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Australian National Audit Office

Performance Audit

Accounting for Aid – The Management of Funding to Non-Government Organisations – Follow Up Audit

Australian Agency for International Development (AusAID)

The Auditor-General Audit Report No.18

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Performance Audit

Accounting for Aid – The Management of Funding to Non-Government Organisations – Follow up Audit

Australian Agency for International Development (AusAID)

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
7 December 1998

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a follow-up performance audit of the Australian Agency for International Development (AusAID) in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Accounting for Aid — The Management of Funding to Non-Government Organisations*.

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

Yours sincerely

P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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Abbreviations

ACFOA	Australian Council for Overseas Aid — ACFOA is the NGO Peak Body
Activity	A defined set of aid actions which has identifiable objectives, a time frame and implementation plans. This term is used interchangeably by AusAID (and in this report) with 'project'.
Activity report	A report made by NGOs to AusAID providing information required for AusAID to account properly for the NGO funds. The report includes performance information against activity objectives.
AMS	Activity Management System — a management information system designed to provide AusAID with ready access to information essential for the management of aid activities.
ANAO	Australian National Audit Office
ANCP	AusAID/NGO Cooperation Program
APS	Australian Public Service
AusAID	Australian Agency for International Development
CDC	Committee for Development Cooperation — a joint AusAID/NGO advisory and consultative body.
NGO Grants Scheme	An AusAID funding scheme which funds aid activities only (or in some cases primarily) through Australian NGOs. AusAID uses this term interchangeably with 'grants program'.
EOL	Exchange of Letters — a key supplement to the NGO 'umbrella' contract designed to include details of implementation, accountability, funding, reporting and evaluation for a specific activity.
NGO	Non-Government Organisation
ODA	Official Development Assistance

Summary and Recommendations

Audit Summary

Introduction

1. This follow-up audit reports on the action taken by the Australian Agency for International Development (AusAID) in addressing the recommendations made in the ANAO audit report *The Management of Funding to Non-Government Organisations* (Report No.5 of 1996-97).

2. AusAID administers the bulk of Australia's Official Development Assistance (ODA). In 1998-99 the Australian Government will provide $1.48 billion in ODA, an increase of $50 million on 1997-98. Approximately $105 million of the ODA is expected to be channelled through Non-Government Organisations (NGOs) and volunteer programs, of which about $86 million will be through Australian NGOs. Typically, NGOs are formed as voluntary, not for profit organisations, independent of Government, with the principle aim of improving the circumstances and prospects of disadvantaged people. NGOs include a large and diverse range of community groups such as World Vision, the Salvation Army and CARE Australia, which have long played an important role in international and Australian society.

Previous reviews

3. A number of reviews concerning the relationship between AusAID and NGOs have been conducted by AusAID and other bodies in recent years. These include an internal review of the effectiveness of NGO programs in 1994-95, an independent review of the Australian overseas aid program in 1996-97 (the 'Simons Review') and an ANAO performance audit in 1996.

4. The reviews recognised that NGOs make a valuable contribution to the official aid program. However, they also highlighted the importance of strong accountability arrangements and consistent grants administration processes. Further, the Simons Review concluded that:

> *AusAID should focus on the special characteristics of NGOs which make them valuable partners, but it also needs to assess more rigorously NGO capabilities and evaluate their performance.*

The Government accepted the thrust of the Simons Review. The recommendations in the 1996 Audit Report therefore remain relevant to the management of NGO programs within AusAID.

The ANAO's 1996 performance audit

5. The ANAO audit on the management of funding to NGOs was reported in August 1996 (Audit Report No.5 *The Management of Funding to Non-Government Organisations*). The audit concluded that although AusAID's regime for the management of funding to NGOs was generally of a high standard, improvements could be made to the accountability and the management of funding to NGOs by:

- rationalising funding mechanisms;
- standardising and reducing the number of administrative guidelines;
- including indicators to measure the value for money individual projects provide in achieving the objectives of the grants schemes under which they are funded;
- including performance information in the design of future grants schemes;
- giving higher priority to improving contract monitoring; and
- providing additional training to relevant staff and NGOs, on the roles and obligations associated with grants administration, contract management and contractual responsibilities.

6. The ANAO made six recommendations, all agreed by AusAID.

Follow-up audit

7. Consistent with the ANAO's practices, and in response to a request from AusAID, a follow-up audit was conducted in the period May to November 1998 to assess the extent of implementation of recommendations of the 1996-97 audit, and whether the implementation of recommendations has effectively improved the management of funding to NGOs. In undertaking the audit, the ANAO examined AusAID's key funding accountability documentation, tested the revised accountability arrangements and consulted a number of key stakeholders, including NGO representatives. The audit criteria were informed by the *Administration of Grants* Better Practice Guide, developed by the ANAO.

Overall conclusion

8. AusAID has made considerable progress in implementing various reforms in response to the recommendations of the 1996 Audit Report (and a number of other inquiries, including the Simons Review of the overseas aid program). These reforms have the potential to substantially address the ANAO's concerns in the 1996 Audit Report regarding accountability and management of NGO funding. However, implementation of the reforms is not complete and in some areas has been inconsistent across

AusAID. This has affected AusAID's capacity to efficiently administer the NGO schemes and report on achievements and outcomes. Further progress is necessary to fully realise the desired improvements.

ANAO recommendations and AusAID response

9. The ANAO has made four further recommendations primarily aimed at refining or completing existing reforms. AusAID has agreed to all recommendations and has already commenced implementation of a number of these recommendations.

10. Responding to the proposed report, AusAID said:

> *In 1996 an audit of the management of funding to NGOs was undertaken by the ANAO. The 1996 Audit Report recommended a number of changes which could be made to improve accountability and the management of funding to NGOs. The Director General of AusAID requested that this performance audit follow-up be undertaken earlier than planned to ensure that the changes being implemented are proceeding appropriately.*
>
> *Implementing the reform agenda, and working with ANAO to assess AusAID's achievements against the reform process, has been a useful exercise for AusAID. Overall AusAID has made significant improvements in the way it manages these funds and in its general relationship with NGOs. AusAID is keen to make further progress and accepts the recommendations of the ANAO report.*

Key Findings

AusAID has rationalised funding mechanisms

11. The 1996 Audit Report recommended the rationalisation of funding arrangements, having identified some 34 schemes within the NGO grants program each with its own rules and funding mechanism. Reforms introduced by AusAID have reduced the number of individual schemes to twelve (mostly based on country programs), all now administered under the same funding arrangements.

12. A more rigorous and standardised approach has been adopted by AusAID for accrediting agencies prior to accessing funds through NGO schemes. Accreditation is a 'front end' process, based primarily on assessment of administration and management systems, and does not adequately take into account an NGO's record of performance in achieving activity goals. At the time of audit, only a small number of NGOs had completed the accreditation process — most were either in the process of accreditation, or awaiting accreditation — and the accreditation program was behind schedule. AusAID was not providing key decision-makers with information to manage and monitor the progress of NGO accreditation. The ANAO concludes that a review of the current arrangements is timely to ensure efficient implementation of the funding reforms. AusAID has advised that a review is currently being finalised.

AusAID has standardised administrative arrangements

13. The development of a 'Non-Government Organisation Package of Information' (NGOPI) has streamlined and standardised grants administration processes and is used by both AusAID and NGOs when accessing funds from the NGO schemes. The new guidelines have reduced the variation and nature of proposal presentation and reporting requirements and have reduced the administrative workloads of AusAID and NGOs. AusAID has commented that the NGOPI has been commended internationally. However, these benefits may be eroded if the NGOPI is not reviewed to take into account lessons learned since its introduction in November 1997, and to ensure the accuracy and completeness of the guidelines and accompanying material. AusAID has recently scheduled a review of the manual and allocated resources accordingly.

Value for money of individual activities is assessed when activity proposals are considered for funding

14. AusAID now undertakes an assessment of value for money of individual activities when activity proposals are considered for funding. The assessment is somewhat subjective, but some sections of AusAID have been trialing, since October 1997, a numerical rating system that focuses on the relative magnitude of the benefits of the activity. The approach offers a more objective and consistent methodology for assessing expected value for money of individual activities and the relative merit of proposals. Although the methodology has been used for almost twelve months, AusAID has yet to finalise and evaluate the trial. The ANAO considers the trial methodology should be evaluated as soon as possible, and implemented across the NGO schemes if appropriate. The ANAO also considers there is merit in validating the initial activity assessments (and hence, the appraisal methodology) through a comparison of expected benefits to the achieved outcomes of aid activities. AusAID has recently advised that an evaluation of the trial selection procedures will be completed shortly.

