Programme* (specifically, Volume 2 pp. 343–354) outlines the importance of close links between applications for funding and the funding agreement.

Instalment payments

14. Payment of the grant funding is generally made to the political parties in instalments, in advance of Program activities being undertaken. While it is relatively common in many Australian Government grant programs involving instalment payments to require grant recipients to demonstrate the extent to which previous instalment payments have been, or will shortly be, spent, there is no such requirement contained in the Program documentation. In this respect, payments are made to the political parties by Finance irrespective of whether previous instalments of grant funds have been spent. In addition, although the Program documentation provides for Finance to withhold further payments of grant funds until prior year grant funding has been fully acquitted by the parties, there were instances where payments were made to the parties without the acquittal documentation for prior year funding having been provided to Finance's satisfaction.

Carry over of funding

15. The Program guidelines provide that, at the end of the financial year, the parties may apply to Finance to seek written approval to carry over any portion of the grant funds unspent in that year into the following financial year. The proportion of grant funds that the parties have sought to roll over into subsequent financial years has been significant—up to as much as 60 per cent of the funding available to any one party in a year. In addition, there have been delays in the parties requesting approval for funding to be carried forward—in one instance grant funding was held by a party for nine months past the end of the relevant financial year before a request for carry over was made.

Banking requirements

16. The grant deeds require that the political parties maintain a separate bank account for the grant funding, which is to contain only the grant funds and any interest earned on those funds. Although the acquittal documentation provided by the parties has, in some instances, indicated that funds other than the grant funds and interest may be held in the parties' bank accounts, there has been no action taken by Finance to seek confirmation that the parties are complying with the terms of the grant deeds in this respect.

Acquittals

17. Grant acquittals provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purposes. The Program documentation requires each political party to provide an audited acquittal of the grant funding paid to it within three months of the end of the financial year, as well as a report that contains details of the purposes for which funds were spent and the outcomes achieved through Program activities. However, the grant acquittals submitted to Finance have been deficient in a number of respects, including that:

- acquittal documentation has not been provided on time;
- certificates stating that the grant funding has been spent in accordance with the grant deed have not been provided, or the certificates provided have not been signed by an auditor as the grant deed requires; and
- an inadequate level of detail has in some cases been provided in respect of the activities undertaken and the funds spent on Program activities.

18. While Finance has, in most instances, sought clarification from the parties or required them to resubmit acquittal documentation where it was assessed as being inadequate or incomplete, the acquittal documentation finally accepted by Finance has still not always complied with the requirements of the Program documentation. In addition, there was no evidence that Finance has processes in place, as part of finalising the parties' acquittal documentation, to assess whether the financial information reported by the parties is within the bounds of the limits contained in the Program guidelines.

Program Accountability (Chapter 3)

Non-program expenses

19. The Program governance arrangements include provision for up to 15 per cent of the grant funding available to a party in a year (excluding interest earned, but including amounts carried forward from a prior year) to be used to fund 'incremental administrative expenses' associated with the Program. The parties have reported administrative costs to Finance as a separate item to project costs in their acquittal documentation. While the 15 per cent limit has not been exceeded by either party in the period between 2005–06 and 2007–08, Finance has not had processes in place to ensure that the

project costs reported by the parties do not incorporate activities that should instead have been included as part of the parties' administrative costs,⁸ or that the total administrative costs reported are within the bounds of the limit set by the Program documentation.

Program expenditure

20. The Program's primary objective is to 'strengthen democracy internationally'. Of the \$4.7 million paid under the Program from 2005–06 to 2007–08,⁹ the parties have reported to Finance expenditure of \$3.02 million (64 per cent of the grant funding paid). Of this amount, reports provided to Finance by the parties have shown that, in aggregate, the grant funding has been spent as follows:

- 44 per cent on providing direct assistance to countries identified as priority regions for development assistance through Australia's aid policy;¹⁰
- 36 per cent on activities relating to other countries such as the United Kingdom and the United States of America, or on non-country specific activities; and
- 20 per cent on administrative costs and subscriptions to international organisations.

21. It is accepted better practice for grant funding not to be approved retrospectively, or to duplicate existing funding sources. However, the acquittal documentation provided to Finance by the parties has shown that costs have been charged to the Program that were incurred outside of the grant period defined by the grant deeds signed each year. The Program documentation does not include an explicit requirement for the grant funding to be spent only within the defined grant period and, despite receiving legal advice that it would be appropriate to do so, no action has been taken by

⁸ In this respect, the acquittal documentation submitted by the parties to Finance showed that there were instances where administrative costs were charged to the Program but were incorporated into the cost of particular Program activities rather than being separately identified as administrative costs.

⁹ In December 2007, the Liberal Party repaid to Finance \$724 575 of the \$1 million paid to it in 2006–07. Taking this repayment into account, the \$3.02 million spent by the parties represents 76 per cent of the grant funding paid under the Program.

¹⁰ The primary objective of the Program is to 'strengthen democracy internationally'. The Australian Government's foreign aid policy sets out the priority regions in which Official Development Assistance (including for strengthening governance) is to be provided. These areas include Papua New Guinea, the Solomon Islands, Indonesia, the Philippines, East Timor and Vanuatu.

Finance to amend the Program documentation in this regard. In addition, the parties' acquittal documentation has reported that Program grant funds have been used in place of party funds to finance existing party activities or obligations (such as annual subscriptions to international organisations).¹¹ The Program documentation does not address the extent to which parties are permitted to charge expenditure that may have been incurred regardless of whether the Program was established.

Program performance

22. In submitting applications for funding under the Program each year, the parties are required to include a statement about the activities that are proposed to be funded and how these activities will promote the objectives of the Program. Further, details of the activities that were undertaken using Program funds, including the outcomes achieved through those activities, are required to be reported by each party as part of their annual acquittal documentation. However, there was no evidence that Finance, in finalising the acquittal documentation received from the parties, assessed:

- the purposes for which the grant funding was used;
- the extent to which those purposes were consistent with the nature of the eligible activities under the Program; or
- the extent to which the reported outcomes for the projects undertaken have contributed to the overall objective of the Program.

23. In addition, the Program guidelines set out in broad terms the types of activities that may be funded through the Program (see paragraph 2). This has the result that there is considerable flexibility in terms of the specific projects or activities that may fall within the broadly expressed categories in the Program guidelines. The establishment of the Program without the benefit of departmental advice may have impacted upon the administrative design of the Program, such that limits on the use of Program funds are only expressed in the Program guidelines in terms of administrative costs and travel arrangements.

¹¹ Finance advised ANAO in November 2008 that it considered that the costs reported by the parties relating to annual subscriptions to international organisations 'represent a legitimate use of funding under the Program guidelines and do not represent cost shifting'.

Performance reporting

24. Performance information, presented initially in an agency's Portfolio Budget Statements (PBSs), with results being reported later in Annual Reports, is the foundation for agency accountability and transparency.¹² In this respect, a performance measurement framework is essential for grant administrators to assess the effectiveness of the program.¹³

25. There has been no performance information for the Program reported by Finance in its PBSs or Annual Reports. In addition, while there is some key performance information relevant to the Program contained in Finance's *Corporate Plan 2006–07 to 2009–10*, there has been no internal reporting by Finance in terms of the achievement of the objective set out in the Corporate Plan. There has also been no separate reporting to the Parliament by Finance in relation to the Program.¹⁴

Summary of agency responses

26. A copy of the proposed report was provided to Finance and to AusAID (as there are a number of areas in the report that refer to AusAID and its administration of Australia's aid programs). AusAID did not provide any formal comments on the audit report.

27. Finance agreed to the four audit recommendations and other suggested improvements. In two instances, the department's agreement to the audit recommendations was qualified because it does not consider it is the best placed agency to develop performance indicators against the objective of the Program to strengthen democracy internationally, or to assess Program performance against this objective. Finance has commenced reviewing arrangements under the Program, including writing to the political parties seeking their voluntary compliance with various issues raised by the audit (recognising that amendments to the grant deeds and Program guidelines will require Government consideration). Finance also provided the following formal comments on the audit report:

¹² ANAO Better Practice Guide—*Performance Information in Portfolio Budget Statements*, Canberra, May 2002, p. 1.

¹³ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 25.

¹⁴ By way of comparison, the approach taken for some Parliamentarians' travel entitlements (also administered by Finance) includes public disclosure of the use of certain types of entitlements (including the tabling of separate reports in the Parliament).

The Department of Finance and Deregulation (Finance) welcomes the work undertaken by the ANAO in examining the Australian Political Parties for Democracy Program, and the thrust of its findings.

Finance notes that the ANAO acknowledges in its audit report that, as the Program is a non-discretionary grants program, Finance does not have a role in seeking and assessing applications for funding, except to the extent that it ensures that the parties comply with the requirements of the program documentation. Finance also notes that the ANAO has acknowledged in the audit report that Finance was only able to develop the administrative framework for the program following the then Government's October 2005 decision to establish the program and was therefore unable to undertake any planning and analysis of the need for the program prior to the decision being taken.

Recommendations

Set out below are ANAO's recommendations and Finance's abbreviated responses. More detailed responses are shown in the body of the report immediately after each recommendation.

Recommendation No. 1

Paragraph 2.20

ANAO *recommends* that the Department of Finance and Deregulation strengthen the administrative arrangements for the Australian Political Parties for Democracy Program by developing closer links between the projects identified in applications for funding and the grant deeds.

