KPMG

Attorney-General's Department

Review of Program Administration

Final Report

Inherent Limitations

This report has been prepared as outlined in the Scope and Approach Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by Attorney-General's Department representatives consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in the Purpose and Scope Sections and for the Attorney-General's Department information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of the Attorney-General's Department in accordance with the terms of the work order dated 10 March 2010. Other than our responsibility to the Attorney-General's Department, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

Contents

1 Overview

1.1 Purpose

The purpose of this report is to communicate the findings and recommendations of KPMG's review of program administration.

The initial objectives for this review were to:

- Assess and document the spectrum of grants management systems and processes currently in place across the divisions in the Attorney-General's Department.

- Identify circumstances and conditions under which processes may be streamlined to realise productivity improvements and cost savings.

- Examine the potential to reduce the number of grant management systems and the feasibility of maintaining one grants management system across AGD.

- Make recommendations for organisation-wide change in the management of grant administration in AGD.

- Recommend a transition plan for the Department to move towards the proposed option.

Shortly after commencing, these objectives were expanded to encompass some non-grant programs, and in particular consideration of practices against Better Practice Principles, including elements of Contract Management and the Commonwealth Grant Guidelines (to the extent that they are relevant to broader program administration).

This report is an important step in the Department achieving productivity improvements and cost savings. The recommendations and future actions to achieve this goal are presented through a transition plan. The findings of this report should be read in conjunction with our scope and approach outlined in Attachment I.

1.2   Summary of Findings

With reference to the review objectives we have identified the following findings:

| Review objective	Findings
Assess and document the spectrum of grants management systems and processes currently in place across the divisions in the Attorney-General's Department.	We met with key staff from each of the identified program areas to discuss the nature of the program and understand key processes. This was supplemented by self-assessment questionnaires addressing mandatory requirements and better practice principles within the Commonwealth Grant Guidelines. No fewer than four purpose built systems exist to support program administration, in addition to numerous spreadsheet repositories. This fieldwork has informed the findings raised in this report.

Review objective	Findings
Identify circumstances and conditions under which processes may be streamlined to realise productivity improvements and cost savings.	A total of 13 recommendations are raised in this report. These have been broadly classified as *Efficiency and Process Improvement, Consistency and Compliance* and *Departmental Wide*.
	Given the high-level nature of the review and the lack of risk analysis undertaken by program areas, the ability of KPMG to identify specific procedural improvements was limited.
	However, recommendations to help realise productivity improvements have been raised around the following:
	• Program risk assessments and proportionality
	• Program design and delivery
	• Resource Management
	• Funding Agreements
	• Reporting
	Additionally, compliance and consistency may also generate productivity improvements, with recommendations raised in the following areas:
	• Grant management training and documentation (including broader contract management principles)
	• Procedural Manuals
	• Program Implementation Files
	Finally, a centralised and dedicated grants management system may also assist staff improve the effect of their program administration activities (see further below).

Review objective	Findings
Examine the potential to reduce the number of grant management systems and the feasibility of maintaining one grants management system across AGD.	Fieldwork identified a large number of grant management systems and end-user developed tools to assist in program administration. Whilst there was general support for a dedicated grant management system, the primary change sought by program staff was for an improved reporting capability and a desire that any adopted system not result in a reduction in functionality. KPMG has identified a number of options for the Department's consideration, including: • Purchasing a suitable system solution; • Developing the system using in-house staff; and • Tailoring the proposed contract management system to encompass an enhanced reporting capability. Any proposed approach should be supported by a cost-benefit analysis. Further detail is contained in section 5 and Attachment D, including those issues that should be considered in any system implementation.
Make recommendations for organisation-wide change in the management of grant administration in AGD.	The transition plan identified several recommendations that require management at the Department level. A number of the program specific recommendations are best addressed with a coordinated approach by the Department.
Recommend a transition plan for the Department to move towards the proposed option.	KPMG have classified recommendations that can be addressed immediately and those that require implementation over the short to medium term. This is supplemented by a preliminary prioritisation of all 13 recommendations. Actual priorities should be determined and agreed by the Department's Executive.

1.3   Recommendation Transition Plan

The following diagram illustrates <u>indicative</u> timing of recommendations and the level within the Department that it should be actioned (program level, centrally, Department wide). Actual timing and action should be agreed via a consultative process, taking into consideration broader Departmental and program requirements.

Dependencies have been noted to depict what actions are required before some recommendations can be successfully addressed.
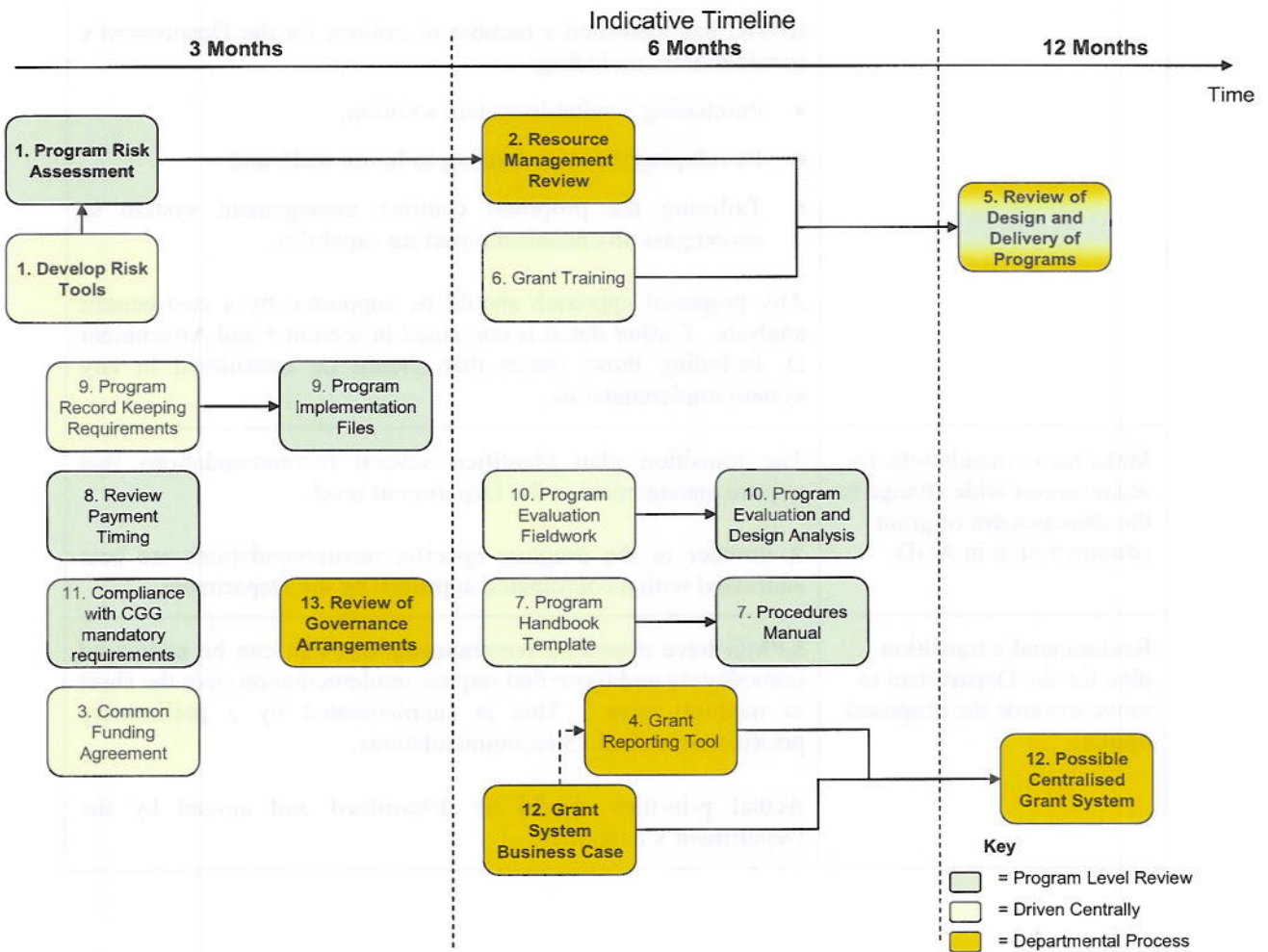
2   Program Administration – High-Level Observations

The following section relates to high-level observations or program administration across the Department. Findings against the Commonwealth Grant Guidelines are detailed in Attachment A and B, whilst Program specific findings are raised in Attachment C.