Performance information for activities is available, but not for the overall scheme

15. Individual activity proposals and reports now include performance information which is linked to project and scheme objectives prior to approval of funding. The standard proposal and reporting format contained within the NGOPI will strengthen performance information available to AusAID by containing both numerical and narrative comments. Nevertheless, there are some concerns about the quality of the performance information reported by NGOs and AusAID needs to work with NGOs to improve outcome data for the NGO schemes. AusAID has advised that it will analyse performance information as part of its continuous improvement regime.

16. AusAID has not yet implemented mechanisms to aggregate performance information on individual activities to permit reporting on the overall scheme performance or against Corporate Plan key result areas. Furthermore, the ANAO considers the current arrangements for the proposed scheme level indicators have marked limitations in addressing scheme level performance.

Contract monitoring needs to be further strengthened

17. Funding arrangements relying on 'front end' accreditation of NGOs, and standardised documentation, proposal appraisal criteria and contractual requirements have improved AusAID's capacity to monitor NGO activities and the NGO funding schemes. AusAID has established a sound risk management framework that recognises the limits of the accreditation process, but it has not been fully implemented. Contract monitoring processes have not been adjusted to compensate for the changes, weakening the integrity of the framework. Some sections have developed 'activity specific' risk management plans and tightened reporting requirements but this is not consistent across AusAID. AusAID has not provided staff with guidance on contract monitoring and there is evidence that, notwithstanding the improvements made by AusAID to NGO administrative arrangements, there are still weaknesses in AusAID's contract monitoring.

18. The ANAO considers that AusAID needs to further strengthen its contract management activities to provide appropriate assurance and accountability for the NGO funding schemes. The risk management framework identified in the NGOPI should be implemented in full or alternative procedures adopted. Standardisation of contract monitoring procedures would assist their consistent application. In addition, improvements to the Activity Management System (AMS) will increase the accuracy and completeness of the management data and promote its use as an effective management tool.

Additional training has been provided to AusAID and NGO staff

19. Training has been provided to AusAID staff and NGOs as recommended in the 1996 Audit Report. The training has generally been appropriate but has not consistently focused on the specific requirements of the NGO funding scheme. The ANAO considers training based on the NGOPI should continue to be provided to AusAID and NGOs, targeting areas identified as requiring improvement.

Recommendations

Set out below are the ANAO's recommendations arising from this report, with report paragraph references and AusAID's abbreviated responses. More detailed responses are shown in the body of the report. The recommendations are aimed at encouraging AusAID to complete the implementation of the NGO scheme reforms and to incorporate, as an integral part of a continuous improvement process, the lessons learned from the first accreditation cycle.

Recommendation No.1 Para 2.18

The ANAO recommends that AusAID review arrangements for the accreditation of NGOs as eligible to receive AusAID funding to ensure:

- all NGOs receiving funding have been assessed under the current accreditation procedures as soon as possible;
- adequate information is available to key decision-makers, including the Committee for Development cooperation, on the progress of NGO accreditation; and
- accreditation gives due consideration to an NGO's success in achieving activity outcomes.

AusAID response: Agreed

Recommendation No.2 Para 4.9

The ANAO recommends that AusAID:

- adopt an objective methodology for assessing the value for money of individual aid projects; and
- appraise activity outcomes against initial value for money assessments, to assist in verifying the effectiveness of the selection process.

AusAID response: Agreed

Recommendation No.3 Para 5.16

The ANAO recommends that AusAID:

- work with NGOs to improve the standard of performance information available to the NGO scheme, sufficient to assess achievements against individual activities. This may entail ongoing examination of proposals and reports, qualitative and quantitative assessment of performance information, appropriate training of AusAID and NGO staff and clearer specification of information requirements in the NGOPI and contracts; and
- develop performance measures — aggregating activity level information as appropriate — sufficient to assess overall NGO scheme performance and the efficiency of AusAID administration.

AusAID response: Agreed

Recommendation No.4 Para 6.24

The ANAO recommends that AusAID strengthen its NGO contract management activities through:

- consistent implementation of accepted risk management practices, for NGO schemes overall and individual aid activities;
- standardisation of contract monitoring procedures for NGO schemes, including the development of appropriate guidelines for staff; and
- improvements to the Activity Management System (AMS) and its use to increase data accuracy and completeness, and promote consistency of use.

AusAID response: Agreed

Audit Findings and Conclusions

1. Introduction

Background

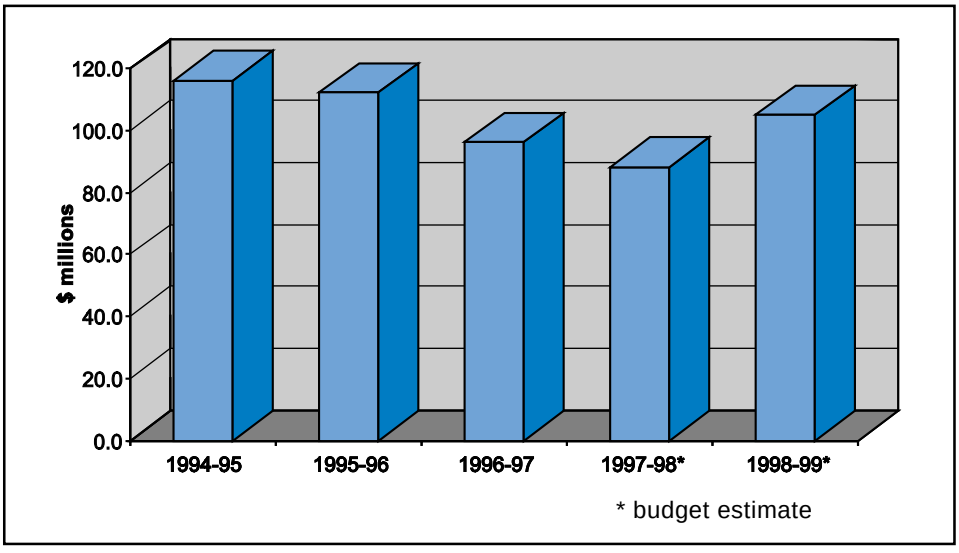
1.1 Australian Agency for International Development (AusAID) administers the bulk of Australia's Official Development Assistance (ODA). In 1998-99 the Australian Government will provide $1.48 billion in ODA, an increase of $50 million on 1997-98. Approximately $105 million of the ODA is expected to be channelled through Non-Government Organisations (NGOs) and volunteer programs, of which about $86 million will be through Australian NGOs.

1.2 Typically, NGOs are formed as voluntary, not for profit organisations, independent of Government, with the principle aim of improving the circumstances and prospects of disadvantaged people. NGOs include a large and diverse range of community groups such as World Vision, the Salvation Army and CARE Australia, which have long played an important role in international and Australian society.

1.3 Official aid delivered through NGOs over the last five years is shown at Figure 1.

Figure 1

Official aid delivered through Australian and Non-Australian NGOs 1994-95 to 1998-99.



1.4 A number of reviews relevant to the relationship between AusAID and NGOs have been conducted in recent years. These are:

- an AusAID review of the effectiveness of NGO programs in 1994-95;
- the ANAO's performance audit on the management of funding to Non-Government Organisations (NGOs) in 1996-97 (referred to as the 1996 Audit Report); and
- an independent review of the Australian overseas aid program (the 'Simons Review')[1] in 1996-97.

1.5 The reviews recognised that NGOs make a valuable contribution to the official aid program. However, they also highlighted the importance of strong accountability arrangements and consistent grants administration processes. Further, the Simons Review concluded that:

> *AusAID should focus on the special characteristics of NGOs which make them valuable partners, but it also needs to assess more rigorously NGO capabilities and evaluate their performance.*

The Government accepted the thrust of the Simons Review.[2] The recommendations in the 1996 Audit Report therefore remain relevant to the management of NGO programs within AusAID.

Overall findings of the 1996 Audit Report

1.6 The 1996 Audit Report concluded that although AusAID's regime for the management of funding to NGOs was generally of a high standard, accountability and management processes could be improved by:

- including performance information in the design of future grants schemes;
- standardising and reducing the number of administrative guidelines;
- rationalising funding mechanisms;
- giving higher priority to improving contract monitoring;
- providing additional training to relevant staff and NGOs, on the roles and obligations associated with grants administration, contract management and contractual responsibilities; and

---

1 *One Clear Objective, poverty reduction through sustainable development*, was the report of a Committee of Review chaired by Mr Paul Simons. The 'Simons Review' considered the overall priorities, objectives and focus of the aid program. The report was presented to the Minister for Foreign Affairs and Trade in April 1997.

2 The Government's response to the Committee of Review of Australia's Overseas Aid Program, *Better aid for a better future*, was presented to Parliament by the Minister in November 1997.

- including indicators to measure the value for money individual projects provide in achieving the objectives of the grants schemes under which they are funded.