Finance response: *Agree.*

Recommendation No. 2

Paragraph 2.61

ANAO *recommends* that the Department of Finance and Deregulation:

(a) promote more effective cash management by requiring Australian Political Parties for Democracy Program funding recipients to report on the extent to which prior payments have been spent or are expected to be spent in the next quarter, prior to making further payments of Program funds; and

(b) assess acquittal documentation provided by funding recipients to determine the extent to which funded activities have complied with the Program guidelines and grant deeds, and to inform assessments of the extent to which projects have contributed to Program objectives.

Finance response: *Agree with qualification.*

**Recommendation
No. 3**

Paragraph 3.23

ANAO *recommends* that the Department of Finance and Deregulation seek to have the Australian Political Parties for Democracy Program documentation amended to specify that funding is only available for the delivery of projects identified in the relevant grant deed, as well as incremental administrative costs that are directly related to these projects.

Finance response: *Agree.*

**Recommendation
No. 4**

Paragraph 3.40

ANAO *recommends* that the Department of Finance and Deregulation develop and publish performance information on the Australian Political Parties for Democracy Program.

Finance response: *Agree with qualification.*

Audit Findings and Conclusions

1. Introduction

This chapter outlines the background to the Australian Political Parties for Democracy grants program and sets out the audit objective and approach.

Background

1.1 The Australian Political Parties for Democracy Program (the Program) is a grants program administered by the Department of Finance and Deregulation (Finance).¹⁵ The Program was established by a decision of the former Government in October 2005. It was decided by the then Government that, under the Program, ongoing funding of up to \$1 million per annum would be provided to each of the Liberal Party of Australia (Liberal Party—on behalf of the Coalition) and the Australian Labor Party (ALP), to support international activities to promote democracy.¹⁶

1.2 The Program was formally announced in December 2005 as a new measure in the 2005–06 Mid-Year Economic and Fiscal Outlook (MYEFO).¹⁷ Given the timing of the Program’s establishment, it was announced that funding of up to \$500 000 for each party would be available in 2005–06, with the full \$1 million available to each party on an annual basis from 2006–07.

1.3 The Program was to be reviewed at the end of 2006–07.¹⁸ However, Finance advised ANAO in September 2008 that:

The review of the [Program], which was scheduled under the policy guidelines to take place after 30 June 2007, has not been undertaken. [Finance] considered that, in order for the review to be meaningful, full acquittal information for the two years the program had been in existence was required to enable [Finance] to properly analyse the operation of the program. This meant that [Finance] was not able to commence the review until acquittal information for 2006–07 had been received, which was due on 30 September 2007...[but] not received until 18 April 2008.

¹⁵ Prior to the change of Government following the 2007 Federal Election and the issuing of a new Administrative Arrangements Order, the Department of Finance and Deregulation was known as the Department of Finance and Administration. The Department is referred to as Finance throughout this report.

¹⁶ The Program is a non-discretionary grants program. For a discretionary grants program, funding is awarded on a competitive basis, whereas for non-discretionary programs, the amount of funding and the funding recipients are predetermined.

¹⁷ When the Program was first announced, it was entitled the ‘Global Democracy Program’.

¹⁸ Australian Political Parties for Democracy Program Guidelines.

During the intervening period, following the Federal Election in November 2007, the Rudd Government instigated a review of savings measures across all government programs and the [Program] was reviewed as part of the savings measures. ...

1.4 In this context, in the 2008–09 Budget it was announced that, as the Program had a history of underspending, funding for the Program would be reduced by \$1.25 million in 2008–09.¹⁹ It was also announced that the arrangements for the Program after 2008–09 would be reviewed to determine whether the Program should be refocused.

Use of grant funding

1.5 The Program guidelines, as approved by the then Prime Minister in June 2006, state that the objective of the Program is to ‘strengthen democracy internationally by providing support for the international activities of Australia’s major political parties’. The guidelines provide that the funding made available to each party under the Program may be used to assist activities consistent with the Program’s objectives, including:

- providing training, education and advice;
- supporting democratic activities and programs in overseas countries;
- providing assistance in the conduct of local, regional or national elections in overseas countries;
- supporting the involvement of Australia’s political parties in international activities that promote the objectives of the Program, such as liaison with international organisations for the specific purpose of achieving the Program’s objectives; and
- visits by Australian party officials (but not Australian Parliamentarians) to overseas countries or to support visits to Australia.

Audit objective and approach

1.6 The objective of the audit was to assess the effectiveness of:

- Finance’s administration of the Program; and
- program accountability arrangements, including any key performance indicators that have been developed for the Program as well as the

¹⁹ See also the discussion on the rollover of funds in Chapter 2.

reporting of performance information through the Portfolio Budget Statements and Annual Reports.

1.7 The audit commenced in August 2008 and was conducted under section 15 of the *Auditor-General Act 1997*. The audit involved an examination of Finance's administration of grants made under the Program since its inception in 2005–06.

1.8 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$165 000.

2. Administration of the Program

This chapter examines Finance's administration of the Program, including the adequacy of assessment and acquittal documentation and consideration of requests to roll over funding.

Introduction

2.1 Unlike a discretionary grants program where grant funding is awarded on a competitive basis, the then Government established the Program as a non-discretionary program, with the maximum amount of funding and the funding recipients (the two major Australian political parties) having already been determined. In this respect, the Program is quite different to many other Government grants programs.

2.2 ANAO's Better Practice Guide, *Administration of Grants*, outlines a number of processes to be undertaken in planning for an effective grants program.²⁰ One of the key factors in the planning process is establishing the need for a program.²¹ While it is apparent that the Government of the day saw a need in establishing the Program, there is no supporting documentation available other than the Budget measure. A consequence of the approach adopted is that the administrative arrangements to apply to the Program were not considered as an integral part of its design. Rather, the administrative arrangements were developed by Finance following the Government decision.

2.3 In this context, Finance does not have a role in seeking and assessing applications for funding, except to the extent that it ensures that the parties comply with the requirements of the Program documentation, including application processes, and properly acquit their grants. However, as the administering agency, Finance remains responsible for:²²

- developing strategies for managing risk;
- developing an accountability framework and reporting mechanisms;
- establishing performance measures;

²⁰ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002. While the Better Practice Guide applies primarily to discretionary grant programs, it contains administrative principles that are applicable to a wide spectrum of circumstances where the Australian Government funds the activities of other entities (p. 2).

²¹ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 5 and pp. 7–9.

²² See also the insert to the ANAO Better Practice Guide—*Administration of Grants*.

- selecting appropriate funding strategies; and
- producing program guidelines.

2.4 Finance advised ANAO in November 2008 that:

As the administering agency of the Program, Finance can provide input and advice on the activities described above, however, ultimately it is the government of the day that determines the final structure of the program, and the program guidelines.

Development of program documentation

2.5 As noted above, Finance developed an administrative framework for the Program following the then Government's October 2005 decision to establish the Program.²³ Draft Program guidelines and a grant deed were prepared by Finance based on the arrangements that were already in place for another existing program of non-discretionary grants to political party research institutes administered by Finance. Consultation on the proposed Program documentation was undertaken with the Department of Foreign Affairs and Trade (DFAT) and with the Department of the Prime Minister and Cabinet (PM&C). In addition, having regard to the ANAO Administration of Grants Better Practice Guide, Finance consulted with ANAO and incorporated into the Program documentation requirements relating to reporting on the activities on which funds have been spent and outcomes achieved, banking arrangements and an accountability template.

2.6 Finance advised its then Minister on 10 February 2006 that the draft guidelines and the grant deed had been strengthened to take account of the then Government's decision in establishing the Program that there must be strict guidelines for separate and transparent accounting of funds provided under the Program. The then Minister was also advised that the level of reporting required by the draft Program guidelines may cause the political parties some concern, as there was an expectation from the parties that requirements would be minimal.

²³ A discussion paper addressing the types of issues that needed to be considered in establishing appropriate administrative arrangements was developed in consultation with the then Finance Minister's office and with the Department of Foreign Affairs and Trade (DFAT). DFAT was involved to provide information on a similar program in place in the United Kingdom, and advice on the countries and organisations that should be eligible for assistance, together with advice on the regions in which the Australian Government provides development aid. On 14 December 2005, a meeting was held with representatives from Finance, the then Finance Minister's office, the Liberal Party and the ALP to discuss the options for the Program's administration as outlined in the discussion paper.

2.7 With the approval of the then Finance Minister, an exposure draft of the Program guidelines was provided to each of the Liberal Party and the ALP on 16 February 2006. Copies of the exposure drafts were also provided to DFAT and PM&C. A series of amendments were made to the draft Program documentation following consultation with the relevant entities.

2.8 On 26 March 2006, the then Finance Minister endorsed the proposed Program documentation. Subsequently, on 18 April 2006, the Chief of Staff of the then Finance Minister sent copies of the proposed Program documentation (including the Program guidelines,²⁴ grant deeds and funding application form) to the Office of the then Prime Minister for the then Prime Minister's approval.²⁵

2.9 The then Prime Minister agreed to the proposed Program documentation on 23 June 2006, with some minor amendments brought about through correspondence of 11 May 2006 from the Chief of Staff of the then Finance Minister.²⁶

Applications and approval of funding

2.10 The Program guidelines state that:

[Finance] will forward to the grant recipients prior to the beginning of each financial year a letter advising of the program and providing the grant application form attached as Attachment A.²⁷

Funding will be provided on receipt of a properly completed grant application from the grant recipient and is subject to the grant recipient signing a deed of grant and complying with program guidelines including accountability and audit requirements.