Program diversity

Across the Department, there are a large number of grant programs (17 considered in this review). Many of the programs are relatively small, with the majority having less than $10 million in annual funding.

Fieldwork suggested that knowledge of grant management across the Department is fragmented, being strong in parts while some areas have more limited experience and knowledge of mandatory and better practice principles.

From a process perspective, all elements of grant administration, including assessment, funding agreement preparation and contract management are undertaken by program staff in their individual programs (with some staff also involved in policy development). KPMG notes some feedback stating the benefits and synergies between policy and program management. While true, given that each of these activities requires a distinct skill set, there is a risk that program staff do not have the expertise required to undertake these tasks[1] or that task specialisation could result in significant efficiency gains. Within the Department there is some programs that have a clear distinction between policy and program administration, e.g. a component of the Family Relationships Services Program, where the policy is owned by AGD and program administration is by FaHCSIA.

Further, while there is no benchmark ratio of administrative costs to program funding, given the low value of funding, it is likely that these costs would be proportionately high were they to be compared to other organisations where grant programs were for larger amounts of funding owing to the duplication of functions. Accordingly, there may be benefit in the Department undertaking some additional analysis to identify opportunities for combining programs or perhaps establishing a grant administration support team, i.e. a pool of resources able to assist in the administrative side of program management.

Refer to recommendation #1, 2 and 5

Consistency

Through discussions with program areas, differing administrative processes were noted. This included, for example:

- Approval delegate – the approver of projects differed from the Attorney-General, the Minister for Home Affairs or an internal Departmental delegate.

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[1] Also highlighted in some recent Federal Government program failures.

AGD-10 Review of Program Administration - FINAL Report.DOC

8

- Payment of funding – for some programs, payments were made up-front while others were milestone based, and some were in-arrears on the basis of cost-reimbursement.

- Supporting systems – discussed further below.

- Funding agreement – discussed further below.

- Contract management – some programs had formal project monitoring regimes, that involved progress reports, on-site reviews and formal acquittals of funding.

Whilst, KPMG is not in a position to conclude on the appropriateness of these given the high-level nature of this review, we do note that there is a lack of consistency across the Department.

Grant systems

A driver for this review was to consider the potential of reducing the number of grants management systems and the feasibility of maintaining one grants management system. For the program areas considered, there were no fewer than four purpose built systems to support program administration (including GMS, DAWGS, CLCIS and Phoenix) and a myriad of spreadsheet repositories.

Whilst there was general support for a dedicated grant management system, the primary improvement sought by program staff was an improved reporting capability. Further, for those areas currently utilising a formal grant management system, it was highlighted that any adopted system must not result in a reduction in functionality.

Options and issues for consideration in respect of a single grant management system are discussed in sections 5 and Attachment D.

Refer to recommendation #12

Reporting

Reporting of grant information was noted as a significant problem at both a Departmental and a program level. Requests for Department-wide information were a time consuming task primarily a result of the myriad of databases, systems and spreadsheets used to support grant administration, each of which independently record information in formats which collectively are not designed to support reporting in a consistent manner.

In addition to the time consumed by each request for information, there is a risk of errors in reporting due to the lack of a structured approach and inconsistency in recording information (at a Departmental level).

Refer to recommendation #4

Funding Agreement

In addition to discussions with program staff, KPMG met with a representative of the AGS to discuss how funding agreements are prepared within the Attorney-General's Department. Discussions indicated that there is no consistent Departmental approach to contracting, with each program area applying their own practices. This has resulted in multiple funding agreements existing across the Department with the AGS spending a significant amount of time reviewing clauses across several program areas. This duplication of effort necessarily involves additional cost.

KPMG observed this was most evident in existing program areas but that some of the newer program areas including *Native Title Anthropologist Grants Program* and *Countering Violent Extremism to Prevent Terrorism* have consulted with other areas of the Department to leverage off their work.

The AGS indicated that the Department would benefit from a more structured approach to developing funding agreements, perhaps utilising a standard template which can then be tailored to meet individual program requirements (with consideration of proportionality – refer Attachment B.3). This should be supplemented by suitable contracting and contract management training for staff involved in these activities to ensure an effective and efficient process.

Further observations and findings in respect of grant administration and compliance with the Commonwealth Grant Guidelines are discussed below in Attachments A and B.

Refer to recommendation #3

3 Program Administration – Better-Practice Observations

The table below gives a summary of the assessment of programs against the *better practice* elements of the Commonwealth Grant Guidelines (Attachment B). The results are *judgment based* with consideration of a self-assessment completed by program areas – the veracity of staff representations has not been confirmed via detailed testing. Importantly, they are primarily relevant to grant programs, however, do have elements of applicability to broader program management. Description of ratings and further detail on programs is provided on the following page.

Where the principles will not be addressed, these reasons should be documented (e.g. activity not warranted based on risk or cost / benefit analysis).

Better Practice Principle	IOT	CLS	FVPLS	NT	IJP	NP	ILA	FA	LA	NCCPP	SS	POCA	SSP	FRSP	GAOP	NEMP	NCTC	CVE	DRA
Robust Planning and Design																			
Establishing the need for the Activity																			
Evaluation Framework																			
Risk Management																			
An Outcomes Orientation																			
Qualitative and Quantitative Measures of Performance																			
Proportionality																			
Consideration of Proportionality																			
Collaboration and Partnership																			
Program Overlap																			
Governance and Accountability																			
Governance Structures										Departmental wide finding									
Procedures Manuals																			
Contract Management and Monitoring										Departmental wide finding									
Fraud and Conflicts of Interest																			
Probity and Transparency																			
Records management										Departmental wide finding									
Achieving Value for Public Money																			
Timing of Funding										Departmental wide finding									
Administrative Costs																			

AGD-10 Review of Program Administration - FINAL Report.DOC

11

Legend

■	Better practice principle not observed or not well developed
■	Better practice principle partially in place or in development
■	Better practice principle observed

Program Key

Acronym	Program Name
IOT	Services to Indian Ocean Territories
CLS	Payments for the Provision of Community Legal Services
FVPLS	Family Violence Prevention Legal Services
NT [3]	Native Title Anthropologist Grants Program
IJP	Indigenous Justice Program
NP	NT Law and Order Measure ('Night Patrols')
ILA	Legal Aid for Indigenous Australians
FA	Financial Assistance Towards Legal Costs and Related Expenses
LA [1]	Legal Aid Program
NCCPP	National Community Crime Prevention Program
SS	Schools Security Program
POCA	Proceeds of Crime Act 2002
SSP	Safer Suburbs Program
FRSP [1,2]	Family Relationship Services Program
GAOP	Grants to Australian Organisations Program
NEMP [1]	National Emergency Management Program
CVE [1,3]	Countering Violent Extremism Program
NCTC [2]	National Counter-Terrorism Committee (non-grants program)
DRA	Disaster Resilience Australia Package (non-grants program)

[1] These programs includes a hybrid of grant payments and other 'contract' type payments

[2] Assessment refers only to those elements of the program administered by the Attorney-General's Department.