1.7 The ANAO made six recommendations (see Appendix 1), all agreed by AusAID.

AusAID response to program reviews

1.8 In response to the recommendations of the program reviews, AusAID has implemented various reforms, endorsed by the Minister in January 1997, such as:

- introduction of common project and administrative arrangements for NGO schemes (generic scheme guidelines). An NGO Package of Information (NGOPI) was produced in November 1997, in consultation with the Australian Council for Overseas Aid (ACFOA);
- rationalisation of funding mechanisms including a revised accreditation process for all NGOs wishing to access AusAID funds through NGO schemes;
- inclusion of performance information in NGO project proposals and reports;
- aggregation of project performance information to enable an assessment of scheme performance;
- introduction of a standardised project proposal rating system to enable projects to be rated for 'value for money';
- implementation of the AusAID 'Activity Management System' (AMS) designed to improve contract monitoring and financial expenditure monitoring; and
- additional training to staff and NGOs on the roles and obligations associated with grants administration, contract management and contractual responsibilities.

Audit objective, scope and cost

1.9 The objective of this follow-up audit was to report on the action taken by AusAID in addressing the recommendations of the 1996 Audit Report. The follow up audit was conducted from May 1998 to November 1998. Field work was undertaken at AusAID's Central Office in Canberra and also involved discussions with NGOs and ACFOA, the NGOs' peak body. The follow-up audit was conducted in conformance with the ANAO auditing standards and cost approximately $85 000.

Follow-up audit criteria and methodology

1.10 The primary criterion for the follow-up audit was the implementation of the recommendations of the 1996 Audit Report, as informed by the ANAO's *Administration of Grants* Better Practice Guide.[3] The follow-up audit reviewed AusAID's implementation of the recommendations through an examination of key funding accountability documentation, evaluation of accountability arrangements against the Better Practice Guide, and testing of revised accountability arrangements.

Report Structure

1.11 The report has been structured to follow the basic steps in the administration of a grants program, as shown in Figure 2. These steps are described in more detail in the *Administration of Grants* Better Practice Guide, May 1997. Each chapter includes a brief summary of the relevant findings from the 1996 Audit Report and the relevant recommendation. This chapter has provided an overview of the audit and AusAID's management of NGOs. Chapter 2 covers funding mechanisms, including AusAID's revised process for accrediting NGOs and Chapter 3 discusses grants administration processes, in particular the guidelines and regulations used to govern funding. Chapter 4 considers AusAID's approach to assessing the value for money of activity proposals and Chapter 5 examines key performance indicators for grants schemes, at both the activity and scheme performance level. Chapters 6 and 7 cover contract monitoring by AusAID staff and training of AusAID and agency staff respectively.

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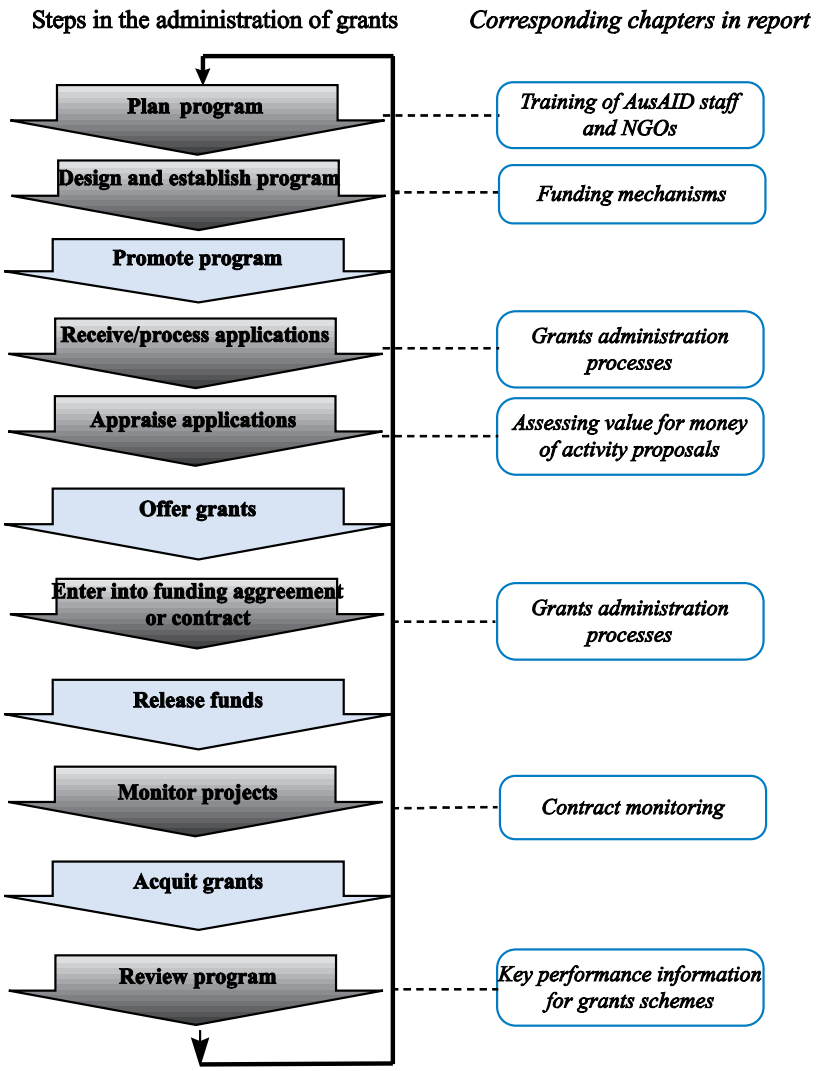
[3] *Administration of Grants* Better Practice Guide, Australian National Audit Office, May 1997

Figure 2

Steps in the administration of grants and corresponding chapters in the report



2. Funding Mechanisms

Findings of the 1996 Audit Report

There was a multiplicity of rules applying to AusAID grants programs under various funding arrangements. Some 34 schemes were identified with each grants program (or scheme) having its own funding mechanism. This resulted in considerable variation in funding criteria and guidelines, created confusion among NGOs and AusAID staff, and constituted a risk to good management. The audit recommended:

> *... that AusAID rationalise funding mechanisms by introducing a single approach to NGO funding, to be implemented in 1996-97.*

Implementation by AusAID

The NGO funding mechanism has been rationalised into a single, multi-level approach and the number of individual NGO schemes has been cut from 34 to 12 (mostly based on country programs). NGOs are required to be accredited to gain access to AusAID funds, but not all NGOs have been assessed against the new accreditation criteria.

Better practices

2.1 The ANAO Better Practice Guide states that 'umbrella contracts' may help streamline contractual and administrative procedures where many grants may be made to a few organisations. Further, a 'multilevel' approach is particularly relevant to the funding of established non-government organisations which are able to demonstrate a capacity to undertake proposed activities in a professionally competent manner.

Previous funding mechanisms

2.2 At the time of the 1996 Audit Report, the ANAO considered that the mix of rules applying to the various funding arrangements created a risk to good management in AusAID and NGOs. AusAID agreed that simplification was required, and had identified a preferred funding model based on the AusAID/NGO Cooperation Program (ANCP), which at the time had the most comprehensive funding eligibility criteria. To receive subsidies under the ANCP, NGOs were assessed through a formal entry (accreditation) process in accordance with guidelines outlined in the

Manual of Procedures. NGOs were then categorised into one of three levels: entry level, project (or 'activity') level, and program level. The accreditation level was based on an assessment by AusAID and the Committee for Development Cooperation[4] (CDC) of an NGO's capacity to undertake proposed activities in a professionally competent manner and efficiency and effectiveness in managing a complex program. Accreditation affected an NGO's autonomy and funding arrangements.

Reformed funding mechanisms

2.3 Reforms introduced by AusAID have reduced the number of individual NGO schemes to twelve (mostly based on country programs), all now administered under the same funding mechanism. The funding arrangements are outlined in the NGO Package of Information (NGOPI), which is available to AusAID and NGO staff.

2.4 The new funding mechanism requires all NGOs to be accredited before they are eligible to receive funding through an NGO scheme. The NGOPI states that AusAID will fund NGOs:

> *capable of showing they can competently and independently appraise, manage and report on developmental activities. The aim is to achieve accountable use of funding with minimal activity overview by AusAID.*

The new accreditation process is more rigorous than previous procedures, but it has also been rationalised, now involving two levels: base accreditation and full accreditation. NGOs may request to be considered for either base or full accreditation.

2.5 Accreditation is now more consultative, featuring a joint AusAID/NGO desk assessment of the NGO's operations, systems and capacities based on a profile submitted by the NGO. An organisational review is conducted in Australia to establish agency performance and capacity in terms of management, administration, financial and technical operations relevant to AusAID NGO schemes. The review also gives the NGO an opportunity to discuss the preliminary assessment and provide further information and comment. If in-Australia operations are satisfactory, and the NGO has requested full accreditation, the review team will also visit the NGO's activities in one of its countries of operation. The CDC considers organisation review reports before the AusAID delegate makes a final accreditation decision.