The Liberal Party may decide to apportion an amount of funding under the program to its Coalition partner, The Nationals. In this event, the Liberal Party

²⁴ Finance has advised ANAO that the accountability template, which forms part of the Program guidelines, was not attached to the Program documentation sent for the then Prime Minister's approval.

²⁵ The decision by the then Government to establish the Program required the guidelines for the Program to be developed following consultation between the Finance Minister, the Minister for Foreign Affairs and the Prime Minister. The Chief of Staff of the then Finance Minister also forwarded copies of the proposed Program documentation to the Office of the then Minister for Foreign Affairs on 18 April 2006, and requested that any comments the then Minister had on the documentation be forwarded directly to the then Prime Minister.

²⁶ Finance was not provided with a copy of the correspondence from the Chief of Staff of the then Finance Minister. Finance advised ANAO in September 2008 that the only change that was made to the Program guidelines by the then Prime Minister was to include a specific reference to the application form.

²⁷ The original Program guidelines stated that, for 2005–06, this process would occur in April 2006.

will remain responsible for all audit, reporting and accountability requirements.

Applications for funding

2.11 As noted, the Program guidelines foreshadowed that funding recipients would be invited to apply for annual funding under the Program in a letter from Finance, to be sent at the beginning of each financial year. However, given the timing of the implementation of the Program (announced in December 2006), the process for the parties to apply for funding in 2005–06 was slightly different. Specifically, on 24 April 2006, Finance wrote to each of the Liberal Party and the ALP, enclosing copies of the Program documentation (including the grant application form), as it had been sent to the then Prime Minister for his approval, and stated:

Subject to final approval of these documents, your organisation will be provided with information about the process for applying for grant funding.

2.12 Subsequently, on 4 May 2006, Finance received advice from the Chief of Staff of the then Finance Minister that the parties could proceed to submit their applications for funding for 2005–06 and then await final approval of the Program guidelines from the then Prime Minister.

2.13 Accordingly, the ALP submitted its application for funding for 2005–06 to Finance on 5 May 2006. The ALP sought funding for the full amount available to it of \$500 000. Finance contacted the Liberal Party on 27 June 2006, following the then Prime Minister's approval of the Program guidelines, requesting that an application form be completed and returned to Finance. On 28 June 2006, the Liberal Party submitted its completed application form to Finance, seeking funding of \$200 000 out of the possible \$500 000.²⁸

2.14 From 2006–07 onwards, the process for inviting applications for funding has followed the methodology as set out in the Program guidelines. That is, Finance wrote to each of the parties inviting applications for funding for the relevant financial year. As Table 2.1 shows, each party sought the full amount of funding available to it in each year from 2006–07 to 2008–09.

²⁸ Finance records indicate that the Liberal Party confirmed to Finance that, in applying for less than the maximum amount of funding, it was aware that the remaining \$300 000 under the Program would not be available to the party in subsequent years.

Table 2.1**Applications for funding 2006–07 to 2008–09**

Year	Party	Date Finance sought applications	Date of funding application	Funding requested (\$)
2006–07	ALP	19 July 2006	4 October 2006	1 000 000
	Liberal		29 August 2006	1 000 000
2007–08	ALP	11 July 2007	28 September 2007	1 000 000
	Liberal		8 October 2007	1 000 000
2008–09	ALP	19 September 2008	16 October 2008	375 000
	Liberal		29 October 2008	375 000

Source: ANAO analysis of Finance records.

Approval of funding and execution of grant deeds

2.15 Approving funding for a grant involves a commitment to spend public money. The financial framework governing commitments to spend public money reflect sound principles that have evolved over time. Specifically, Part 4 of the *Financial Management and Accountability Regulations 1997* (FMA Regulations), *Commitments to spend public money*, sets out a hierarchy of requirements that must each be satisfied, in the appropriate sequence, in order for a commitment to spend public money to be lawfully entered into. This includes requirements that:

- a grant not be approved unless reasonable inquiries have been undertaken that demonstrate that the proposed expenditure will make efficient and effective use of public money (FMA Regulation 9);
- the terms of the approval be documented (FMA Regulation 12); and
- officials that subsequently enter into a contract, agreement or arrangement under which public money is, or may become, payable are obliged to give effect to any terms of the funding approval given in accordance with FMA Regulation 9 (FMA Regulation 13).

2.16 As noted above, the parties are required to provide Finance with details of the purposes for which the grant funding will be spent, at the time of applying for the grant funding. However, as it is a non-discretionary grants program, there is no assessment process in terms of establishing whether or not a particular application should be approved for funding. Instead, approval of funding is given upon receipt of a completed application form, and is

subject to the parties entering into a grant deed with the Australian Government.

2.17 Following receipt of the grant applications each year, Finance has provided each party with a grant deed for countersigning. Upon receipt of the properly executed grant deed, Finance has advised each party that the grant funding application has been approved and that the funding is to be:

used for the purposes set out in the Application Form and in accordance with the Grant Deed and attached [Program] Guidelines...²⁹

2.18 The grant deeds state that the grant funding must only be spent by the parties in accordance with the terms and conditions set out in the deed and in the guidelines. However, the grant deeds do not restrict the use of the grant funding to the purposes set out in the parties' application forms—rather, the funding is restricted to being used on the more broadly defined types of activities outlined in the Program guidelines.³⁰

2.19 This has the effect that the value of the information provided by the parties in their application forms is diminished, as there is an insufficient accountability 'loop' established to link the purposes for which funding has been applied with the purposes for which the funding may be validly spent. Further in this respect, in exercising an FMA Regulation 9 approval, the Finance official approving the grants relies on the information provided by the parties in their application forms. The terms of the approval, as documented for FMA Regulation 12 purposes in Finance's written advice to the parties, include that the funding is to be used for the purposes set out in the application forms.³¹

²⁹ The Program guidelines are enforceable through the grant deeds, which state that the guidelines form part of the deed.

³⁰ See paragraph 1.5.

³¹ Although undertaken in respect of a discretionary grants program, ANAO Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Programme* (specifically, Volume 2 pp. 343–354) outlines the importance of close links between applications for funding and the funding agreement.

Recommendation No.1

2.20 ANAO *recommends* that the Department of Finance and Deregulation strengthen the administrative arrangements for the Australian Political Parties for Democracy Program by developing closer links between the projects identified in applications for funding and the grant deeds.

Finance response

2.21 Finance agreed to the recommendation and commented as follows:

Finance will seek to redevelop the program guidelines and grant deeds, with a view to establishing closer links between the projects identified in applications for funding and the grant deeds.

Financial Management

2.22 As is advised in the ANAO Better Practice Guide, *Administration of Grants*, in selecting funding strategies for a grants program, care should be taken to consider sound cash management principles. In particular:

large amounts should not be paid in advance because of the risk of non-performance of obligations, or non-compliance with the terms of a grant.

Where payments are made in advance there should be a net benefit in doing so. The net benefit could be demonstrated by:

- comparing the cost of administering payments in arrears to interest forgone;
- efficiencies for the recipient in either reducing the time to complete the project or funds required (possibly linked to reducing the amount of funding as these benefits are realised); or
- establishing that the funded activity would not proceed at all or in a timely fashion without payment in advance.

A comprehensive documented risk assessment and cost benefit analysis will assist in establishing that a payment in advance of need was warranted or not. In general, performance reporting and monitoring regimes will be more rigorous for grants where payments are made in advance of progress.³²

³² ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, pp. 31–32.

Payment and banking arrangements

2.23 The Program guidelines provide that the grant funding will be provided following receipt of a properly completed application form, and paid to the parties in quarterly instalments (that is, payment is to be made in advance of program activities being completed by the parties). However, the grant deeds signed between the Australian Government and each of the Liberal Party and the ALP in each year of the Program, the terms of which take precedence over the Program guidelines, state that the grant funding will be paid to the parties at the times and in the manner specified in the schedule to the deed. The grant deed also provides that any payment to the parties may be deferred or suspended by the Australian Government if the parties have outstanding or unacquitted moneys under the deed.

2.24 Due to the timing of the initiation of the Program in 2005–06,³³ and to delays in the parties providing prior year acquittal documentation to Finance,³⁴ payment of the grant funds to the parties has not always been made on a quarterly basis as foreshadowed in the Program guidelines. Instead, the grant deeds signed with the parties have provided for a different payment structure, as shown in Table 2.2.

2.25 While in some years Finance has made payment of the grant funding to the parties in quarterly instalments, payment of the next instalment of funding in any given year is not subject to any interim financial reporting arrangements. That is, the next instalment payment will be made to the grant recipient as scheduled in the grant deed, regardless of whether that party has spent the previous instalment or demonstrated a need for the additional funds to be provided. In this respect, ANAO notes that it is relatively common for grants involving instalment payments to include a reporting regime that addresses the extent to which previous payments have been spent or will soon be spent.³⁵

³³ The original Program guidelines provided that, for 2005–06, quarterly instalments would not be required.