[3] At the time of the review, these programs were still being established with processes still being embedded. Ratings reflect the situation at that point.

AGD-10 Review of Program Administration - FINAL Report.DOC

12

4 Recommendations

The recommendations raised in this report are based on the observations made during the course of the review and reflect the themes of issues identified during fieldwork. Accordingly, not all recommendations are relevant to or appropriate to action for all program areas[2]. Further, in some cases, programs are driven from or form part of broader National Partnership Agreements and may be subject to external drivers, political pressures and reporting requirements that limit the extent to which recommendations can be applied.

Each Division should consider the applicability of recommendations to their programs and action accordingly – the recommendation transition plan on page 7 suggests at what level recommendations should be considered and an indicative order and timeframe for completion. A summary of findings and recommendations as they apply to each Division has been separately provided.

4.1 Efficiency and Process Improvement Recommendations

Recommendation #1 – Program Risk Assessments and Proportionality

One of the key principles in the CGGs is 'proportionality'. This states that key program design features and related administrative processes are commensurate with the scale, nature, complexity and risks involved in the granting activity. A key element of proportionality is a program risk assessment. Without a proper understanding of risk, the ability to effectively design processes and allocate resources to key focus areas is diminished.

For the most part, KPMG observed that risk management practices were immature, with risk not being formally considered by most program areas. In the absence of this assessment, KPMG was not able to assess whether processes were indeed appropriate and proportional to the program.

To help ensure that ongoing risks to the successful delivery of a program are identified, risk assessments should be undertaken for all ongoing programs and any new programs, including consideration of fraud and conflicts of interest risks. Importantly, these should be revisited on a regular basis to ensure they are still relevant and capture all significant risks. Risk treatments and responsible owners should be identified as needed.

In conjunction with (or following) the completion of a program risk assessment, additional consideration should be given to the appropriateness of program processes and administration, including assessment processes, contracting (e.g. funding agreement) and contract monitoring processes. This should include consideration from both a Departmental perspective and also the customer / funding recipient. Where necessary, practices should be amended to better align with program risk.

Several of the recommendations raised in this report are dependant on program risk assessments being completed.

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[2] This is particularly important to note for non-grant programs.

AGD-10 Review of Program Administration - FINAL Report.DOC

Attachment G contains an example of some risk areas and considerations in respect of program governance and project appraisal. The Department should develop risk tools to support program areas undertake a comprehensive risk assessment in a consistent and efficient manner.

Recommendation #2 – Resource Management

A number of recommendations and options are made in respect of resource management.

1   As informed by a program risk assessment (*recommendation #1*), analysis should be undertaken of the administrative costs associated with delivering individual programs, with a view of aligning this to be proportional to the relative 'riskiness' and priority of the program. In the first instance this should be done on a program-by-program basis and then assessed collectively by the Department's Executive. Attachment F provides a tool to help with this process.

Further, noting that program staff typically undertake all elements of grants administration including assessment, funding agreement preparation and contract management (rather than using people specialised in a particular function)[3], there is benefit in considering alternate delivery models which better utilise skilled resources:

2   A possible model includes the grouping of resources to service multiple program areas. Under this model, the Department could use appropriately skilled 'pooled' resources to deliver certain elements of a program. For instance, separate teams for application assessment or contract management.

For this to be effective, grant activity would need to be considered at a Departmental level, in order to allow work to be appropriately scheduled (e.g. to avoid excessive work peaks).

Some options to consider in piloting this approach include servicing:

-   Those divisions / branches that have less exposure to grant programs, and arguably more likely to have less developed processes.

-   A single division responsible for numerous grant programs (e.g. Social Inclusion Division). These programs are typically more mature with well-defined processes and may therefore be suitable to trial and measure the success of pooled resources.

3   Utilising contractors to supplement program staff. Recognising the shortage of staff skilled in grants administration, the Department could utilise contract staff to assist with the delivery of programs. In practice, this could work by using internal skilled staff for higher risk programs, supplemented by contractors that may be utilised during peak periods or on a more regular basis for lower risk programs.

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[3] Some recent reports on Government programs note that a significant contributor to program weaknesses is the absence of staff with the requisite skills.

AGD-10 Review of Program Administration - FINAL Report.DOC

Of note, while easing work pressures the use of contractors can be an expensive option, made more difficult by a lack of appropriately skilled and available people – a point emphasised by some areas that are currently utilising contractors.

Regardless of the approach taken, a balance should be sought to address the preference of some Divisions to maintain linkages between policy and program administration, and the risks of staff not being appropriately skilled to perform required activities. Further, appropriate training should be provided to those staff with a role in program administration (refer to recommendation #6).

Recommendation #3 – Funding Agreement

KPMG observed the existence of multiple funding agreement templates in use across the Department, which increases complexity and also required extensive involvement of the Australian Government Solicitor (AGS) to review them for legal suitability.

With the assistance of the AGS, the Department should develop agency-wide funding agreement templates to be used across program areas. It is noted that it may be necessary for these to be tailored to meet the specifics of a particular program.

With consideration of *proportionality*, different template options should be prepared, e.g. long-form and short-form agreements, with guidance provided on when each type is appropriate to use (dependant on project risk).

At a minimum, the funding agreement should be used for new programs, with consideration given to the value of using it for existing programs. For instance, some programs within the Social Inclusion Division use a Standard Funding Agreement that allows funding recipients to have one funding agreement with the Australian Government in place, with agencies adding a schedule for each additional activity. For these programs, the driver to use for a consistent AGD template may not be as compelling.

Recommendation #4 – Reporting

During fieldwork, a common frustration raised by program staff was the level of effort required in responding to reporting requests on grants. Further, the absence of a central repository and lack of consistency in information storage raises concerns as to the accuracy of Departmental reporting on grants and program activity.

As a priority, the Department should take steps to address grant reporting inefficiencies and potential inaccuracies. While a long-term solution may involve the adoption of a centralised grants management system, a more immediate option may be through the contract management module currently being implemented. These options are discussed further in section 5.

Recommendation #5 – Consideration of Program Design and Delivery

The Department should undertake a detailed analysis of current programs with the intention of:

- Confirming the ongoing need for the program in its current format. This analysis should also consider whether a grant program is the most appropriate means to achieve the desired outcomes. A program evaluation helps determine whether program objectives and outcomes have been achieved and could inform any decision into program design; and

- Determining the extent, if any, to which grant programs or program activities (e.g. contract management) may be combined. The purpose of this is to streamline program activities and improve efficiencies in the grant management processes. This will be most possible where the program objectives and / or processes are similar. Importantly, with any consolidation it is important to ensure that the ability of the programs to achieve their intent is not diminished and that an appropriate control is maintained.

For those programs considered, this would be most likely possible for those programs within the Social Inclusion Division and the Criminal Justice Division[4]. Further, there may be potential for some smaller grant programs in Divisions less 'experienced' in grant administration to be rolled into existing programs.

In undertaking the above, consideration should be given to Government priorities, the relative risk and administrative costs of the program.

4.2 Consistency and Compliance Recommendations

Consistency across the Department not only supports improved compliance, but also improves productivity due to streamlined processes. For this reason, it is important that this is driven centrally so that the synergies can be achieved across the Department.

Recommendation #6 – Program Management Training

KPMG was not aware of any grant management specific training provided to program staff.