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[4] The CDC is a joint advisory and consultative body, made up of representatives from AusAID and NGOs, and representatives from ACFOA and DFAT as observers at CDC meetings. The CDC plays a key role in advising on policy and practice relevant to the management of NGO schemes, including accreditation procedures.

2.6 Importantly, the new accreditation process includes a financial systems assessment by an external auditor, to provide an independent third party opinion on an NGO's financial system, and establish that an NGO has 'necessary and sufficient' financial and management systems to be accountable for Commonwealth funds.

2.7 As with the previous arrangements, the level of accreditation affects the NGO's autonomy and funding entitlements. For example, full accreditation may allow an NGO a higher level of funding than base accreditation, with the discretion to administer the funds as a 'program' rather than as specific, individual projects.

The number of accredited NGOs has decreased

2.8 AusAID expected the more rigorous accreditation process to generate administrative efficiencies for AusAID and improved aid outcomes. One result has been a reduction in the number of accredited NGOs. Since its introduction, accredited NGOs have dropped from 93 to 68 and further decreases may result as more NGOs progress through the assessment cycle. Tables 1 and 2 show the accreditation status for NGOs as at July 1998.

Table 1

Base accreditation status for NGOs as at July 1998.

Base Accreditation Status	Number of NGOs
Base accredited under new arrangements	9
Being accredited, accredited under previous arrangements, or on hold (e.g. awaiting working group outcome on development/evangelism)	29
Failed accreditation or accreditation currently not recommended	9
Withdrawn	16
Total	**63**

Table 2

Full accreditation status for NGOs as at July 1998.

Full Accreditation Status	Number of NGOs
Fully accredited under new arrangements	7
Being accredited or accredited under previous arrangements	23
Failed accreditation	0
Withdrawn	0
Total	**30**

Note: Some NGOs applying for full accreditation have been accredited at the base level.

2.9 NGOs accredited at base level may apply for full accreditation two years from the date of commencement of the previous accreditation process. NGOs that fail accreditation can reapply on the same basis. NGOs that withdraw from the accreditation process may reapply for accreditation at any time and will be reviewed when resources permit. Some NGOs that have failed accreditation under the new arrangements, or have withdrawn their application for accreditation, are still completing AusAID projects funded under previous arrangements. Upon project completion these NGOs will not be eligible for further funding.

The accreditation program is behind schedule

2.10 An NGO's accreditation status is valid for a period of five years from the date the accreditation review began. AusAID has developed an accreditation plan, based on this five-year cycle, to help manage the review of NGOs. Although the new accreditation arrangements came into affect from November 1997 (when the NGOPI was released), NGOs accredited under the previous arrangements will not be reviewed against the new criteria until their scheduled review, five years from the start of the previous accreditation process. As shown in Tables 1 and 2, by July 1998 only a small number of NGOs had been accredited under the new arrangements; the majority were either in the process of accreditation, or accredited under the previous arrangements. In response to the proposed report AusAID said that, under the new accreditation process, it was intended to first assess those NGOs identified as being of higher risk. Of the 70 NGOs so identified, accreditation reviews for 57 had been completed by 23 October 1998, including all of the higher risk bodies seeking full accreditation status.

2.11 The ANAO compared the NGO accreditation plan with current progress and found the program behind schedule; during the two years 1996-97 and 1997-98 AusAID commenced 36 of 43 programmed accreditation assessments. Given the accountability benefits of the more rigorous accreditation criteria, the ANAO considers that AusAID and NGOs would benefit from the accreditation process being completed in a timely manner.

2.12 However, AusAID is not providing the CDC, which makes a final recommendation on accreditation, with sufficient information to monitor the progress of NGO accreditation. This inhibits the ability of the Committee, and AusAID, to manage the accreditation arrangements (including the resourcing and timing of accreditation reviews), and potentially lessens the gains from the funding reforms. AusAID's management and monitoring of NGO accreditation could be improved by providing key decision-makers and the CDC advisory body, with regular

progress reporting against the accreditation program which shows the stage of the accreditation process for each NGO within the system and the duration and causes of any delays.

A review of the accreditation arrangements is timely

2.13 At the time of audit, AusAID had not undertaken any review of the new accreditation arrangements. The ANAO considers that, as a key component of a continuous improvement regime, and recognising the risks inherent in introducing significant change in any program, AusAID should periodically review the arrangements to identify areas for improvement. Such a review would now be timely, having regard to the significance of the accreditation process in the new management arrangements and given the experience of reviewing a number of NGOs under the new arrangements. AusAID has advised that a consultant has been engaged to conduct a review.

2.14 The ANAO notes that accreditation is based on an assessment of the NGO's capacity to manage and report on aid activities, but at present does not overtly consider success in achieving activity outcomes. Some AusAID staff expressed concern the accreditation process is primarily an assessment of administration and management systems, with insufficient emphasis on project outcomes. The ANAO considers that an NGO's record of performance is an appropriate consideration during accreditation and any review of the accreditation arrangements should include the feasibility of incorporating activity outcomes in the process.

Conclusions

2.15 Reforms introduced by AusAID since the 1996 Audit Report have rationalised the NGO funding mechanism into a single, multi-level approach. AusAID has also reduced the number of individual NGO schemes from 34 to 12 (mostly based on country programs). The new funding mechanism has introduced revised accreditation arrangements for NGOs seeking AusAID funding that are simpler to administer, but also more rigorous than previous arrangements.

2.16 The new accreditation arrangements are a 'front end' assessment that offers AusAID confidence that NGOs have appropriate management and administrative capacity to promote the accountable use of Commonwealth funds. The arrangements are accompanied by risk management initiatives that focus on industry self-management and regulation to ensure satisfactory achievement of program goals, which are discussed in Chapter 6 of the report.

2.17 The ANAO notes that efficiencies have been achieved through, for example, a reduction in the number of accredited NGOs. However, at the time of audit the accreditation program was behind schedule, placing at risk the benefits of the more rigorous accreditation criteria. In addition, AusAID was not providing key decision-makers with information sufficient to monitor progress against the program. Further, the current accreditation arrangements do not adequately take into account an NGO's record of performance in achieving activity goals. The ANAO concludes that a review of the current arrangements is timely to ensure efficient implementation of the funding reforms.

2.18 In responding to the proposed report AusAID generally accepted the ANAO's comments and recognised the issues raised. As indicated in the response to the ANAO's recommendation, AusAID has already taken action to progress these issues.

Recommendation No.1

2.19 The ANAO recommends that AusAID review arrangements for the accreditation of NGOs as eligible to receive AusAID funding to ensure:

- all NGOs receiving funding have been assessed under the current accreditation procedures as soon as possible;
- adequate information is available to key decision-makers, including the Committee for Development Cooperation, on the progress of NGO accreditation; and
- accreditation gives due consideration to an NGO's success in achieving activity outcomes.

AusAID response:

2.20 AusAID agreed to this recommendation and made the following comments:

- the number of organisations that have completed the accreditation process has increased significantly to 78 per cent of targeted organisations. With the creation of a team working specifically on accreditation within the NGO Section, more resources are being allocated to ensuring the continued progress of the accreditation process;
- a 'progress table' detailing the accreditation status of all organisations within the program has been made available to key decision-makers within AusAID, as well as the CDC. While AusAID recognises the importance of keeping the CDC up-to-date on the progress of NGO accreditation, key decisions regarding accreditation do not lie with the CDC. The CDC is an advisory body and members have indicated that the progress table meets their needs to fulfil this role; and

- the capacity for the accreditation process to incorporate the success of the NGO in activity delivery will be considered in the wider review of the process. However, while modifications consistent with current guidelines can be made, to ensure consistency across agencies reviewed, no substantial change can be made to the accreditation system until the current round is completed. Changes will be adopted and promulgated as part of the NGOPI revisions.

3. Grants Administration Processes

Findings of the 1996 Audit Report

Widespread deficiencies in the application of administrative rules arose from the number of different sets of rules that had been developed for the numerous grants schemes. The audit recommended:

> *... that AusAID give priority to its current efforts to streamline and standardise grants administration processes. A simplified model should be implemented in 1996-97.*

Implementation by AusAID

AusAID has developed standard, generic guidelines, for use by AusAID and NGO staff, covering all NGO schemes, described in the Non-Government Organisation Package of Information (NGOPI).

Better practices

3.1 The ANAO Better Practice Guide emphasises that care should be taken to ensure that the rules of a grants program:

- are simply expressed and clear in their intent;
- are effectively communicated to all stakeholders;
- are consistent with, and promote, program and departmental objectives;
- contain necessary assurance controls; and
- include provision for regular monitoring and evaluation.