³⁴ Grant acquittals are discussed in detail in the following section.

³⁵ These financial progress reports may or may not be required to be audited, depending on the sums involved and the level of risk.

Table 2.2

Timing of grant payments

Year	Party	Total funding (\$)	Date of grant deed	Payment structure
2005–06	ALP	500 000	27 June 2006	One instalment no later than 30 June 2006.
	Liberal	200 000	29 June 2006	One instalment no later than 30 June 2006.
2006–07	ALP	1 000 000	19 October 2006	Four equal instalments, the first one following completion of the grant deed, and subsequent ones at the earliest opportunity after the first day of each of the months of October 2006, January 2007 and April 2007. ^A
	Liberal	1 000 000	18 September 2006	Four equal instalments, the first one following completion of the grant deed, and subsequent ones at the earliest opportunity after the first day of each of the months of October 2006, January 2007 and April 2007.
2007–08	ALP	1 000 000	14 May 2008	One instalment to be made at the earliest opportunity after the date of co-signing of the grant deed (the deed was signed six weeks before the end of the financial year).
	Liberal	1 000 000	5 December 2007	Four equal instalments, the first two following completion of the grant deed, and subsequent payments at the earliest opportunity after the first day of each of the months of January 2008 and April 2008.

Note A: Due to the timing of the grant deed being signed, funding for the ALP in 2006–07 was actually paid in three instalments, the first being a payment of \$500 000 paid on 25 October 2006.

Source: ANAO analysis of Finance records.

2.26 As noted at paragraph 2.23, the grant deeds provide for Finance to withhold further payments of grant funds to the parties where acquittal documentation for prior year funding has not been submitted. However, in 2006–07, there were several payments made by Finance to the parties without the acquittal documentation for the funding provided in 2005–06 having been provided to Finance’s satisfaction. This is illustrated in Table 2.3.

Table 2.3**2006–07 payments made prior to acquittal of 2005–06 grant funds**

Party	Date of payment	Payment amount (\$)	Prior year funds acquitted at time of payment?
ALP	25 October 2006	500 000	No
	3 January 2007	250 000	No
	2 April 2007	250 000	Yes
Liberal Party	22 September 2006	250 000	No
	29 September 2006	250 000	No
	3 January 2007	250 000	Yes
	2 April 2007	250 000	Yes

Source: ANAO analysis of Finance records.

2.27 Finance did not make any payments of grant funding for 2007–08 to either party before the acquittal documentation for the 2006–07 funding had been finalised. In December 2008, Finance advised ANAO that:

On 12 December 2008, funding of \$375 000 each was approved, in principle, to the ALP and the Liberal Party.

There are no outstanding acquittal issues to pursue with the Liberal Party. We will therefore be forwarding two copies of the grant deed for 2008–09 for signature to the Liberal Party shortly. Upon return of a signed copy of the grant deed for the Liberal Party, we will process the payment for 2008–09 in one lump sum.

Grant deeds for the ALP [for 2007–08] will not be forwarded until the ALP provides a revised certificate signed by the National Secretary.³⁶

Requests to roll over funding

2.28 The Program guidelines state that:

Prior to or following submission of an audited statement for each financial year, any unspent program funds will generally be returned to [Finance]. However, grant recipients may approach the Secretary of [Finance] in writing to seek approval, at his discretion, to carry-over any portion of the unspent funds into the next financial year.

³⁶ See further at paragraph 2.51.

2.29 Due to the timing of the initiation of the Program in 2005–06, in May 2006 Finance decided to allow both the ALP and the Liberal Party to carry-over the funds paid under the 2005–06 grant deeds into the 2006–07 financial year, without the parties having to request this in writing, as would otherwise be required under the Program guidelines. Each party was advised (at the same time as they were invited to submit their applications for 2006–07 funding) that they may carry over unspent 2005–06 funds into the following year.

2.30 The acquittal documentation provided by the parties for the 2005–06 funding showed that:

- the Liberal Party would carry over \$111 529 (56 per cent of the \$200 000 paid to them on 29 June 2006); and
- the ALP would carry over \$321 418 (64 per cent of the \$500 000 paid to them on 29 June 2006).

2.31 In order for the parties to be able to carry over any unspent grant funds from the 2006–07 and 2007–08 financial years (including amounts brought forward from the prior years) into the following financial years, each party was required, in accordance with the Program guidelines, to request written approval to do so from Finance.

Liberal Party

2.32 In submitting their acquittal documentation for the 2006–07 grant funding on 8 October 2007, the Liberal Party requested that approval be given for the balance of funds unspent at 30 June 2007 to be carried forward for use in the 2007–08 financial year. The amount that the Liberal Party was seeking to carry forward was \$724 575, which represented 64 per cent of the total funding of \$1 137 897 available to the party in 2006–07 (including interest earned on the grant funding). On 14 November 2007, Finance contacted the Liberal Party and requested advice as to whether it considered that it would be able to spend \$1.7 million (representing the requested carry-over amount from 2006–07 plus the \$1 million applied for in 2007–08) in the remaining seven months of the 2007–08 financial year, and requested details of proposed projects to support this. However, on 15 November 2007, the Liberal Party advised Finance that it had decided not to pursue its request to roll over the unspent 2006–07 grant funding.

2.33 The grant deeds provide that if, at the end of the financial year, there are any grant funds (including interest earned) that remain unspent or

uncommitted, Finance may require the grantee, by written notice, to repay the funds within 28 days of receipt of the notice. In this respect, on 22 November 2007, Finance wrote to the Liberal Party and stated:

I understand that the Grantee will not be seeking approval from the Secretary of [Finance] under section 4 of the [Program] guidelines, to carry over the unspent funds [from 2006–07] into financial year 2007–08. ...

I therefore request that the Liberal Party of Australia repays, within 31 days of the date of this notice,³⁷ the amount of \$724 575...

Please note that, under clause 4.2 of the 2006–07 Grant Deed, if the Grantee fails to repay the Grant funds in accordance with [this notice], the Department will claim interest (calculated as described in clause 1 of the Grant Deed)³⁸ on the amount set out in the notice from the date it was due, for the period it remains unpaid.

2.34 On 12 December 2007, the Liberal Party repaid to Finance the amount of \$724 575 which had not been spent in 2006–07.

2.35 As part of its acquittal documentation for 2007–08 funding, the Liberal Party requested that the balance of funds unspent at 30 June 2008 be carried forward for use in 2008–09 (\$627 760, or 60 per cent of available funds).

ALP

2.36 Following submission of its initial acquittal documentation for the 2006–07 grant funding on 12 March 2008, the ALP wrote to the Finance Secretary seeking approval to carry over the unspent amount of \$423 879 into the 2007–08 financial year (32 per cent of the \$1.35 million (including interest earned) available to the ALP in 2006–07). At a meeting between Finance and the ALP on 14 April 2008 to discuss the adequacy of the acquittal information provided by the ALP, Finance requested that the ALP provide documentation supporting the ALP's ability to spend \$1.4 million (the amount requested for rollover plus \$1 million applied for by the ALP for 2007–08) in the remaining two months of the 2007–08 financial year. On 28 April 2008, the ALP provided

³⁷ The grant deed provides that a notice sent by post will be deemed to be received three days after posting.

³⁸ The grant deed provides that the interest to be paid to Finance is to be calculated at an interest rate equal to the cash rate target published by the Reserve Bank of Australia that applied at the beginning of the quarter in which grant funds were first paid under the deed. The grant deed further states that the grantee acknowledges that the interest payable represents a reasonable pre-estimate loss of investment opportunity for, or the reasonable cost of borrowing money in place of, the amount which should have been repaid.

Finance with a document outlining projects to be undertaken in 2007–08 using Program funding.³⁹ The document outlined proposed project costs of \$1.2 million, and administration costs of \$200 000.⁴⁰

2.37 On 12 May 2008, Finance sought approval from its Secretary for the ALP to be permitted to carry over the amount of \$423 879 in unspent funds from 2006–07. Finance advised its Secretary that:

On 28 April 2008 the ALP provided additional information to support the carry over request.

[Finance] does not have the capacity to independently verify the claims made by the ALP in relation to the additional information...on the carry over request. Indeed, the ALP's additional information notes that the *figures...are subject to adjustment to take into account expenses yet to accrue and program funds committed but not yet expended...* However, in the absence of any indication that the information is not provided in good faith, we recommend that you approve carry over of the full amount of unspent funds of \$423 878.80.

2.38 The Finance Secretary approved the rollover of the \$423 879 for the ALP on 16 May 2008.

2.39 The Program guidelines provide that the decision to allow the rollover of unspent prior year funds is at the Finance Secretary's discretion. The grant deeds also provide for Finance to require a grantee to repay funds that remain unspent at the end of the financial year, and to claim interest from the grantee where those funds are not repaid within 28 days of receipt of a notice to repay. Although a request to rollover the unspent 2006–07 grant funding was not made by the ALP until nine months after the end of the financial year, there was no action taken by Finance in the interim period to seek to have the ALP repay the unspent funds. The delays in the ALP requesting approval from Finance to carry forward the unspent funds, together with the time taken for Finance to action the request, provided a benefit to the ALP in terms of the interest earned on the unspent funds.