Recognising the specific skills required in the different stages of grants administration (see above), the Department should develop and rollout training programs for those staff involved in the delivery of programs. In particular, this should be directed towards those activities that are higher risk and require more specialised skills, such as contracting, contract management and application assessment. To promote consistency and provide synergies across the Department, this would ideally be coordinated centrally, with program specific elements managed on an as needs basis by program areas.

Recommendation #7 – Procedures Manual

The CGGs and ANAO better practice guide on Grants Administration state the importance of documented internal procedures to support grant administration. The existence of a procedures manual helps support the consistent application of process which support compliance and more efficient work practices. KPMG were advised that most program areas did not have formally

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[4] It is noted that reviews of this nature have previously been conducted within the Social Inclusion Division, while several Criminal Justice programs were created from election commitments and will be lapsing.

approved processes in place which increases the risk of inconsistent and inefficient practices by staff.

To ensure an approved approach and consistent implementation, a procedures manual should be developed for all programs (where one does not exist). The manual should be sufficiently detailed to support program staff and also be formally approved.

Recommendation #8 – Timing of Funding

Better practice program administration dictates that the timing of funding provided is consistent with need and influenced by program risk[5]. It is noted for some programs that funding is provided up-front only where required, however, in these circumstances the funding is often provided in entirety rather than across several payments. This reduces the ability of the Department to influence project delivery and also comes at an increased cost to the Australian Government (via interest foregone).

Program areas should ensure that payments are not made without a clear need for the funding at that point in time (i.e. the funding recipient requires the payment to meet the terms of the grant agreement). Where payments are made up-front, the rationale behind this should be documented.

Recommendation #9 – Program Implementation File

It is recommended that for each program, a central program implementation repository be created and utilised to retain supporting documentation of all key information, approvals, decisions and activities pertaining to the Program. Whilst an obvious benefit of this is in respect of records management, this file also serves the purpose of being able to 'tell the story' of the program as it has developed over time and is useful in transferring knowledge to new staff.

Ideally, an individual Program officer should be assigned the task of ensuring that key documents are filed in a logical order and that the file is complete. At a minimum this needs to be consistent with the requirements specified by the National Archives of Australia.

As a guide examples of information that should be retained on such a file or files include:

- Communications, approvals and directives from the Attorney-General's or Minister's Office (by way of file notes, originals, emails or reference to Cabinet-in-Confidence files);

- Details of appropriation source and drawdowns;

- Details of key FMA Regulation delegations exercised;

- Development and approval of Guidelines and FAQs (including amendments and trail of updates to website);

- Development and approval of Procedures Manual;

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[5] See ANAO 2010 Better Practice Guide on Grants Administration and ANAO Report on the Regional and Local Community Infrastructure Program (#3 2010-11).

- Development and approval of template Funding agreements (including Legal advice);

- Risk assessments and follow-up monitoring;

- Assessment of designed processes against Better Practice Guides and Guidelines and relevant past ANAO recommendations;

- Records of any key decisions and approvals in relation to the Department's approach to appraisal (including policy decisions), contracting, monitoring and evaluation. This should include internal correspondence within the Department, or other relevant agencies (e.g. PM&C, DOFD);

- Minutes of key meetings (e.g. Project Board Minutes);

- Submissions/Ministerial briefs or reference to Cabinet-in-confidence files (e.g. to Attorney-General, Minister, Committees or other decision bodies);

- Payment records;

- Records of consultations with stakeholders;

- Notes on administration; and

- Any other legal, accounting and tax advice obtained during the planning and implementation phases.

Recommendation #10 – Program Evaluation

In the most part, program evaluations are not conducted to determine whether objectives and outcomes have been achieved, nor has work been undertaken to develop a qualitative and quantitative measures or performance (KPIs). The absence of these leaves the Department poorly placed to state whether program activity has been effective and indeed whether the Government is achieving value for money from its expenditure.

The Department should, wherever possible, ensure an evaluation framework is incorporated into the operation of a program. This is particularly relevant for ongoing programs and for future programs, where the evaluation framework should be incorporated into the design and planning phase of the program's implementation. Given the cost, evaluation of a lapsing program may be considered less compelling.

This will assist in ensuring appropriate data is collected over the program life-cycle to support an effective evaluation. The performance evaluation framework should target both 'outputs' and 'outcomes'. This is of particular importance where 'social outcomes' are targeted.

Further, the Department should ensure that ongoing and future programs have KPIs measuring both *qualitative* and *quantitative* aspects. These KPIs should be specific, measurable, relevant, achievable and time-bound (SMART).

Program evaluation results should be considered in the ongoing delivery of programs and whether redesign is needed to better achieve Government objectives.

Recommendation #11 – Compliance with CGG Mandatory Requirements

Agencies *must* ensure that grant guidelines and related operational guidance are in accordance with the CGGs. For existing programs, a formal process has not been undertaken to ensure existing grant guidelines comply with this requirement.

For those programs still continuing, and where it has not been done, determine to what extent the CGGs apply and ensure that processes appropriately reflect these requirements and are compliant on an ongoing basis.

4.3 Departmental Wide Recommendations

Recommendation #12 – Grant Management System

Across program areas, there are a large number of purpose built formal systems and spreadsheets to assist with program administration. The existence of a large number of systems also contributes to inefficiencies relating to system maintenance, inconsistent work practices and reporting weaknesses. Whilst a centralised program / grants management system is not necessarily justified on a cost / benefit basis or suitable for all programs, such a system should also help support consistent practices and improved reporting and process compliance.

The Department should prepare a business case to assess the feasibility of implementing a centralised grants management system. To support the business case, and a possible future implementation, a number of options have been put forward that the Department should consider to address identified system weaknesses. These are raised in Section 5 to this report. Appendix D contains further considerations in respect of a centralised grants system.

Note: While the applicability of a grants management system to broader program management maybe limited, there is benefit in considering any synergies and common practices between grant and program management (e.g. contract management, management reporting) and whether these can be incorporated into a centralised system.

Recommendation #13 – Governance and Assurance

Recent Federal Government program failures have highlighted that inadequate or poorly developed program governance arrangements can lead to significant program delivery and implementation issues, potentially resulting in program failure or objectives not being achieved. Among others, contributors to this include a lack of program supervision (e.g. by SES, a program board or other body); poor internal and external communication (e.g. within team, Department and Attorney-General's / Minister's office); and a lack of a clear divide between those staff responsible for program policy and those responsible for program delivery.

Whilst the scope of KPMG's fieldwork did encompass program governance arrangements (at a program or Departmental level), we recommended that the Department consider the appropriateness of its program governance arrangements in the context of recent program failures, the Commonwealth Grant Guidelines and the recently released ANAO Better Practice Guide on Grants Administration.

5   Centralised Grants System – Options

With consideration of discussions with AGD staff and our experience with other Federal Government agencies involved in grant administration, the following options are raised for consideration by AGD. Attachment D includes some things that should be considered in implementing a centralised grant system.

Do Nothing

Whilst this is unlikely to be a sustainable option, cost-benefit analysis may not support the implementation of a dedicated grants management system or other tool to support grants administration across the Department in the short to medium term.

SAP Solution – Procure Additional Modules

SAP provided KPMG with a presentation of their grants module – Grantor Management. From the demonstration provided, the product appears to satisfy the broad requirements of the Department relating to grants administration, including processes surrounding assessment and contract management, supplemented by a strong reporting capability.

Less clear was the suitability of the product to simply accommodate the specific requirements of individual programs, with KPMG understanding the tool is best suited to more homogenous programs, rather than the diverse nature of those within the Department. While the tool is capable to support this, the added complexity would likely increase costs.

A cost was unable to be provided for this tool (and the necessary FMIS upgrades), as requirements would need to be more formally developed for an accurate costing.