Administration processes

3.2 AusAID has made good progress in streamlining and standardising NGO grants administration processes, reducing the number of individual NGO schemes by nearly two thirds. 'Program rules' are contained in the NGOPI, which was developed by AusAID in consultation with NGOs, to provide a comprehensive and standard set of guidelines for use by AusAID and NGO staff. The NGOPI was released formally in November 1997.

Administration has been simplified and standardised

3.3 In response to the 1996 Audit Report and other reviews, AusAID has introduced generic scheme guidelines and other business process improvements such as an 'umbrella' contract, and standard formats (presentation and content) for activity proposals, activity reports and financial acquittals. These materials are included in the NGOPI. AusAID and NGO staff have indicated that the streamlining and standardisation of grants administration processes has resulted in less confusion and a reduction in the time to process proposals and reports. In addition, the standardisation of guidelines has made transition easier for AusAID staff moving between sections.

3.4 The ANAO examined a selection of proposals operating under the new arrangements and found that all were submitted in accordance with the new standard activity proposal format. This suggests an improvement since the 1996 Audit Report which found that NGOs, as a group, were not as assiduous as they should be in their contract management.

The NGOPI requires review to ensure accuracy and completeness

3.5 The ANAO found that the NGOPI contains inaccurate and incomplete information. For example:

- the timing for signing key contract documentation is internally inconsistent;
- the procedure detailing how activities are selected, which would address significant transparency issues raised by NGOs, has not yet been developed;
- reference is made to previous schemes and guidelines which can be no longer used for new activities; and
- cross referencing is inaccurate.

3.6 The NGOPI is the most critical document in AusAID's NGO grants administration process and is used by internal and external stakeholders. The ANAO therefore considers that high priority should be given to ensure its completeness and accuracy and to introduce improvements evident as a result of its use. References to previous schemes and guidelines within the NGOPI should include qualification that they are only to be used by NGOs conducting activities previously funded under those arrangements, and should be removed when all activities funded under those arrangements have been completed.

3.7 The ANAO noted that resource constraints have inhibited AusAID's capacity to maintain the NGOPI, including coordinating changes or comments. The ANAO considers that to capitalise on the valuable work undertaken in developing the NGOPI AusAID should ensure it is accurate and complete. A revision of the NGOPI has been scheduled to take place in November 1998, to be coupled with an evaluation of the manual by NGOs and AusAID. In response to the proposed report AusAID advised that resources have now been allocated in recognition of the need to review and improve the NGOPI. Key stakeholders, including AusAID staff and NGOs will have the opportunity to contribute to the evaluation. AusAID also commented that, notwithstanding the need for improvement, the NGOPI has recently been commended by both a representative from an international NGO and the Deputy Director of the Commonwealth Foundation, both of whom have wide-ranging experience with donors internationally.

Conclusions

3.8 The implementation of standardised, generic scheme guidelines (described in the NGO *Package of Information*) has addressed many of the concerns of the 1996 Audit Report. The new guidelines have reduced the variation and nature of proposal presentation and reporting requirements and have reduced the administrative workloads of AusAID and NGOs.

3.9 However, these benefits may be eroded if the NGOPI is not reviewed to take into account lessons learned since its introduction, and to ensure the accuracy and completeness of the guidelines and accompanying material. AusAID has recently scheduled a review of the manual and allocated resources accordingly.

4. Assessing Value for Money of Activity Proposals

Findings of the 1996 Audit Report

In appraising proposed activities it was difficult for AusAID to assess their relative value for money in terms of achieving objectives of grants schemes, because of the absence of structured selection criteria and performance measures. The audit recommended:

> *... that AusAID examine the scope for including indicators to measure the value for money individual projects provide in achieving the objectives of the grants schemes under which they are funded. These should be incorporated in the associated documentation when new schemes are designed.*

Implementation by AusAID

AusAID has included an assessment of value for money for individual activities when proposals are considered for funding. A trial of a numerical rating system, which would improve the objectivity and consistency of the assessment, has not been finalised.

Better practices

4.1 The ANAO Better Practice Guide emphasises the importance of ensuring an applicant's proposals are consistent with the overall objectives of the program and satisfy the main appraisal criteria. In assessing how far a program yields benefits above those that would have occurred without the program it is often useful to examine a carefully structured sample of completed projects to establish whether:

- the project would have gone ahead on the same scale and at the same time, without a grant;
- the expectations underlying the justification for the decisions have been realised; or
- whether the benefits from the assisted project will be sustained for the foreseeable future, or whether further assistance may be required.

Appraising funding proposals

4.2 Following the 1996 Audit Report there was broad recognition between AusAID and ACFOA that a transparent process should be applied across selection rounds when appraising funding proposals. AusAID has advised that proposals are broadly assessed according to expected benefits, quality of design in meeting scheme goals and value for money. The NGOPI discusses issues of importance in AusAID's consideration of activity proposals including relevant criteria (although, as noted at 3.5, the procedures covering activity selection have not yet been developed).

Procedures for assessing value for money are being trialed

4.3 The 1996 Audit Report noted the difficulties of assessing the economy and value for money in the delivery of aid objectives, largely because of the absence of performance measures at this level. Nevertheless, AusAID agreed to develop appropriate performance indicators for each NGO funding scheme and to periodically validate the indicators. Since October 1997 AusAID (in consultation with ACFOA) has been trialing a procedure which offers a standard numerical system for ranking individual activity proposals according to the likelihood and magnitude of project benefits, focussing attention on value for money issues and not just on design quality. The numerical ranking is used during the appraisal of funding proposals.

4.4 However, the use of the numerical scale for ranking activity proposals is not standard across AusAID. For example, ANCP proposals are not assessed for value for money using the new rating system although it was intended that ANCP would participate in the trial. There is some potential, therefore, for inconsistency in the ranking and selection of proposals for funding submitted by NGOs.

4.5 At the time of audit, AusAID had not completed the trial of the numerical rating system or taken any steps to analyse the impact of the approach. Staff were unsure about the status of the methodology, and this led to some confusion and a lack of transparency in the activity selection procedure, compounded by the absence of information in the NGOPI on activity selection procedures. AusAID has recently advised that an evaluation of the trial selection procedures will be completed shortly.

4.6 As AusAID intends to use the assessment of value for money as a means of ranking funding proposals, the ANAO considers there is benefit in ensuring the rating methodology satisfactorily forecasts activity performance. That is, the ANAO considers that AusAID should endeavour to validate the assessment methodology by comparing the expected benefits

and value for money rating given to a proposal when assessed for selection purposes and the actual outcome of that activity. (Performance information on completed aid activities is discussed in the following chapter.)

Conclusions

4.7 In response to the 1996 Audit Report AusAID has included an assessment of value for money of individual activities when activity proposals are considered for funding. The current assessment methodology is somewhat subjective, but some sections of AusAID are trialing a numerical rating system that focuses on the relative magnitude of the benefits of the activity. The ANAO considers that such an approach offers a more objective and consistent methodology for assessing expected value for money of individual activities and the relative merit of proposals and will enhance the gains from the reforms. Although the methodology has been used for almost twelve months, AusAID has yet to finalise and evaluate the trial. The ANAO considers that AusAID should finalise matters and adopt a uniform objective methodology for assessing the value for money of individual aid projects to provide assurance to NGOs of the transparency of selection procedures.

4.8 The ANAO also considers there is merit in validating the initial activity assessments (and hence, the appraisal methodology) through a comparison of expected benefits to the achieved outcomes of aid activities.

Recommendation No.2

4.9 The ANAO recommends that AusAID:

- adopt an objective methodology for assessing the value for money of individual aid projects; and
- appraise activity outcomes against initial value for money assessments, to assist in verifying the effectiveness of the selection process.

AusAID response

4.10 AusAID agreed to this recommendation and made the following comments:

- the methodology for assessing the value for the money of individual projects has been reviewed and updated. The evaluation of the methodology yielded positive results and suggestions for improvement; and
- the value of comparing expected benefits with achieved outcomes of aid activities is recognised by AusAID. Desk assessments are being done as project reports are submitted.

5. Key Performance Indicators for Grants Schemes

Findings of the 1996 audit report

At the level of individual activity applications, most of the guidelines examined required NGOs to assess outputs or projected impacts. Performance measures were often contained implicitly in the eligibility and assessment criteria for different grants programs. However, AusAID had not extrapolated specified activity level performance indicators into indicators for grants schemes as a whole, which would assist management and Government assessment of the effectiveness of the schemes in meeting AusAID's broader policy goals. The audit recommended:

> *... that a suitably balanced set of performance indicators be included in the design of future grants schemes.*

Implementation by AusAID

Individual activity proposals and reports now include performance information which are linked to project and scheme objectives prior to approval of funding. AusAID has not yet implemented mechanisms to aggregate performance information on individual activities to permit reporting on the overall scheme performance or against Corporate Plan key result areas. Furthermore the ANAO considers the current arrangements for the proposed scheme level indicators have marked limitations in addressing scheme level performance.