³⁹ The ALP had advised Finance that it had been using its own funds to undertake the projects pending approval of 2007–08 funding and the rollover of its unspent 2006–07 funds. There were no steps taken by Finance to verify that the projects had in fact been funded by the ALP, and not by the unspent 2006–07 funds prior to the ALP receiving approval to carry over these funds. See also the discussion on retrospective funding in Chapter 3.

⁴⁰ The administration costs outlined by the ALP was taken as a straight 15 per cent of the total funding that would be available to the ALP if the rollover request was approved. This is the maximum amount able to be charged to the Program for administrative costs (see further in Chapter 3).

2.40 As part of its acquittal documentation for 2007–08 funding, the ALP included a written request to the Finance Secretary for approval to carry over the unspent funds of \$449 641 (31 per cent of available funds) into 2008–09.

2.41 In December 2008, Finance advised ANAO that:

In letters sent to the parties on 12 December 2008, we have requested additional information to support each party’s carry over requests. We do not intend processing further carry over requests until such time as the parties comply with the request for further information.

We have advised the parties that in future years they will be required to provide a compelling case to support any request to carry over unspent funds into the next financial year.

Grant acquittals

2.42 Grant acquittals are an integral part of good risk management and provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purposes. Adequate and well-documented arrangements to enable financial accountability are the basis of effective grant acquittal. In particular, reliable, timely and adequate evidence is required to demonstrate that grant funds have been spent in accordance with the terms and conditions of the grant agreement.⁴¹

2.43 In establishing the Program, the then Government decided that there should be ‘strict guidelines for separate and transparent accounting’ for funds provided under the Program. In this context, the Program guidelines, which form part of the grant deed, provide for the acquittal of the funding paid to each party under the Program. The guidelines state that, within three months of the end of the grant period (that is, by 30 September each year), the grant recipients must provide Finance with an audited statement, conforming to the terms of the grant deeds, and including:

- the organisations which received assistance;
- the amount and type of assistance provided;
- the purpose of the assistance;
- international activities funded;

⁴¹ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 61.

- international activities attended;
- costs of travel and accommodation and living expenses either by Australian party officials or by members of eligible organisations;
- names of people and the organisations they represent of those travelling; and
- outcomes achieved.⁴²

2.44 The guidelines include an accountability template, showing how the above information should be presented and the level of detail required from the grant recipients in providing the information. The grant deeds also require that the grant recipients must provide Finance with an audited statement of receipts and expenditure in respect of the grant funding, which must include a statement as to whether the financial accounts are true and fair, and a statement of the balance of the grant recipient's bank accounts,⁴³ as well as a certificate prepared by the Chief Executive Officer (or equivalent office) of the grant recipient and signed by the auditor, certifying that all grant funding received was spent in accordance with the grant deed.

2.45 Although all of the acquittal documentation is required to be provided to Finance by 30 September each year, neither party has met that deadline in respect of the grant funding provided in any year of the Program. Specifically:

- the Liberal Party submitted its acquittal documentation for 2005–06 to Finance on 10 October 2006;⁴⁴
- the ALP submitted its acquittal documentation for 2005–06 to Finance on 4 October 2006. However, this documentation was assessed by Finance to be incomplete, and final documentation required by Finance to complete the acquittal of the funding was not provided until 12 February 2007;
- the Liberal Party submitted its acquittal documentation for 2006–07 to Finance on 8 October 2007;

⁴² In addition to the information listed in the guidelines, the grant deeds also require the parties to include in the report the portion of the grant funding used for administrative purposes.

⁴³ The parties are required to open a bank account which holds only the grant funding and any interest earned on that funding and to keep proper accounts and records of its transactions and affairs in relation to the use of the grant funding.

⁴⁴ On 29 September 2006, the Liberal Party advised Finance that it would be unable to meet the 30 September deadline and sought an extension to 13 October 2006.

- the ALP submitted its acquittal documentation for 2006–07 to Finance on 12 March 2008.⁴⁵ However, the acquittal documentation was assessed by Finance to be inadequate and incomplete, and final acquittal documentation for the ALP’s 2006–07 funding was not accepted by Finance until 21 April 2008;
- the Liberal Party submitted its acquittal documentation for 2007–08 to Finance on 23 October 2008; and
- the ALP submitted its acquittal documentation for 2007–08 to Finance on 13 October 2008.⁴⁶

Audited statements and certificates

2.46 For each year in which funding has been provided, each party has provided Finance with an audited statement of receipts and expenditure that has broadly conformed to the requirements of the grant deeds.⁴⁷ However, neither party, in any year, has fully complied with the requirement to provide Finance with:

a certificate certifying that all Grant funds received were expended in accordance with [the] Deed, prepared by the Chief Executive Officer of the Grantee, or a person holding or performing the duties of an equivalent position and signed by the auditor.

2.47 Specifically:

- the Liberal Party has provided to Finance as part of its acquittal documentation in each year a certificate prepared and signed by the Federal Director of the party, but not signed by the auditor; and
- the ALP did not initially provide a certificate to Finance as part of their acquittal documentation for either 2005–06 or 2006–07. Following requests from Finance, certificates were provided by the ALP (up to four months after the initial acquittal documentation had been

⁴⁵ The ALP requested an extension of time to complete the acquittal documentation and advised Finance it expected to be able to provide the required information by 31 October 2007.

⁴⁶ Finance advised ANAO in December 2008 that the acquittal documentation had been assessed by Finance as being satisfactory under the terms of the current grant deed and policy guidelines, with the exception of the signatory to the ALP’s certificate. Finance also advised ANAO that it intends to review the acquittal requirements.

⁴⁷ The ALP’s audited statements have not included an explicit statement as to the balance of the bank account in which the Program funds are held. However, the audited statements have included a statement of the excess receipts over payments for the year.

provided), however, as with the Liberal Party certificates, these were not signed by the auditor. For the 2007–08 funding, the ALP did not provide a separate certificate to Finance, but included in the covering letter to its acquittal documentation a statement certifying that all funds had been spent in accordance with the grant deed.⁴⁸

2.48 Following receipt of the Liberal Party’s acquittal documentation for 2005–06 on 10 October 2006, Finance sought internal legal advice in respect of the certificate provided by the Liberal Party and whether it complied with the requirements of the grant deed, or whether the Liberal Party should be required to submit a new, compliant certificate. Finance was advised that:

Whilst the Liberal Party has not technically complied with its obligation under clause 5.1(b) [of the grant deed] in that the certificate or statement provided has not been signed by the auditor, and the Department may legally pursue the Liberal Party to comply with the requirements and ask them to resubmit the statement...signed by the auditor, I do not believe in the circumstances that this is necessary. ...

It could be reasonably argued that the Liberal Party has effectively satisfied the requirements of clause 5.1(b) by providing the [certificate] and by the submission of the Audit Opinion. To require the Liberal Party to resubmit the [certificate] would not provide the Department with any greater assurances. ...

2.49 The advice provided to Finance contemplated that sufficient assurance was provided through the provision of the audit opinion which stated that the transactions in the statement of receipts and expenditure were fairly represented and based on the accounts, books and records of the Liberal Party. However, this statement is required by the grant deed independently of the certificate signed by the auditor.

2.50 No further action was taken by Finance in respect of the certificate provided by the Liberal Party for 2005–06. Finance subsequently also accepted the certificate from the ALP for 2005–06, and from both parties in subsequent years, without those certificates being signed by the auditor. The legal advice provided to Finance suggested that the grant deed could be amended for periods beyond 2005–06 so that the certificate would be required to be signed only by the relevant officers of the parties, and not by the auditor. However, no variations were made to the grant deeds for future years and, as such, the

⁴⁸ See also paragraph 2.51.

certificates submitted by the parties and accepted by Finance have not complied with the terms of the grant deeds.

2.51 It would be desirable for Finance to review the terms of the grant deeds as they relate to the certificate by the auditor. This is because it would be difficult for an auditor, in a cost-effective manner, to certify that all grant funds received were expended in accordance with the grant deeds, due to the inherent limitations of an audit. Finance advised ANAO in December 2008 that:

While we will not be seeking full compliance by the parties in relation to sign off of a certification under clause 5 of the grant deed for 2007–08, we are pursuing a revised certificate from the ALP, to be signed off by the National Secretary, consistent with the level of accountability the party has provided in previous years. We note the ANAO's comments that it would be difficult for an auditor, in a cost-effective manner, to certify that all grant funds received were expended in accordance with the grant deed, due to the inherent limitations of an audit. Accordingly, we have also advised the parties that we intend reviewing the terms of the grant deed as they relate to the sign off of the certificate by an auditor.

Separate accounting for grant funds

2.52 The grant deeds require that the grant funding paid to the parties under the Program each year is to be held by the parties in a separate bank account. Specifically, the grant deeds state:

The Grantee must open a bank account controlled solely by the Grantee to hold the Grant funds and immediately deposit all Grant funds received into that account.

The Grantee must notify the Commonwealth, in writing, prior to the receipt of any Grant funds, of details sufficient to identify the account. The Grantee must ensure that a thorough audit trail of Grant funds is maintained and allow electronic payment of Grant funds into the account.

The bank account must not contain any monies other than Grant funds and interest earned on the Grant funds.