Third-Party commercial off-the-shelf (COTS) product

COTS products refer to software that is ready-made and available for sale and implementation with minimal customisation.

In a Federal Government context, the most common dedicated grants management system that KPMG is aware of is Clarity™ (a Computer Associates product). Agencies using Clarity™ include the Department of Environment, Water, Heritage and the Arts (DEWHA), Department of Agriculture, Fisheries and Forestry (DAFF), the Department of Infrastructure, Transport, Regional Development and Local Government (Infrastructure) and National Health and Medical Research Council (NHMRC). Through discussions with some of these agencies, it is understood that Clarity™ can be configured to allow the user interface to be designed to meet program needs. Further it is able to be customised to support interfaces with other corporate systems (e.g. SAP and TRIM). The performance of the system may be impeded by grant programs that do not fit the 'typical' program design. For example in DEWHA, problems arose when the system catered for a program with significant payment volumes (1,000s daily).

It is noted, however, that these agencies run Clarity™ on a UNIX platform. Before this can be considered a viable option, it is recommended that the Department enquire whether Clarity™ is

able to operate on a Microsoft platform (which we understand to be the platform used by the Department).

In-House Development

In-house AGD IT staff advised that there is capability within the Department for a bespoke application to be developed to support grants administration – provided requirements are clearly understood and communicated.

Through other Commonwealth Agency discussions and our wider experience, it is noted that in-house development is a difficult and often costly process, with few systems existing that are flexible enough to support multiple diverse programs. Accordingly, whilst the Department may have the capability to undertaken such a project, it is noted that there are significant risks with such an approach that would need consideration.

Agencies that have implemented in-house developed grant systems include Department of Innovation, Industry, Science and Research (including AusIndustry), Department of Infrastructure, Transport, Regional Development and Local Government, Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the Australian Research Council.

Reporting System

Whilst there would undoubtedly be efficiency and process improvements by using a centralised grants management system, there would be significant benefit for the Department via a dedicated reporting tool – noting that reporting was raised as a significant issue for program staff.

The Department is currently looking to implement a contract management tool within SAP, which was initially developed by the Department of the Treasury. Discussions regarding the tool were positive – in addition to contract management functionality, it should be possible to incorporate fields that would support individual program and Departmental grant reporting – provided that requirements are appropriately captured.

Such an option may be appropriate as an interim measure or where the Department feels that the costs associated with a centralised grants management system are not outweighed by the benefits.

Attachment E contains a list of fields / grant information which were considered by some areas (namely Finance and Indian Ocean Territories) to be the minimum requirements to fulfil their reporting and grant management requirements.

A   Grants Administration – Mandatory Guidelines

The Department's Grants Management Manual provides staff with guidance in respect of Mandatory Guidelines and Better Practice Principles of the CGGs. The CGG requirements are mandatory to grant programs only.

An assessment of 'compliance' with the mandatory requirements is outlined in the table below. This has been developed on the basis of assertions from Departmental staff.

Assessment of the Programs against the Mandatory CGG Requirements	
CGG Requirement	**Comments**
Where Minister exercises the role of a financial approver, they will not approve the grant without first receiving agency advice	For programs where the Attorney-General or Minister was the financial approver, AGD staff assert that advice was provided for all projects as part the approval process.
Report to Finance Minister as soon as practicable after approving grant in their own electorate.	Whist this situation has not occurred to the knowledge of program staff, they indicated this would be undertaken should the situation arise.
Report annually to the Finance Minister on all instances where they have approved a grant which the relevant agency has recommended be rejected.	Within the only program which has indicated that this situation has arisen, program staff reported this appropriately.
New grant guidelines will require consideration by ERC	As the CGGs don't apply retrospectively and the majority of programs predate the CGGs, the majority of programs are not required to meet this requirement. For most new program areas, grant guidelines had been approved by ERC. Some areas had guidelines still in development and were aware of this requirement. Guidelines for Native Title Anthropologist Grants Program were approved outside of the ERC process. KPMG were advised that ERC were unable to review and approve the guidelines within their schedule of meetings. As was previously agreed by Cabinet, given the desire to have the guidelines approved as soon as possible, they were provided to the Finance Minister for approval through a letter from the Attorney-General. Given the circumstances, this appears appropriate.

Assessment of the Programs against the Mandatory CGG Requirements	
CGG Requirement	**Comments**
Advise Ministers on requirements of the CGGs	KPMG has been advised that formal advice has been provided to the Attorney-General and Minister on their explicit responsibilities and requirements of the CGGs.
Agencies must develop grant guidelines for new grant programs and make them publicly available	All programs had formal grant guidelines in existence or in development at the time of writing.
Agencies must ensure that grant guidelines and related operational guidance are in accordance with the CGGs	A formal process has not been undertaken to ensure existing grant guidelines comply with this requirement. For those programs still continuing, the Department should consider to what extent the CGGs apply and ensure that processes appropriately reflect these requirements.
Publish information on departmental website no longer than 7 working days after the funding agreement takes effect. Information must remain on the website for a period of at least 2 financial years.	All program areas were aware of this requirement. KPMG understands that there is a process in place for this timeframe to be met.

Refer to recommendation #11

B Grants Administration – Better Practice Principles

The following section details KPMG's observations regarding the implementation of the better practice principles contained in the CGGs. By their nature better practice principles are not mandatory and hence non-compliance does not lead to a 'breach' of the Financial Management and Accountability Act 1997 (FMA Act). Compliance 'trends' have been drawn across the AGD programs[6] considered and are based on the responses of management through meetings and questionnaires and observations are made on an exception basis only.

B.1 Robust Planning and Design

Establishing the need for the Granting Activity / Defining the objectives of the program

In the absence of a specific directive by Government, it is important to determine that there is a need for a program and that the program is aligned with the Department's strategic objectives.

Observation

As noted, the Department administers a large number of grant programs, several of which have been ongoing for a number of years within the AGD or have been inherited from other Government agencies. In these cases, KPMG was not aware to what extent the need for the program had been re-assessed and whether the existing approach (i.e. a grant program) remains the best way to achieve this. Similarly, it is not evident that the objectives of the program have been revisited or defined to ensure that they are consistent with the current strategic objectives of the Department or whether funding is appropriately targeted.

Refer to recommendation #5

Evaluation Framework

CGG Better Practice would have programs establish a performance evaluation framework during the planning phase, so that from the outset appropriate performance data is able to be gathered to enable an ultimate evaluation, at a later date, of the appropriateness, efficiency and effectiveness of the program.

Observation

None of the programs explicitly set out a performance evaluation framework. Accordingly there has not been an explicit determination of the measures of success at the program level. An effective performance evaluation framework would direct the collection of relevant data, statistics, etc to enable an assessment against the objectives of the program. Importantly, the establishment of any framework must be done as part of program design to ensure that appropriate structures are established to collect data over the life of a program and not simple after program conclusion.

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[6] Including 19 programs, 17 of which administer grants

AGD-10 Review of Program Administration - FINAL Report.DOC   24

Although we note that some of the Indigenous programs within the Social Inclusion Division have been subject to evaluation by the Office of Evaluation and Audit (Indigenous Programs) these programs still did not have a performance evaluation framework identified at program inception.

Refer to recommendation #10

Risk Management

The CGGs recommend that risk assessments be undertaken as part of the assessment process to ensure that the program is appropriately designed and agencies are in a position to make fully informed decisions about the use of public money are able to be made.

Observation

Specific risk assessments at the program level are generally not undertaken. Many of the programs have been in existence for a significant length of time or have been inherited from other Departments where initial risk assessments may have been undertaken. However, in most cases, current risk assessments do not exist. Whilst discussions suggested that program risk is considered, it has not been formalised into the design and administration of the program.