Better practices

5.1 The ANAO Better Practice Guide advises that a performance measurement framework is essential for program managers to assess the effectiveness of programs. As performance measurement is a key component of planning, measures should be established before commencing a project and reflected in contractual arrangements. The funding recipient should report to the funding agency in a timely manner against performance measures, with sufficient explanation and comparisons against targets and benchmarks.

5.2 Performance measures in use should:

- directly relate to clearly stated objectives and strategies;
- reflect a manageable number of items of key information which focus on economy, efficiency and effectiveness;
- be balanced in relation to the use of inputs and achievement of outputs and outcomes; and
- use a mix, as necessary, of qualitative and quantitative information.

Performance information in activity proposals and reports

5.3 As discussed in Chapter 4, AusAID now requires NGOs to include in their funding proposals major activity outputs and performance indicators for each output. NGOs are required to report against these outputs/performance measures in their activity reports to AusAID using a standard indicator that seeks to measure, in a consistent manner, the extent to which the objectives for individual activities have been achieved. The assessment scale is included in the NGOPI. This is an improvement from previous practices when some guidelines, for example those relevant to the Philippines Australia NGO Program, did not require performance indicators to be included.

5.4 Performance measures included by NGOs in funding proposals are not specified but must be related to activity objectives, which in turn must be related to higher level goals of the NGO scheme. Proposals containing objectives which do not relate to the scheme goals are not considered for funding. Where possible, NGOs are asked to include quantifiable performance information in proposals and activity reports. Qualitative information should be included as a narrative. NGOs are required to report against the performance measures in each subsequent activity report.

Performance information reported by NGOs can be improved

5.5 The ANAO reviewed a selection of activity proposals and found that performance measures are now regularly established prior to commencement of a project. A selection of activity reports were also examined and showed that NGOs were generally reporting both the numerical rating and narrative descriptions for performance information. However, the ANAO noted that the substance of narrative descriptions varied significantly, ranging from broad one-sentence statements to very comprehensive analyses.

5.6 An ANAO analysis of NGO activity reports showed that of 130 reports received between January and May 1998, 46 (35 per cent) were considered unsatisfactory by AusAID, some because performance information was inadequate. Of the 38 reports for ANCP funded activities received in the same period, six (16 per cent) were rejected by AusAID because of inadequate performance information. Unsatisfactory reports are returned to NGOs with a request to provide more appropriate information.

5.7 At the time of the audit AusAID was not routinely collecting and analysing the adequacy of NGO reporting against objectives, including the quality and usefulness of performance information. Sound reporting of performance against individual grant objectives and strategies and agreed performance measures is a fundamental component of the accountability and governance of any grants program. Analysis of performance reporting is an important feature of this accountability process and essential for continuous improvement. AusAID has advised that this ongoing analysis will now be undertaken and information fed back to AusAID and NGOs to ensure the continuous improvement of the NGO schemes.

Performance information on overall scheme performance

5.8 AusAID announced in the NGOPI that it intended to aggregate project level monitoring data to assess overall NGO scheme performance against:

- outputs (measured in terms of the percentage and value of activities, and the extent to which objectives are met); and
- management efficiency (measured in terms of the percentage and value of project reports and acquittals received by their due date and the percentage and value of project reports and acquittals where AusAID has notified the NGO of acceptance within 28 days of receipt, or provided reasons for non-acceptance).

AusAID is not yet reporting on overall scheme performance

5.9 AusAID has yet to implement the mechanisms necessary to collect the scheme level performance information. AusAID concluded recently that the means to aggregate NGO self-assessments and AusAID management information data could be incorporated into the Activity Management System (AMS) by around March 1999. This will be approximately 18 months after the introduction of the NGOPI. The ANAO considers that it would have been desirable for AusAID to have given earlier attention to the development of mechanisms to collect and analyse this

performance information. This would have ensured that planned performance reporting arrangements were effective and timely as soon as possible after implementation of the NGO reforms. For example, while final reports from the first round of projects are not all due in until October 1999, some are already available.

5.10 The ANAO considers there are a number of challenges for AusAID to address if the performance information is to provide a sufficient reflection of scheme performance. In particular:

- careful definition of the activities to be included is necessary (for example, whether activities will be selected by financial year or calendar year) to ensure the information will be representative of the schemes;
- the indicator 'percentage and value of project reports and acquittals received by due date' is likely to be adversely influenced by inaccurate and incomplete AMS data (discussed in Chapter 6);
- the scheme management indicator may only reflect AusAID administration efficiency, rather than being an accurate indication of scheme performance; and
- there are concerns about the quality of the performance information reported by NGOs (as discussed in paragraphs 5.5-7).

5.11 The ANAO considers AusAID should, as a priority, review these scheme level indicators to assess their usefulness as accurate identifiers of scheme performance.

5.12 The ANAO acknowledges that the measurement of outcomes in such a diverse field as aid is difficult and subjective, particularly as outcomes may not be visible for some years after completion of a project. However, AusAID (along with other Commonwealth bodies) will be required to report against outcomes and key result areas in the Corporate Plan in accordance with the 1999-2000 accrual budgeting framework, and needs to have adequate reporting measures in place.

Performance information to assess AusAID's own efficiency

5.13 The 1996 Audit Report stated that:

> *AusAID is also encouraged to consider developing performance indicators to assess its own efficiency, effectiveness and economy in administering a particular scheme. This would allow some internal benchmarking which could assist AusAID to identify opportunities for further improvements in productivity.*

As mentioned above, some of the measures intended to assess the performance of the NGO scheme may be more appropriate as measures of AusAID's administrative performance. Nevertheless, AusAID has not yet developed measures specifically designed to assess or benchmark its own efficiency, effectiveness or economy in administering the NGO schemes.

Conclusions

5.14 Individual activity proposals and reports now include performance information which are linked to project and scheme objectives prior to approval of funding. The standard proposal and reporting format contained within the NGOPI will strengthen performance information available to AusAID by containing both numerical and narrative comments. Nevertheless, there are some concerns about the quality of the performance information reported by NGOs. AusAID needs to work with NGOs to improve outcome data for the NGO schemes and also ensure performance information requirements are clearly specified in the NGOPI and contracts. AusAID has advised that it will analyse performance information as part of its continuous improvement regime.

5.15 AusAID has not yet implemented mechanisms to aggregate performance information on individual activities to permit reporting on the overall scheme performance or against Corporate Plan key result areas. Furthermore, the ANAO considers the current arrangements for the proposed scheme level indicators have marked limitations in addressing scheme level performance. In responding to the proposed report AusAID said changes to the Activity Management System will be finalised in due time for the collection and analysis of performance information from the final reports of the first round of projects, due October 1999.

Recommendation No.3

5.16 The ANAO recommends that AusAID:

- work with NGOs to improve the standard of performance information available to the NGO scheme, sufficient to assess achievements against individual activities. This may entail ongoing examination of proposals and reports, qualitative and quantitative assessment of performance information, appropriate training of AusAID and NGO staff and clearer specification of information requirements in the NGOPI and contracts; and
- develop performance measures, aggregating activity level information as appropriate, sufficient to assess overall NGO scheme performance and the efficiency of AusAID administration.

AusAID response

5.17 AusAID agreed to this recommendation and made the following comments:

- AusAID has recently begun meetings with NGOs to discuss performance information for the NGO scheme and AusAID managers met recently with NGO representatives interested in performance information. Consideration of how to improve the available performance information is also part of AusAID's long-term plan to address accrual accounting and improved Agency-wide performance information; and
- AusAID is currently developing outcomes-based performance measures for the NGO scheme. These measures will improve the scheme level performance information currently used.

6. Contract Monitoring

Findings of the 1996 Audit Report

The processes for remedial or corrective action to deal with failure to fulfil contractual obligations were not always activated by AusAID because the need to do so was not always realised. This was attributable to weaknesses in contract monitoring. The audit recommended:

> *... that AusAID give higher priority to improving contract monitoring, to ensure the proper expenditure of funds granted to NGOs.*

Implementation by AusAID

Reforms introduced since 1996 have improved AusAID's capacity to monitor NGO activities and the NGO the schemes. However, AusAID needs to further strengthen contract management activities to provide appropriate assurance and accountability.

Better practices

6.1 The ANAO Better Practice Guide notes that risk identification and analysis can help to define the extent, timing, and frequency of monitoring. The risk of inconsistency in monitoring processes can be avoided by:

- setting standards for frequency, consistency and quality of monitoring and ensuring that these are met; and
- reviewing the scope and completeness of the monitoring actually carried out and watching for any backlog of unmonitored cases.