2.53 Each party is required to provide Finance with details of the bank account into which grant funds are to be paid as part of the grant application form each year. The requirement for the parties to hold the grant funding in a separate bank account should provide increased transparency over the grant funds that have been paid by Finance to the parties. However, there is no

requirement in the grant deed or the Program guidelines for the parties to provide Finance with bank statements, and there was no evidence that Finance has taken steps to seek confirmation that the bank accounts into which the grant funding has been paid comply with the grant deed requirement that the account contain only the grant funding and interest earned. In this respect, Finance advised ANAO in November 2008 that:

Finance has accepted audited financial statements from the parties in lieu of bank statements. This approach was considered consistent with the acquittal requirements under the grant deed. The parties have substantially complied with this requirement. Finance further notes that the financial statements were signed off by auditors and accompanied by Audit Reports.

2.54 Finance further advised ANAO in December 2008 that:

We are seeking verification from the parties that the bank account into which grant funding has been paid only contains grant funds and interest earned in accordance with clause 3.4 of the grant deed.

Accountability template reporting

2.55 As noted at paragraph 2.43 above, the grant deeds and the guidelines require each party to submit to Finance, as part of the grant acquittal process, a report giving details of the activities undertaken in the year using the grant funding provided. The guidelines, which are enforceable through the grant deed, include a template showing the level of detail required to be provided by the parties in the report. This includes reporting the total amount spent on each project or activity undertaken, broken down to show (where relevant), among other things:

- airfare costs per person;
- accommodation costs per person per night;
- meals and living expenses costs per person, at the relevant published rates;⁴⁹
- ground transport costs;
- sponsorship costs;
- consultancy fees; and

⁴⁹ The Program guidelines set out the types of rates that are to be used in calculating allowable travel costs.

- costs for hire of facilities.

2.56 The reports are also required to provide details of the organisations assisted using the grant funding, the international activities funded or attended, the names and organisations of people involved in the activity and the outcomes achieved in undertaking the activity.

2.57 The accountability reports provided by the Liberal Party for each year from 2005–06 to 2007–08 have broadly conformed to the requirements of the Program guidelines and the grant deeds, with Finance accepting the reports without further action. However, Finance assessed that the accountability reports provided by the ALP for both 2005–06 and 2006–07 contained an inadequate level of detail. Finance required the ALP to resubmit the reports in each year. However, the reports finally accepted by Finance from the ALP in each year still did not fully comply with the terms of the grant deeds and the Program guidelines. The ALP's acquittal documentation for the 2007–08 funding also did not provide sufficient detail for Finance to be able to assess compliance with the relevant limits, as costs were not consistently reported at the required per person level of detail. Finance advised ANAO in November 2008 that:

Finance notes that, at the time the Program documentation was being developed, there were concerns from both political parties regarding the level of detail required on travel. The policy that *all travel should be purchased on the basis of best value for money and undertaken at a standard appropriate in the view of the general community* was approved by the Government at the time the Government approved the program guidelines.

2.58 In December 2008, Finance advised ANAO that it had assessed the acquittal documentation from the ALP as being satisfactory under the current terms of the grant deeds and Program guidelines, with the exception of the audited certificate (see also paragraph 2.51).

2.59 In respect to the above issues, it is worth emphasising that, in designing a grants program, regard should be had to the expected costs of administering the program. The application of too much administrative effort may not represent an efficient use of funds and could divert expenditure away from the effective achievement of the objectives of the program. As noted, the administrative arrangements for the Program were developed by Finance following the then Government's decision to establish the Program, taking into

account the Government's intention for strict guidelines to be developed for separate and transparent accounting for the grant funding.

2.60 It is evident that it is becoming administratively intensive for Finance to be able to finalise the acquittal documentation provided by the parties. As such, this aspect of the Program may warrant review by Finance to ensure that the administration of the Program is focused on the key control measures such as the clarity of the Program guidelines, the integrity of the grant deeds and effective acquittal arrangements so that expectations are clear and administration can be efficient from the perspective of both the political parties and Finance.

Recommendation No.2

2.61 ANAO *recommends* that the Department of Finance and Deregulation:

- (a) promote more effective cash management by requiring Australian Political Parties for Democracy Program funding recipients to report on the extent to which prior payments have been spent or are expected to be spent in the next quarter, prior to making further payments of Program funds; and
- (b) assess acquittal documentation provided by funding recipients to determine the extent to which funded activities have complied with the Program guidelines and grant deeds, and to inform assessments of the extent to which projects have contributed to Program objectives.

Finance response

2.62 Finance agreed with qualification to the recommendation and commented as follows:

In redeveloping the program guidelines and grant deeds, Finance will give consideration to the merits of six-monthly interim acquittal and reporting mechanisms. Quarterly reporting and assessment may be too administratively intensive for the political parties, having regard to the size of the program and the expected costs of administering the program.

Finance considers that it has assessed acquittal documentation provided by the political parties to determine the extent to which funded activities have been complied with. Where necessary, Finance has requested further and better information from the political parties, and instances of this are noted in the audit report.

Finance does not consider that it is the appropriate organisation to develop, or assess, the extent to which projects have contributed to program objectives, which are stated as being *to strengthen democracy internationally by providing support for the international activities of Australia's major political parties*. As noted in the audit report, Finance is not well placed to determine whether, through the activities supported by the program and undertaken by the two major political parties, democracy has been strengthened internationally.

3. Program Accountability

This chapter examines the level of funding that has been made available for Program activities and the use to which it has been put. It also examines the broader accountability arrangements for the Program, including in terms of key performance indicators and the reporting of performance information.

Background

3.1 The objective of the Program is to strengthen democracy internationally by providing support for the international activities of Australia's major political parties. As at October 2008, \$4.7 million had been provided to the two major political parties under the Program.⁵⁰ This funding is in addition to other public funding paid to political parties, such as that paid following the results of Federal Elections.⁵¹ In respect of the 2007 Federal Election, payments to the ALP and the Coalition totalled \$22 million and \$21 million respectively.⁵²

3.2 The funding provided to the political parties under the Program for activities that contribute to the Program's objective of 'strengthening democracy internationally' is also additional to the funding provided through AusAID by way of Official Development Assistance (ODA) to improve governance, including through public sector reform and improved democratic practices. In 2008–09, around \$800 million (22 per cent of total ODA funding) is expected to be provided by the Australian Government for improving governance. Political governance activities funded by ODA include electoral support, civic education and parliamentary strengthening. Priority areas for ODA governance sector funding include Papua New Guinea, the Solomon Islands, Indonesia, the Philippines, East Timor and Vanuatu.⁵³

⁵⁰ As discussed in Chapter 2, the Liberal Party subsequently repaid \$724 575 of the \$1 million paid to it in 2006–07.

⁵¹ The underlying principle of the public funding scheme is that funding is provided as a subsidy to the costs of contesting an election campaign. Since 1995, eligible candidates and parties have received their full entitlement, regardless of election expenditure. Prior to this time the public funding scheme operated as a reimbursement scheme, where final payments of public funding could not exceed expenditure actually incurred. Source: Joint Standing Committee on Electoral Matters, *The 2004 Federal Election*, Canberra, September 2005.

⁵² Payments are calculated using an indexed sum per first preference vote. The election funding rate per first preference vote for the 2007 Federal Election was \$2.10027. Source: Australian Electoral Commission, *Final 2007 Federal Election payment to political parties and candidates*, <www.aec.gov.au/About_AEC/Media_releases/2008/01_09.htm> [accessed 28 October 2008].

⁵³ Ministerial Budget Statement, *Australia's International Development Assistance Program 2008–09*, 13 May 2008, pp. 6, 7, 31 and 32.

3.3 As noted in Chapter 2, while it was apparent that the former Government saw a need in establishing the Program, there was no supporting documentation available other than the Budget measure, and the arrangements to apply to the Program were not considered as an integral part of the Government decision. It was also not evident that consideration was given to whether the objectives of the Program could be better achieved through existing programs.

Funding for Program activities

3.4 Total funding available under the Program since its inception in 2005–06, to be divided equally for provision to each of the Liberal Party (on behalf of the Coalition) and the ALP, has been as follows:

- \$1 000 000 in 2005–06;⁵⁴
- \$2 000 000 in 2006–07;
- \$2 000 000 in 2007–08; and
- \$750 000 in 2008–09.

3.5 The Program guidelines set out in quite broad terms the types of activities that may be funded, as follows:

[Program] funding may be used to assist activities consistent with the Program's objectives, including:

- providing training, education and advice;
- supporting democratic activities and programs in overseas countries;
- providing assistance in the conduct of local, regional or national elections in overseas countries;
- supporting the involvement of Australia's political parties in international activities that promote the objectives of the Program, such as liaison with international organisations for the specific purpose of achieving the Program's objectives; and
- visits by Australian party officials (but not Australian Parliamentarians) to overseas countries or to support visits to Australia.

⁵⁴ As noted in Chapter 2, the Liberal Party did not apply for its full allocation of \$500 000 in 2005–06.

3.6 This has the result that there is considerable flexibility provided in terms of the specific projects or activities that may fall within the broadly expressed categories. In this respect, limits on the use of the grant funding are expressed in the Program guidelines for only two types of activities—administrative activities and travel arrangements. There are no limits expressed in the grant deed or Program guidelines in respect to other types of costs, such as consultant or contract fees.