Refer to recommendation #1

B.2 An Outcomes Orientation

Qualitative and Quantitative Measures of Performance

Related to the existence of a performance evaluation framework (above), the CGGs strongly encourage programs to have a number of qualitative and quantitative measures of performance (Key Performance Indicators or KPIs) to measure the implementation and impact of the Program.

Observation

Where they existed, KPIs were typically targeted at the project level and generally consisted of quantitative measures of performance (e.g. percentage completion or level of expenditure against agreed funding). A number of programs did recognise the need and noted that both qualitative and quantitative measures of performance were the subject of discussion in National Partnership Agreement negotiations currently taking place.

Refer to recommendation #10

B.3   Proportionality

Consideration of the Principle of Proportionality

The CGGS recommend that the principle of Proportionality be considered when setting up a new grant program. This principle includes, but is not limited to, an assessment of the administrative burden on the Department and grant recipients of grant acquittal requirements by reference to the size, value, risk profile and complexity of the granting activity.

Observation

Consideration of Proportionality provides the Department with an opportunity to ensure that administrative processes are tailored to the relative risk of the program. Whist some programs clearly and explicitly considered this, proportionality was not always addressed in program design. This was particularly noticed in respect of funding agreements and project monitoring, where processes were not necessarily tailored to reflect the relative risk and complexity of the program or individual project. There were however examples where proportionality had been considered, for example where different funding agreements were used dependant on the amount of funding provided or more active monitoring requirements existed including placing Departmental staff on the Project Board.

Refer to recommendation #1

B.4   Collaboration and Partnership

Program Overlap

In developing and implementing granting activities, consideration should be given to similar programs that may be run from within the Department, the wider Commonwealth as well as other levels of Government and potentially other funding organisations. Such an approach helps avoid duplication of effort and also potential 'double-dipping' by grant recipients.

Observation

With the exception of those programs that exist purely to service known funding gaps (e.g. in legal aid and the Indian Ocean Territories) and those programs oversighted by the National Emergency Management Council, there is not a formal approach in place to ensure there is not overlap with existing programs. Whilst this is arguably unnecessary in some cases, e.g. for programs specifically addressing federal legal matters, better practice encourages such consideration is undertaken.

It is noted that for most programs, application forms require funding applicants to identify other sources of funding. It is understood that this is considered in determining whether applicants require AGD funding. Additionally, the GMS system (used for indigenous programs) allows program staff to see what other funding applicants are receiving.

Refer to recommendation #5

B.5   Governance and Accountability

Governance Structures

Appropriate governance structures should be put in place to support grant activities and to provide assurance that processes are working as intended and that funding is appropriately used. In addition to guidelines, assessment criteria and funding agreements, additional governance structures include a formalised quality assurance program and the use of internal audit.

Observation

As discussed earlier, whilst funding agreements are generally legally enforceable[7], the Department does not have a structured approach to their development, leading to inefficient practices in the preparation and review of funding agreements.

Assessment processes generally seemed appropriate, with applicants and potential funding recipients assessed against program guidelines and criteria.

While there are some governance and quality assurance processes built-in, e.g. supervisor review, it does not appear that a structured and risk-based approach is taken to support this. Further, while there has been some activity in the past, most program areas have not been subject to a focused review (e.g. via Internal Audit). KPMG believes there would be value in the Department undertaking a detailed review of some 'higher-risk' program areas to help identify potential problem areas and additional recommendations for improvement that may be relevant to wider grant management within the Department.

Refer to recommendation #13

Procedures Manuals

As per the CGGs, *"Agencies should develop such policies, procedures and guidelines as are necessary for the sound administration of grants"*. Further, the ANAO better practice guide on Grants Administration states: *"Sound administration of a grant program is supported through the establishment of documented internal procedures to guide each aspect of the administration process"*

Observation

For several programs, the Procedures Manual was either not developed or there was only minimal guidance documentation (e.g. checklists) to support staff involved in program administration. Given the breadth of activity required of program staff, including assessment, funding agreement preparation and contract management, the existence of a robust procedures manual is critical to promote consistency and compliance with processes.

Refer to recommendation #7

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[7] Agreements with the states being a notable exception

Contract Management and Monitoring

Contract management and monitoring is an important element of grants administration, necessary to ensure that funding is used for the purposes provided, consistent with Government expectations.

As noted in the newly released ANAO better practice guide on Grants Administration: *"Monitoring staff need appropriate skills and knowledge of the activity being undertaken and adequate administrative support to process routine monitoring data."*.

Further:

"The reporting requirements determined in relation to individual grants, based on a risk analysis of the project and funding recipient involved, will need to be specified in the relevant funding agreement to ensure they are enforceable."

Observation

KPMG noted significant variation in the extent and rigour of monitoring processes. Some programs had formal project monitoring regimes that involved progress reports, on-site reviews and formal acquittals of funding, while others were done on an ad-hoc basis as resources permitted. Program areas advised that where funding is made in arrears, it would always be dependent on a suitable milestone report (or similar).

Whilst this may be appropriate in light of the 'proportionality' principle, the level of monitoring has not been determined based on a formal risk analysis of the program and individual project. Further, whilst unable to be confirmed without formal testing, KPMG notes that program staff typically are not trained in contract management and perform this role in addition to their other activities. Accordingly, they may not have the necessary skills required to adequately perform the role.

Refer to recommendation #1, #2 and #6

Fraud and Conflicts of Interest

Better practice suggests that individual programs should actively manage the risk of fraud and have procedures for identifying and dealing with conflicts of interest.

Observation

For many programs fraud was not actively managed or considered, or was only considered as part of the Department's fraud risk assessment process. At a minimum, it would be expected that fraud risks would be considered in the program risk assessment and that if any significant fraud risks were identified, management procedures would be identified. For the most part, this was not formally undertaken.

Whilst the AGD has an internal conflict of interest policy, it is not clear whether conflict of interest is systematically managed for grant recipients and grant recipient organisations. Whilst conflict of interest management is clearly and formally integrated into the grant management

processes and systems in some programs, in others conflicts are managed informally through the local knowledge of individual program staff, if at all.

Refer to recommendation #1

B.6 Probity and Transparency

Records management

Good record keeping is important both at a project level, and also at a program-level, such as records relating to the purpose of granting activities, alternatives considered and those records that tell the 'story' of the program.

Observation

Feedback from program areas indicated that record keeping on a project level is sufficient to support granting activities. Records of key assessments, decisions and other supporting documentation were asserted by program areas to be available either on hard copy file or TRIM.

'Program implementation' file guidance would be useful for programs. Whilst program staff were confident that these documents exist, the establishment of a project implementation file would assist project management by drawing together all information relating to the purpose, need and objectives of the granting activity. This would include information about key events, activities and approvals (as appropriate).

Refer to recommendation #9

B.7 Achieving Value for Public Money

Timing of Funding

A recognised principle of grant management is that funds are not paid until required, i.e. the timing of funding, whether in advance or in arrears is matched to the need of the funding recipient. This principle is well recognised by the ANAO, with the better practice guide on Grants Administration noting that the timing and structure of grant payments should reflect:

- The cash flow required to progress the project;

- The risk of non-performance or obligations; and

- The cost to the Australian Government (via interest foregone).

Observation

KPMG noted some variants in the way grants are paid to recipients, with some program areas paying funds up-front with others paying in arrears. Whilst KPMG were advised that funding

paid up-front is only done for those recipients where the provision of funding is necessary for their existence, it is noted that in some instances, the entirety of annual funding is paid in advance and consideration of the timing and need of funding for the duration of the grant is not undertaken. In cases where grant money is paid in advance, the ability of the Department to recoup any misused fees or require specific improvements in activity administration is diminished. Further, this comes at a cost to the Australian Government via interest foregone.