Risk management

6.2 The increased focus on NGOs' requirement to report to AusAID on the progress and outcomes of an AusAID funded activity means that risk management by AusAID plays an integral role in contract management. This is consistent with an increasing emphasis on the integration of risk management into public sector management practice over recent years. Adoption of a risk management approach to planning, designing, managing, monitoring and reviewing a grant program ensures consistency with wider program management and provides an opportunity to reduce the probability and/or consequences of risks associated with the programs.

A sound risk management framework has been established but not fully implemented

6.3 AusAID policy set in 1994 requires all managers to ensure that risks inherent in the activities for which they are responsible are identified and managed to ensure the best outcome is achieved. AusAID has established a risk management framework for NGO schemes consistent with the requirements of this policy, and this is outlined in the NGOPI. The framework is based on the standardised arrangements arising from the scheme reforms. It includes the following elements:

- accreditation of all NGOs based on an accepted capacity to deliver outcomes and accountability requirements;
- financial systems assessment and certification by the NGO's auditor;
- ACFOA and International Red Cross and Red Crescent Movement Codes of Conduct that bind member NGOs;
- an umbrella contract that standardises administrative/legal issues;
- activity accountability by NGOs, including monitoring, reporting and acquittals;
- overall scheme performance assessment;
- audit of NGO management and administrative controls;
- spot checks of NGO management and administrative controls; and
- sample reviews of activities.

6.4 However, key elements of this framework have not been implemented (such as scheme level performance assessment and spot checks) or have been implemented at a lesser frequency than planned (such as audits). No adjustments have been made to the risk management process to compensate for these changes. Consequently the integrity of the risk management framework has been weakened.

6.5 The NGOPI states that spot checks and audits can be conducted at AusAID's discretion. Spot checks are arguably more important now that NGOs are self-assessing, but none were conducted during 1997-98, and since July 1996 only four NGOs have been audited by AusAID. AusAID advised that no spot-checks were conducted during the introduction of the new accreditation procedures because AusAID considered the close contact they maintained with NGOs obviated the need for further checks.

6.6 In part to make up for the incomplete implementation of the risk management framework some AusAID sections have seen value in developing lower level risk management plans that take into account the risks associated with individual activities. For example, the Cambodian

country section developed a risk assessment and monitoring plan for each activity. Another approach used is to specify in the contract negotiations more frequent reporting requirements for the activity. However, these were not consistent practices.

6.7 AusAID has advised that the risk management framework introduced with the NGO reforms, including the 'front-end' approach within the new accreditation process, makes lower level 'activity specific' risk management plans unnecessary. The ANAO considers that it is important that AusAID reviews its risk treatment procedures periodically to ensure changing circumstances do not alter the risk priorities. Given that the new risk management framework has not been fully implemented and there are concerns about the quality of NGOs' performance reporting, it is appropriate that AusAID consider other means to ensure the integrity of the NGO schemes. Activity-level risk management plans or more rigorous reporting requirements are an appropriate way to address identified gaps, although other options may be available.

Monitoring contract performance

6.8 Prior to the reforms, NGOs were required to sign an agreement for each activity funded by AusAID. Under the new funding arrangements NGOs accessing funds through an NGO funding scheme are now required to sign a standard 'umbrella' contract. The standard contract is supplemented by an Exchange of Letters (EOL) which contains project specific information such as project start and finish dates, and the amount of AusAID funding. Once an NGO has signed an umbrella contract and the EOL (and has passed the accreditation process) it will be able to access funds.

6.9 AusAID has, since the 1996 Audit Report, also introduced an integrated management information system known as the Activity Management System (AMS) to provide ready access to information essential for the effective management of aid activities. Under AMS, users have a single point of access to all information relating to any AusAID activity for reporting on individual activities and broader reporting on the aid program to Government and the Australian community. The AMS system was intended to provide a centralised database of information as opposed to the numerous stand alone databases used previously.

AusAID oversight of individual activities has been reduced

6.10 Under the NGO scheme reforms, with a renewed focus on accreditation and risk management, performance oversight of contracts is based largely on the self-assessment of activities by NGOs. AusAID has sought to minimise the oversight of individual activities including 'on-ground' progress reviews by posts during project implementation. Previous arrangements for six-monthly Project Coordination Committee meetings on site have also been discontinued as routine practice (although this is at the discretion of individual officers).[5]

6.11 However, as a result AusAID has also reduced opportunities and mechanisms to evaluate activity performance (that is, progress and overall outcomes). This can be significant in the absence of some planned 'balancing' activities such as audits and spot checks. It is exacerbated by the length of time between initial funding and formal reporting. For example, for a 12-month project, AusAID will typically receive no performance information until three months after project completion, that is 15 months after initial funding. Such delays make it difficult to monitor contractor performance and identify (and recover from) delays or sub-standard performance.

6.12 AusAID has not developed guidance for staff managing NGO schemes to assist the transition to the less interventionist approach. The ANAO noted, for example, that many AusAID staff interviewed during the audit consider there is still a need to monitor activity outputs and outcomes during implementation, notwithstanding the new accreditation process. Guidelines on such matters as the nature and frequency of contact with NGOs, the use of coordination committees or follow-up of reports, which are largely at the discretion of individual officers, would reduce the potential for confusion and inconsistency and encourage more effective contract monitoring.

There are many overdue reports and outstanding acquittals

6.13 AusAID currently produces quarterly reports from the AMS to show overdue activity reports and acquittals, which are a key accountability mechanism under the reformed arrangements. AusAID had indicated that these reports would be produced monthly to strengthen management oversight, but this has not yet occurred. The ANAO reviewed various AMS reports showing all NGO activities and identified 159 activities with

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[5] The Project Coordination Committee comprised AusAID representatives (usually from the local post), government and community representatives and a representative from the Australian NGO. The meetings allowed all involved parties to discuss and observe what was happening to the community and how AusAID funds were being spent.

overdue reports — approximately 31 per cent of all NGO activities — undermining effective risk management of these activities. The AusAID subsidy for the 159 activities exceeded $53 million; a substantial amount of funds encapsulated in activities with an undetermined status as shown in Table 3.

Table 3
Overdue NGO activity reports by program as at July 1998

Program	Overdue activity reports	
	Number	Approved amount
NGO program	104	$ 9.3m
HES emergency program	2	$ 1.5m
HES rehabilitation program	38	$17.7m
Bilateral program	15	$24.5m
Total	**159**	**$53.0m**

6.14 As shown in Table 4 many of the reports have been overdue by more than six months-indeed, some reports are overdue by two to three years.

Table 4
Overdue NGO activity reports by age as at July 1998

Age of overdue activities	No. of overdue activities or activities with no report due date	Percentage of total overdue activities
0-4 weeks	23	14.5
> 1 month	36	22.0
> 3 months	19	12.0
> 6 months	38	24.0
>12 months	20	13.0
No due date recorded on AMS	23	14.5
Total	**159**	**100.0**

6.15 The ANAO noted variation in the timing of follow-up of overdue reports. AusAID advised that because it was recognised that NGOs work in an unpredictable environment some flexibility was allowed in the management of projects. The ANAO understands the need for flexibility, but considers that a sound management culture requires all parties to be aware of, and to meet, their contractual responsibilities. Timely reporting is vital for effective contract monitoring and to give effect to the reforms and the risk management framework.

6.16 The effectiveness of the activity reporting arrangements in monitoring contracts has also been undermined by the failure of some desk officers to include final or interim report due dates on the AMS. Consequently, desk officers are not alerted by AMS when a report is due. This problem could be alleviated by coding some AMS data fields (such as reports due) as requiring mandatory completion.

6.17 The AMS also has the facility to alert users to matters requiring attention by a particular section. Users are expected to individually check these alerts (or prompts) and take the appropriate action to resolve the matter (for example, to follow-up an overdue report). During the audit the ANAO observed that many screen alerts for outstanding actions were not actioned, thus weakening the effectiveness of the auto-prompting mechanism. In response to the proposed report AusAID advised that as part of its improvements to AMS, 'last action date' information will be collected to enable assessment of action taken.

AusAID staff lack confidence in the AMS data

6.18 As discussed above, information in the AMS is both inaccurate and incomplete, and this has eroded staff confidence in the system data. Some AusAID sections are maintaining their own spreadsheets to keep more accurate and easily accessible records of project management and financial information in preference to using the AMS. The ANAO noted the NGO section is not using the AMS to gather financial and activity information for AusAID's annual report; rather other sections were requested to provide activity information from their own sources.

Improvements to the NGO and other modules of the AMS are necessary to increase usefulness, improve data accuracy and promote consistency of use

6.19 The AMS includes a number of modules which are accessed by the various AusAID sections and provide different information, reports and screens. The absence of common reporting and links for NGO activities between modules creates complications. For example:

- overseas posts do not currently have access to AMS resulting in duplication of effort when Australian staff are required to enter the post data into AMS;
- updates or improvements to a module will not necessarily be adopted for all modules;
- the AMS does not have the capability to routinely identify activities receiving multiple funding from AusAID, or projects linked to any other activity funded by AusAID; and

- the Activity Monitoring Brief (a formal management tool by which the project can be monitored through the assessment of contractor and counterpart performance) is not available for use on the NGO section AMS module.