3.7 Since the inception of the Program in 2005–06, total expenditure of \$3.02 million has been reported to Finance by the parties (64 per cent of the total funding of \$4.7 million paid). Of this amount, reports provided to Finance by the parties indicate that, in aggregate, those funds were spent as follows:

- 44 per cent on providing direct assistance to countries identified as priority regions for development assistance through Australia’s aid policy;⁵⁵
- 36 per cent on activities relating to other countries such as the United Kingdom and the United States of America, or non-country specific activities; and
- 20 per cent on administrative costs and subscriptions to international organisations.

3.8 Table 3.1 shows the breakdown of these reported costs by financial year and grant recipient.

⁵⁵ The primary objective of the Program is to ‘strengthen democracy internationally’. However, the Australian Government’s foreign aid policy sets out the priority regions in which Official Development Assistance (including for strengthening governance) is to be provided.

Table 3.1**Breakdown of grant expenditure 2005–06 to 2007–08**

Year	Party	Reported Expenditure (\$)			
		Priority regions	Other regions ¹	Admin & subscriptions	Total
2005–06	ALP	88 075	71 245	19 318	178 638
	Liberal	553	74 994	12 924	88 471
2006–07	ALP	274 981	444 634	204 122	923 737
	Liberal	268 285	64 473	80 564	413 322
2007–08	ALP	573 144	251 366	170 207	994 717
	Liberal	119 865	175 370	127 954	423 189
Totals		1 324 903	1 082 082	615 089	3 022 074
Note 1: Includes non-country specific activities, including conferences, lectures and program development activities.					

Source: ANAO analysis of Finance records.

3.9 As indicated in Table 3.1, not all of the Program funding is provided for use by the parties in contributing to the achievement of the Program's objectives. Specifically, the Program guidelines make provision for the parties to charge administrative costs to the Program, as follows:

No more than fifteen percent (15 per cent) of the grant funding (excluding interest earned) provided to grant recipients under the program may be used to fund incremental administrative expenses associated with the program, such as audit fees, office costs (including telephone expenses and stationery) and staff expenses. Corporate overheads (such as building rental and IT infrastructure costs) should not be included.⁵⁶

3.10 The limit on administrative costs applies to the amount of funding provided to the grant recipients, and not the amount of funding spent by the parties in the year. This means that, with \$1 million in funding available to each party in each year, each party can charge up to \$150 000 in administrative costs, irrespective of how much is spent on Program activities. In addition, where a party has received approval to carry over grant funds from a previous financial year, the 15 per cent limit applies to the total amount of funding

⁵⁶ On 26 March 2006, the then Finance Minister approved the Program guidelines, with some amendments to the version put to him by Finance. One of these amendments was to increase the administrative costs limit from 10 per cent to 15 per cent.

available, which means that an amount greater than \$150 000 can be charged to the Program in the latter year for administrative costs.

3.11 While the Program guidelines provide for an upper limit of 15 per cent of the grant funding provided to be spent on administrative costs, the costs reported to Finance by each party as relating to administrative activities for the period between 2005–06 and 2007–08 have been less than the full 15 per cent allowed. However, ANAO’s examination of the acquittal reports provided to Finance by the parties has shown that, in some instances, there were costs reported as being project costs which should instead have been classified as administrative costs. While these additional administrative costs did not result in the 15 per cent limit being exceeded, Finance has not had processes in place to ensure that administrative costs are within the amount allowed by the Program guidelines.

Purposes of funding

3.12 ANAO’s Better Practice Guide—*Administration of Grants* states that, as a minimum, a grant application form should seek to establish:⁵⁷

- organisational credentials, including contact details;
- project details, including, among other things, the purpose and rationale for the project, the relationship to program objectives and the expected benefits of the proposed activities; and
- project financial details, including, among other things, a budget or proposed annual expenditure statement.

3.13 Information on the purposes for which funds are planned to be spent, including how these purposes promote the aims and objectives of the Program, as is required by the Program application form, is important for the sound administration by Finance of the Program funding. Amongst other things, as was reflected by Finance in advice to the then Finance Minister:

- in exercising a delegation under the *Financial Management and Accountability Act 1997* to approve funds, the approving officer in Finance needs to be informed of the general nature of how the grant funds are planned to be spent; and

⁵⁷ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, pp. 40–41.

- sound processes prior to funding approval are a necessary prerequisite for effective acquittal of the use of funds.

3.14 In applying for funding under the Program each year, each party is required, through the grant application form, to provide Finance with details of:

- the purposes for which funds are planned to be spent in the year, including how those purposes promote the aims and objectives of the Program; and
- the non-government organisations with which the party has an established international affiliation and which will be funded under, or assisted by, the Program.

3.15 The extent of the information provided to Finance through the application forms has varied between the two parties. Specifically, in each year from 2005–06 to 2008–09:

- the ALP has provided in its application form a list of particular activities or projects to be undertaken using grant funds, including brief details of the specific nature of each activity or project; and
- the Liberal Party has provided in its application form a list of more broadly stated activities that are intended to be funded. From 2006–07 to 2008–09, the list provided was qualified as not being an inclusive list of all projects that may be undertaken.

Retrospective funding and cost shifting

3.16 It is accepted better practice for funding under a grants program to not be approved retrospectively,⁵⁸ or to duplicate existing funding sources. In this latter respect, the Program guidelines provide an effective distinction between travel by Parliamentarians (which are not eligible for Program funding⁵⁹) and visits by Australian party officials to overseas countries or to support visits to Australia.

⁵⁸ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 32.

⁵⁹ The guidelines note that Australian Parliamentarians have access to other forms of funding for travel purposes such as the overseas study entitlement and Parliamentary delegation travel. In 2001–02, the ANAO conducted a performance audit of Parliamentarians' entitlements (ANAO Audit Report No. 5 2001–2002, *Parliamentarians' Entitlements: 1999–2000*, Canberra, 7 August 2001). The ANAO is currently conducting a second performance audit of Parliamentarians' entitlements.

Retrospective costs

3.17 Some Australian Government grants programs have included an explicit condition that funding will not be approved retrospectively. For example, the Regional Partnerships Program guidelines stated that:⁶⁰

Projects can not be funded retrospectively...

Retrospective costs [are] any project costs incurred prior to a funding decision. Applicants should not commit to, or incur, any expenditure on a project prior to a project being approved.

3.18 By way of comparison, the Program guidelines do not contain any guidance in respect of retrospective funding of activities. The grant deeds state that:

The Grant Period commences when this deed is signed by the last party and ends on 30 June [of the relevant financial year].

3.19 However, ANAO's examination of Finance records showed that, in each year in which a grant deed has been signed between Finance and each of the two political parties, Finance has permitted the parties to charge costs to the Program in respect of a grant period other than that as defined in the grant deed. As a result of the terms of the grant deeds not expressly requiring the grant funding to be spent by the parties within the grant period, together with Finance's confirmation to the ALP of an extension to the grant period for 2005–06,⁶¹ each of the parties was permitted by Finance to charge costs to the Program in 2005–06 which related to activities that had been undertaken not only prior to a grant deed being signed, but almost six months prior to the Program documentation having been approved by the then Prime Minister. In addition, notwithstanding legal advice to Finance that it was appropriate to modify any future versions of the grant deed to be signed with the parties to require funding to be spent only within the grant period, no variation to the terms of the deeds was made by Finance for any subsequent year.

3.20 In this respect, the 2006–07 acquittal documentation provided to Finance showed that both parties had charged costs to the Program relating to

⁶⁰ Department of Transport and Regional Services, *Regional Partnerships Guidelines*, Canberra, July 2006, pp. 20 and 22.

⁶¹ Finance advised ANAO that the Liberal Party had not been advised in writing of the extension to the grant period for 2005–06, as they did not request such advice. Nonetheless, the Liberal Party's acquittal documentation showed that costs were charged in respect of projects undertaken in the period from 1 January 2006.

activities undertaken across the whole financial year, despite the grant period as defined in the grant deed being a lesser time period. Further, for 2007–08, the information provided to Finance by the ALP in support of its capacity to spend the full amount of new funding and rolled over funding before the end of the 2007–08 financial year (see paragraph 2.36) clearly showed that the grant funding would be used to fund projects undertaken well before the grant deed for that year had been signed.

Existing activities

3.21 The Program administrative arrangements also do not address the extent to which existing activities of the parties are eligible to be funded by the Program. Where these activities are funded by the Program, it represents cost shifting, in that Program funds are being used in place of party funds to finance an existing activity or obligation. Other Australian Government grant programs have explicitly addressed the issue of cost shifting in their program guidelines. In addition, the ANAO *Administration of Grants* Better Practice Guide sets out a number of steps that can be taken to minimise opportunities for cost shifting in a grants program, which can include:⁶²

- specifying the types of payments or projects excluded from funding in any agreements between the funding recipient and the Australian Government; and
- seeking assurance that program funds sought will not be used to fund activities that would normally be funded by the grant recipient.

3.22 However, neither the Program guidelines nor the grant deeds signed between the Australian Government and each of the Liberal Party and the ALP each year address the issue of cost shifting. Finance advised ANAO in December 2008 that:

We have advised the parties that we intend to consider the issue of expenditure taking place within the grant period, and that the parties may wish to consider the perception of using funds provided under the Program in place of any party funds to finance an activity or obligation, going forward.

⁶² ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 9.