Refer to recommendation #8 and #9

Administrative Costs

Through identifying and monitoring the actual administrative costs of a granting activity, agencies are better able to determine whether there is too little or too much administrative effort supporting a granting activity. Combined with a suitable risk analysis, this allows a suitable level and mix of resources to be deployed.

Observation

For the most part, program areas advised that administrative costs are not monitored, although staff assert that administrative cost could be calculated if required.

While there is no benchmark as to what is an appropriate proportion of administrative cost (in relation to overall grants expenditure), KPMG notes that there is a large number of relatively small grant programs, supported by numerous staff with differing levels of grant administration experience.

The Department would benefit from a more considered assessment of resource management, with a view of allocating sufficient and appropriately skilled resources to support grant administration.

Refer to recommendation #2

C   Program Specific Findings

The following are some examples of both good practices and areas where practices could potentially be improved. This list is not considered to be exhaustive, but those apparent to KPMG during the course of fieldwork.

C.1   Good Practices

Social Inclusion Division – Indigenous Programs

The Common Funding Round provides a structured and coordinated approach to the application process for Indigenous programs, allowing potential funding recipients to apply for multiple funding sources using the one application. This helps streamline the application process for both the Department and the recipient, while also giving visibility of other potential sources of funding.

Social Inclusion Division – Indigenous Programs – GMS

GMS is a dedicated grants management system (hosted by FaHCSIA) used for indigenous programs. GMS provides a range of functionality for program staff including an ability to see what other sources of funding (relating to Indigenous programs) that applicants are receiving[8], workflow to ensure that steps are completed in a consistent manner, and automatically generated letters and funding agreements.

Criminal Justice Division – Proceeds of Crime Act

Noting the large number of applications to be received and the relative flexibility of POCA, the most recent round of POCA involved receiving expressions of interest in the first instance. These were then considered so that a more targeted program focus could be determined. This resulted in a much more manageable number of applications to be received and assessed.

Access to Justice Division – Grants to Australian Organisations

The GAOP program is a highly flexible program where grants may be awarded to address a variety of areas. The program is centrally co-ordinated with administrative processes (e.g. assessment and contract monitoring) managed by individual line areas (generally outside of the Branch).

Program staff have developed procedural documentation to address the increased risks associated with the decentralised processing. Further, three funding agreement templates are available dependant on the risk / value of the funded project.

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[8] This was noted as a historic benefit of GMS. KPMG were advised this has become a less compelling benefit as less agencies are using GMS.

C.2   Potential Areas for Improvement

Social Inclusion Division – Indigenous Programs – GMS

Whilst providing most functionality required by program staff, the GMS application does not have a case management function or a well developed reporting capability. This has resulted in additional systems being used to record this information and also help with recipient reporting of obligations against the performance indicators.

Further, payments initiated in GMS previously were automated through to the Department's SAP finance module. This functionality is no longer provided which has resulted in payments being manually processed.

Criminal Justice Division – Proceeds of Crime Act

The Criminal Justice Division undertake a 'double-blind' assessment of applications for Proceeds of Crime Act funding. In these cases, an application is assessed independently by two program staff, before being reviewed by a minimum of supervisor and Branch Head. A decision by the Minister is then requested.

Access to Justice Division – Grants to Australian Organisations

Notwithstanding the positive findings outlined above, it is noted that the program has a high administrative component, with multiple line areas having input and a role in the administration of grants. Whilst this may be appropriate given the design of the program, it is not necessarily an efficient means to deliver the desired outcomes.

Further, given the large number of areas with a role in administering grants under the program, there is a risk that processes are not consistently applied or that staff do not have the specific skills required to perform these tasks.

D   Issues for Consideration – Centralised Grants System

Theme / Topic Area	Issues to consider
Reporting	Program staff advised that a significant limitation of current grant administration is the ability to produce meaningful and accurate reports. This becomes a greater concern at a whole-of-Department level, as there is currently no mechanism to produce reports on grant activity at a consolidated level.
	Importantly, any system implemented by the Department must be developed to produce reports needed from a program and Department-wide level. This would include not only pre-defined reports, but also flexibility to allow customised reports to be prepared to respond to specific requests (e.g. for Senate Estimates).
	Accordingly, it is important that the AGD has an understanding of its reporting and data needs so that system requirements reflect these.
	Attachment E contains a list of fields / grant information considered by some areas (namely Finance and Indian Ocean Territories) that would be a minimum requirement to fulfil their grant reporting and management requirements.
Cost / benefit analysis	KPMG have presented a number of considerations obtained from our experience with a number of agencies that have implemented grants management systems.
	In addition to this it is critical that AGD undertakes a cost / benefit analysis of the options put forward in this paper before a decision to procure is made.
	An appropriate cost / benefit analysis should consider the following (but not limited to):
	• Whole-of-life costs: cost of procurement; ongoing costs; related costs (training, ICT equipment, etc); extent of customisation required; legacy data import / migration;
	• Benefits: financial benefits (e.g. through efficiency gains, lower administration costs); reporting improvements; improved grant administration; improved legislative compliance (e.g. FMA); system maintainability (i.e. only one system to maintain).
	Importantly, if the 'critical mass' of grant programs does not exist, the analysis may not justify the pursuit of a centralised system.

Theme / Topic Area	Issues to consider
Grant Processes	As noted, the Department has several grant programs with disparate processes in place. A challenge in adopting a grant system, is ensuring that it has the flexibility to meet the needs of individual programs. This is particularly relevant to existing grant programs, whereas for future grant programs, the Department would be better able to design processes so that they meet a 'standard mould'.
Grant Program guidelines	Whilst there may not be a high degree of consistency in grant management processes across the Department, this does not imply practices aren't fit for purpose – indeed the fundamental differences in funded recipients and design of programs may well require different practices. Notwithstanding, there may be efficiency gains from adopting more consistent practices. With the Department's significant involvement in program management, the release of the Commonwealth Grant Guidelines (CGGs) and the recently released ANAO Better Practice Guide on Grants Management, it would be timely for the Department to supplement their existing grant manual with some further guidance to help promote consistent processes (where possible). This is an important first step, prior to the development of a grant information system, as it puts in place the framework within which the system can be developed and that grants can be administered.
Procurement of a new system	Procurement of a new system typically requires lead-time of 6-18 months (or longer): requirements need to be determined, an RFQ needs to be prepared, responses assessed, the preferred option determined and the system implemented. Accordingly, this would not be preferred if AGD requires a system in the more immediate term. Feedback from program areas indicated that the need for a system is not necessarily 'pressing', however, a common theme was that a solution to support reporting (in the more immediate future) would be beneficial. Should the Department move towards a dedicated grants management system, a full tender process would be most likely necessary for a non-SAP solution, as it may be possible to procure additional modules and enhancements outside of an open-tender process.

Theme / Topic Area	Issues to consider
Project Management	In any approach adopted by the Department, it is imperative that appropriate project management disciplines are applied. In particular, it is important that the scope of the project is defined and user requirements well understood. Through KPMG's consultations with other Government agencies, a poor project management approach was noted as contributing to time and cost delays to systems implementation (e.g. as a result of 'scope-creep').
Stakeholder engagement / consultation	With consideration of well-documented project management principles and also KPMG experience with other agencies, it is important that the Department undertakes extensive stakeholder engagement and consultation in implementing a centralised grants management system. This should include: • Getting organisational 'buy-in' and identifying a suitably senior project sponsor. • Getting formal agreement on the project scope and requirements. • Consultation with all program areas to understand their specific requirements and concerns. Without appropriate consultation, there is a risk that the proposed system will not have the support of management or staff and will therefore not meet the needs of the Department and potentially not be extensively used, thereby reducing any associated benefits. This is important, for example, in respect of program areas that have existing grant management systems that meet their current needs.