6.20 The ANAO considers that inconsistencies in the AMS have increased the risk of inconsistent management and administration of NGO schemes. Improvements to the system, including linking modules, will increase data accuracy and promote consistency of use.

Conclusions

6.21 The reforms introduced to the NGO funding schemes since 1996 have placed emphasis on self-regulation and assessment by participant NGOs and reduced AusAID's detailed involvement in activities. This has increased the importance of sound risk management as an integral role in contract management. Funding arrangements relying on 'front end' accreditation of NGOs, and standardised documentation, proposal appraisal criteria and contractual requirements have improved AusAID's capacity to monitor NGO activities and the NGO schemes.

6.22 AusAID has established a sound risk management framework but it has not been fully implemented. Contract monitoring processes have not been adjusted to compensate for these changes, weakening the integrity of the framework. Some sections have developed 'activity specific' risk management plans and tightened reporting requirements but this is not consistent across AusAID. AusAID has not provided staff with guidance on contract monitoring and there is evidence that, notwithstanding the improvements made by AusAID to NGO administrative arrangements, there are still weaknesses in AusAID's contract monitoring.

6.23 The ANAO considers that AusAID needs to further strengthen its contract management activities to provide appropriate assurance and accountability for the NGO funding schemes. The risk management framework identified in the NGOPI should be implemented in full or alternative procedures adopted. Standardisation of contract monitoring procedures would assist their consistent application. In addition, improvements to the AMS will increase the accuracy and completeness of the management data and promote its use as an effective management tool.

Recommendation No.4

6.24 The ANAO recommends that AusAID strengthen its NGO contract management activities through:

- consistent implementation of accepted risk management practices, for NGO schemes overall and individual aid activities;
- standardisation of contract monitoring procedures for NGO schemes, including the development of appropriate guidelines for staff; and
- improvements to the Activity Management System (AMS) and its use to increase data accuracy and completeness, and promote consistency of use.

AusAID response

6.25 AusAID agreed to this recommendation and made the following comments:

- AusAID will take the necessary steps to reinvigorate the risk management process. As an initial step the NGO Section has undertaken coordination of the different elements of risk management for the NGO Scheme. This includes spot checks, audits and accreditation reviews. An appropriate timetable will be developed to ensure these aspects of risk management are well coordinated;
- as part of the NGOPI review AusAID will develop guidelines on contract monitoring procedures for NGO schemes; and
- in September 1998 staff of the NGO and the AMS Sections met to discuss improvements for the parts of the AMS relevant to the administration of the NGO Scheme. Data accuracy, consistency of use and completeness are all considered as part of AusAID's continuous improvement strategies.

7. Training of AusAID Staff and NGOs

Findings of the 1996 Audit Report

NGOs as a group either did not properly understand the contractual relationship with AusAID under which they operate or were not all as assiduous as they should have been in their contract management; a similar situation existed within AusAID. The audit recommended:

> *... that AusAID provide additional training to relevant staff and NGOs on the roles and obligations associated with grants administration, contract management, and contractual responsibilities.*

Implementation by AusAID

Training has been provided to AusAID staff and NGOs as recommended. Training provided to NGOs has been appropriate but training for AusAID staff has not consistently focused on the specific requirements of the NGO reforms.

Better practices

7.1 The ANAO Better Practice Guide notes that effective monitoring is assisted by clear definition of responsibilities for monitoring individual grants. Monitoring staff need appropriate skills and knowledge of the activity being undertaken and adequate administrative support to process routine monitoring data.

Implementation of improved training programs

7.2 Since 1996 training on the NGO scheme reforms has occurred at three levels:

- contract management training for AusAID staff;
- information sessions on the NGOPI provided by AusAID to AusAID, ACFOA and NGO staff; and
- training specifically dealing with the NGOPI provided by ACFOA (but funded by AusAID) to NGOs.

AusAID staff have received contract management training

7.3 Since the 1996 Audit Report AusAID has conducted internal contracts training for AusAID staff. This training has been, and continues to be, provided in five modules as shown in Table 5:

Table 5

Training modules and number of participants for AusAID training

Training module	No. of courses	No. of participants
Module 1-introduction to contracting	7	127
Module 2-scope of services	6	148
Module 3-managing the contract	9	180
Module 4-contract law	6	108
Module 5-tender evaluation	training not commenced	

7.4 The ANAO reviewed course programs and documentation, including course notes and hand-outs. Much of the training was not specific to the NGOPI, and dealt with commercial contracts and contractors rather than the umbrella contract and the roles and responsibilities associated with grants administration for NGO schemes.

7.5 The ANAO found that some modules do not reflect current practice in AusAID. For example, the course notes discuss areas that were considered unique to AusAID in terms of managing contracts, but much of which are obsolete since the introduction of the NGOPI and subsequent self assessment by NGOs. Furthermore, advice to course participants that 'the post has an important role to play in the monitoring of projects, and primarily this role is performed via on-site monitoring' contradicts the AusAID policy that posts should not be involved in activity monitoring.

AusAID has briefed NGOs on the reforms

7.6 AusAID has provided three training sessions for NGOs relating to the use of the NGOPI. NGOs interviewed during the audit expressed concern that these sessions offered more of a history of the NGOPI and its development, rather than training staff in the use of the guideline. ACFOA has partially addressed this problem through the training courses it has provided on certain aspects of the NGOPI, although as discussed below, more specific training for NGOs may need to be provided.

ACFOA training for NGOs has been well received

7.7 Since 1996 AusAID has funded ACFOA to provide training to NGOs with the goal of:

> *increasing the quality, efficiency, effectiveness and accountability of NGOs in managing development assistance programs.*

The training has been appropriately targeted on the key aspects of the NGO funding arrangements, covering such critical areas as documentation, project design, planning and reporting.

7.8 Courses have been presented to participants representing 65 NGOs as shown in Table 6. More courses have been scheduled for the coming year. The training has been well received by NGOs.

Table 6

ACFOA training for NGOs (October 1996 to June 1998)

Training courses	No. of courses	No. of agencies represented	No. of participants
Contract management	5	65	108
Financial management	2	27	40
Proposal and report writing	2	25	39
Project planning/Monitoring and evaluation	2	29	58
Security issues in the field	1	9	23
Human rights and development	1	14	23
Gender analysis	1	8	11

Conclusions

7.9 Training has been provided to AusAID staff and NGOs as recommended in the 1996 Audit Report. The training has generally been appropriate but training provided to AusAID staff has not consistently focused on the specific requirements of the NGOPI. The ANAO considers training based on the NGOPI should continue to be provided to AusAID and NGOs, targeting areas identified as requiring improvement.

Canberra ACT
7 December 1988

P.J. Barrett
Auditor-General

Appendices

Appendix 1

Recommendations and responses from Audit Report No.5 of 1996-97 *The Management of Funding to Non-Government Organisations.*

Recommendation No. 1

The ANAO recommends that a suitably balanced set of performance indicators be included in the design of future grants schemes.

Response: Agreed.

Recommendation No. 2

The ANAO recommends that AusAID rationalise funding mechanisms by introducing a single approach to NGO funding, to be implemented in 1996-97.

Response: Agreed. AusAID, following consultations with Non-Government Organisations, will introduce a single approach to NGO funding during 1996-97.

Recommendation No. 3

The ANAO recommends that AusAID give priority to its current efforts to streamline and standardise grants administration processes. A simplified model should be implemented in 1996-97.

Response: Agreed. AusAID, following consultations with Non-Government Organisations, will streamline and standardise grants administration processes during 1996-97.

Recommendation No. 4

The ANAO recommends that AusAID give higher priority to improving contract monitoring, to ensure the proper expenditure of funds granted to NGOs.

Response: Agreed. The standardisation and rationalisation of Non-Government Organisation funding mechanisms will allow for more effective contract monitoring.

Recommendation No. 5

The ANAO recommends that AusAID provide additional training, to relevant staff and NGOs, on the roles and obligations associated with grants administration, contract management and contractual responsibilities.

Response: Agreed. In addition to NGO training that already takes place, training will also be provided following the introduction of the new procedures.

Recommendation No. 6

The ANAO recommends that AusAID examine the scope for including indicators to measure the value for money individual projects provide in achieving the objectives of the grants schemes under which they are funded. These should be incorporated in the associated documentation when new schemes are designed.

Response: Agreed. AusAID will develop performance indicators for each NGO funding scheme. Ratings will be periodically validated for accuracy and collated as part of the process used to determine whether schemes have met their objectives and achieved value for money.

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