Recommendation No.3

3.23 ANAO *recommends* that the Department of Finance and Deregulation seek to have the Australian Political Parties for Democracy Program documentation amended to specify that funding is only available for the delivery of projects identified in the relevant grant deed, as well as incremental administrative costs that are directly related to these projects.

Finance response

3.24 Finance agreed to the recommendation and commented as follows:

In redeveloping the program guidelines and grant deeds, Finance will amend the documentation to specify that funding is only available for the delivery of projects identified in the relevant grant deed, as well as incremental administrative costs that are directly related to these projects.

Use of grant funding

3.25 As part of the assessment of the effectiveness of a grants program, it is important to examine the purposes to which grant funds have been put, and whether these purposes align with the overall objectives of the program and are achieving value-for-money. In December 2005, during the development of the Program administrative arrangements, the political parties advised Finance that it was unlikely that overseas organisations would be directly funded under the Program, but rather that the types of activities expected to be funded were:

- training and development of individuals in emerging democracies (for example, trips by Timorese to Australia to witness elections);
- joint projects with the United Kingdom and the United States;
- attendance at conferences; and
- costs of translation services.

3.26 As noted, the Program guidelines set out the types of activities that are eligible to be funded under the Program. The grant deeds signed each year provide that the grant funding must be spent only in accordance with the terms and conditions of the deed and the Program guidelines. In addition, the grant deed provides that, if, at any time, Finance forms the reasonable opinion

that any grant funds have been used, spent or committed by the grantee other than in accordance with the terms of the grant deed, Finance may require the grantee to repay those grant funds.

3.27 In applying for funding, the parties are also required to include a statement about the activities that will be funded throughout the year and how these activities promote the aims and objectives of the Program. Further, details of the projects that were undertaken in the year, including the outcomes achieved through the projects, are required to be reported by each party as part of the annual grant acquittal process. However, it was not evident that Finance, in finalising the acquittals received from the parties, assessed:

- the purposes for which the grant funding has been used;
- the extent to which those purposes were consistent with the nature of the eligible activities under the Program; or
- the extent to which the reported outcomes for the projects undertaken have contributed to the overall objectives of the Program.

Performance reporting

3.28 The foundation for agency accountability and transparency is performance information presented initially in an agency's Portfolio Budget Statements (PBSs), with results being reported later in Annual Reports.⁶³ As part of this framework, effectiveness indicators demonstrate the extent to which outputs and/or administered items make positive contributions to specified outcomes.⁶⁴ In addition, prior to 2008–09 agencies were required by guidelines issued by Finance to develop price, quantity and quality indicators for outputs to be reported in their PBSs and Annual Reports.⁶⁵

3.29 In the 2008–09 Budget Papers, significant changes were made to the way in which performance information was included in PBSs. Specifically:

- Output Groups were required to be more inclusive (encompassing departmental outputs as well as administered items and programs);

⁶³ ANAO Better Practice Guide—*Performance Information in Portfolio Budget Statements*, Canberra, May 2002, p. 1.

⁶⁴ *ibid*, p. 17.

⁶⁵ *ibid*, p.21.

- agencies were to report performance by Output Group by selecting (usually up to 12) key performance indicators per Output Group of activities (inclusive of administered items, outputs, special appropriations and in some instances special accounts); and
- measures of individual items' performance were expected to remain valuable to internal management but their inclusion in the PBS was to be weighed against their ability to demonstrate performance and results against Government outcomes.⁶⁶

3.30 Guidance to agencies from Finance was that indicators that demonstrate effectiveness of the Output Group's contributions to the relevant outcome were preferable in articulating agency performance.⁶⁷

3.31 Against this background, a performance measurement framework is essential for grant administrators to assess the effectiveness of the program.⁶⁸ In this respect, the ANAO Better Practice Guide—*Administration of Grants* states that:⁶⁹

The evaluation of individual grants is best achieved through robust performance management supported by a sound monitoring regime. Performance information, specified in funding agreements, should enable an assessment of the effectiveness, efficiency and appropriateness of the individual grant throughout the life of the grant. Monitoring throughout the life of the project should focus, to the extent possible, on the contribution to overall program objectives as well as the achievement of project specific goals. On completion or termination of a grant it should be evaluated in terms of the project specific and program related objectives.

Reporting of performance information for the Program

3.32 The Program is administered as part of Finance's Outcome 3, 'Efficiently Functioning Parliament'. Finance's *Corporate Plan 2006–07 to 2009–10* sets out a number of key performance areas, including objectives and targets, for each of its Outcomes. Table 3.2 shows the objective and target

⁶⁶ Department of Finance and Deregulation, *Portfolio Budget Statements Constructors Kit—Officer Instruction for producing Portfolio Budget Statements*, March 2008, pp. 28 and 35.

⁶⁷ Department of Finance and Deregulation, *Portfolio Budget Statements Constructors Kit—Officer Instruction for producing Portfolio Budget Statements*, March 2008, p. 35.

⁶⁸ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 25.

⁶⁹ ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, pp. 63–64.

included in the Corporate Plan for Outcome 3 which is relevant to the Program.

Table 3.2

Objective and Target: Finance's Corporate Plan 2006–07 to 2009–10

Outcome 3	Objective	Target
Efficiently Functioning Parliament	Effective administration of non-discretionary grants on behalf of the Department	Grants paid and acquitted in accordance with program guidelines and grant deeds

Source: Department of Finance and Deregulation, *Corporate Plan 2006–07 to 2009–10*.

3.33 While this key performance information is included in Finance's Corporate Plan, there has been no internal reporting in terms of the achievement of the objective.

3.34 In addition, there has not been any similar performance information reported in Finance's PBSs or Annual Reports. Reporting of the Program in these key accountability documents has been limited to:

- information on the funding available under the Program in the year (in PBSs); and
- broad information on the nature and operation of the Program, and the funding paid out under the Program in the year (in Annual Reports).

3.35 The Program guidelines, which form part of the grant deeds signed between Finance and each of the parties in each year of the Program, require that each party provides, as part of the acquittal of the grant funding provided in the year, a statement of the outcomes achieved for the projects funded by the Program. However, while the parties have reported basic outcomes information in their acquittal documentation, as discussed in Chapter 2, this information has often not been submitted to Finance in a timely manner. In addition, there have been no steps taken by Finance in relation to assessing the extent to which these reported outcomes have contributed to the overall objectives of the Program in finalising the acquittal processes for each grant.

Assessing program performance

3.36 A key factor in relation to the lack of performance reporting for the Program by Finance appears to be the extent to which Finance has the capacity to assess the extent to which the projects being funded under the Program have contributed to the broader objectives of the Program. That is, as a central

economic agency, Finance is not well-placed to determine whether, through the activities supported by the Program and undertaken by the two major Australian political parties, democracy has been strengthened internationally. Nonetheless, as the agency responsible for the administration of the Program, it is important that Finance ensures that sufficient information on the Program's performance is obtained in order to make an assessment of the extent to which funded activities are contributing to the Program objective, and whether the Program's administrative arrangements could be better tailored to assist in the achievement of that objective.

3.37 By way of comparison, AusAID's PBSs include the following performance target for the aid programs it administers:

75 per cent of activities receive a satisfactory quality rating.

3.38 The AusAID 2008–09 PBS stated that Australia's development assistance program is made up of over 1 000 different 'activities', a term which describes the individual components of the program such as projects and technical advisers. Activity quality is assessed through a quality reporting system, which rates activities on a six-point scale. Activities rated four or higher are considered satisfactory. Reporting against the achievement of the target set in the PBSs is included in AusAID's Annual Reports.⁷⁰

3.39 The performance of Australia's international development assistance program is also examined through annual reports of the Office of Development Effectiveness, the first of which was tabled on 20 March 2008. AusAID has also developed a new Performance Assessment and Evaluation Policy which incorporates annual performance reporting by country and by major sector; a strengthened activity reporting system that assesses the performance of individual development assistance activities at key points; and a more systematic approach to evaluation.⁷¹ Against this background, there would be benefit in Finance consulting with AusAID on the development of a robust approach to developing and publishing performance information on the Program. Finance advised ANAO in November 2008 that:

The ANAO has noted the constraints on implementing strong accountability measures at the Program's inception. Notwithstanding the difficulties

⁷⁰ See, for example, AusAID Annual Report 2006–07, p. 16.

⁷¹ Ministerial Budget Statement, *Australia's International Development Assistance Program 2008–09*, 13 May 2008, p. 8.

involved, Finance ensured that accountability arrangements were as robust as possible, and has endeavoured to monitor the provision of acquittal information in particular, to ensure that the parties provide a reasonable level of detail. However, Finance agrees that a greater level of reporting and transparency would be desirable, and notes this would be a decision for Government.

Recommendation No.4

3.40 ANAO *recommends* that the Department of Finance and Deregulation develop and publish performance information on the Australian Political Parties for Democracy Program.

Finance response

3.41 Finance agreed with qualification to the recommendation and commented as follows:

Finance supports the idea that additional information regarding the program be published, including copies of political parties' applications for funding and acquittal documentation. Publication of such information may encourage the political parties to seek value for money and better focus their activities under the program. However, as noted above, Finance is not well placed to develop key performance indicators against the stated objectives of the program—that is, whether democracy has been strengthened internationally.



Ian McPhee
Auditor-General

Canberra ACT
3 February 2009

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