Theme / Topic Area	Issues to consider
Information and Communication Technology (ICT) Budget	As with all agencies, there is a limited ICT budget, which places restrictions on the Department with respect of a grants management system – presuming the ICT budget is not increased. This is further complicated by the recommendations of the 'Gershon' review[9], which among others, suggests reducing ICT business as usual expenditure. In particular, it is important that the ongoing costs of any grant system are kept to a minimum. For a COTS application, the most direct cost would be licence fees, which depending on the application may include maintenance and upgrades.
System Security - Access	Consultation with program areas noted that proponent information may be confidential and needs to be treated as such. Accordingly, any option pursued by the Department *must* be able to address the specific security needs of each program. The primary grants management systems considered in this report (SAP and Clarity™), both have configurable security controls that can restrict access to users on a needs basis.
FMA responsibilities	Whilst not necessary from a system perspective, there are benefits in ensuring that FMA obligations can be built into the system. This helps to ensure that FMA responsibilities, and where possible, those of the CGGs can be managed in an automated manner. KPMG understands that both SAP and Clarity™ have this capability.
Useability	Appreciably, a key risk of any system is that it does not meet user requirements or is not 'user friendly'. Accordingly, it is important that there is appropriate effort spent in defining requirements to ensure that user needs are met. This is particularly important for program areas that have a pre-existing grants management system, to ensure that no key functionality is lost. Both SAP and Clarity™ are configurable to allow for individual program differences to be incorporated.

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[9] Review of the Australian Government's Use of Information and Communication Technology (August 2008).

Theme / Topic Area	Issues to consider
Data Migration	To be most effective, any grants management system would need to incorporate existing and future grant programs. While new grant programs can be designed around the system, existing programs must have their data migrated to the new program. This can be a potentially time consuming and difficult process, which would need to be appropriately planned for in any system implementation.
Customisable vs Configurable Systems	The grant management system options (SAP and Clarity™) discussed in this report represent 'configurable' systems, which allows the specifics of grant programs to be addressed. This is preferred to 'customisable' systems, in that a general rule of thumb is that complexity and costs increase as does the customisation of a system. Importantly, the existence of Departmental program management guidelines within which programs operate, supports a configurable system as it provides a framework that supports a consistent approach, whilst allowing for the individual requirements of each program.
Business Continuity	A business continuity plan is an important component of any key business process, helping to ensure that the impacts of any disruptions or incidents are kept to a minimum. With respect of implementing a single centralised grants management system, a risk that should be considered is the introducing of a single point of failure, i.e. should the system be unavailable, all programs are affected. However, recovery actions for one system can be expected to be simpler than would be the case should multiple systems exist.

Theme / Topic Area	Issues to consider
Systems Support	In implementing a centralised grants management application, there are a number of 'support' activities and functions that should be considered. A summary of these is provided: • Integration with existing ICT environment: It is important that any system to be implemented integrates with the Department's ICT environment. • Hardware requirements: Depending on the application and existing hardware, the Department may need to invest in additional hardware (e.g. servers) to support the new system. • Help-desk: A help-desk function is useful to assist users with their day-to-day queries (with respect of the system). The help-desk also escalates more serious incidents for further investigation. • Training: This is required from two aspects, being 1) Users of the system; and 2) ICT support staff responsible for day-to-day support activities. • Documentation: Similarly to training, this is required for both users of the system and ICT support staff. This may done by way of an online help-tool.

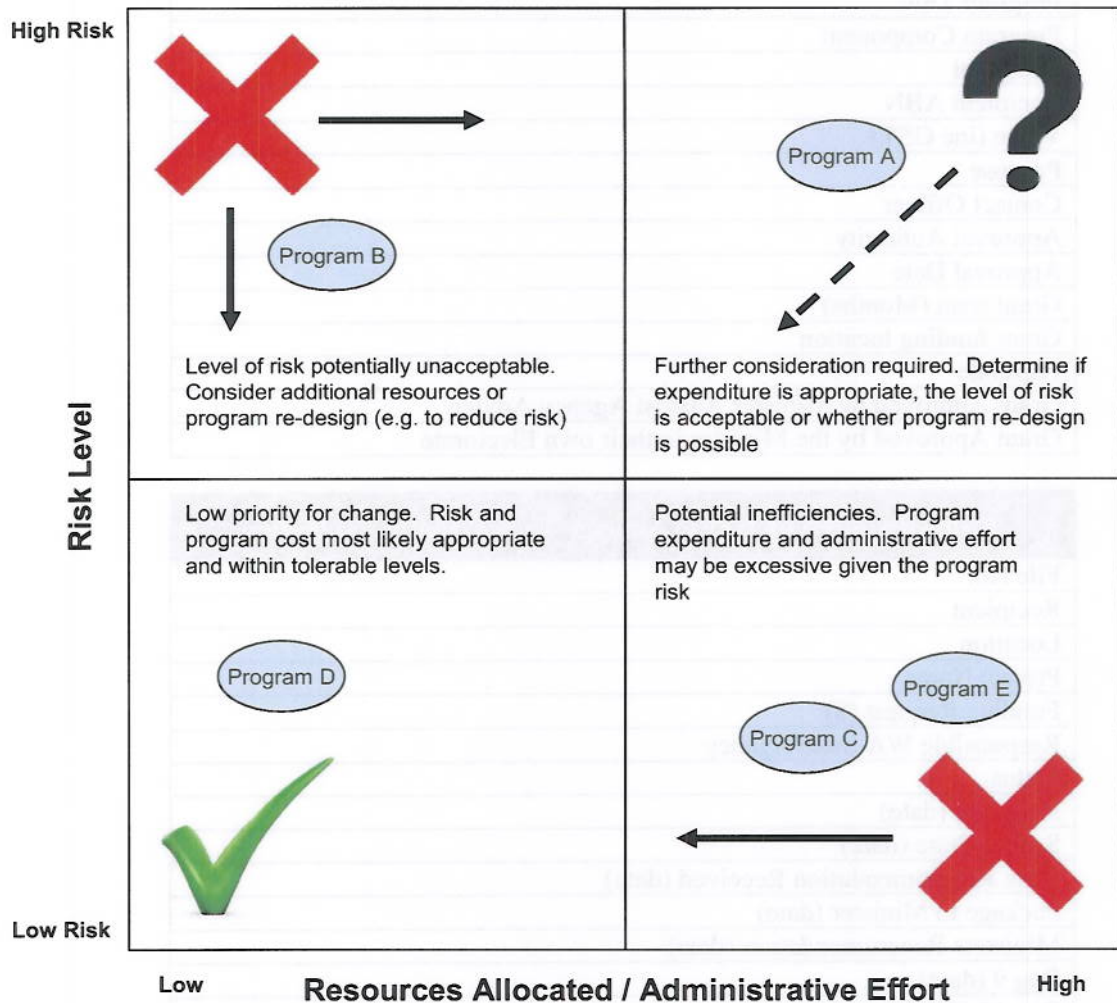| Theme / Topic Area	Issues to consider
Interfaces	While not a 'must-have' requirement of any program area, the ability of the grant information system to interface directly with existing applications within the Department is a significant benefit of any grant system implemented.
	For instance, integration with the FMIS (SAP) removes the need to enter payments twice (in FMIS and grant system), as payments can be established in the grants system and are automated through to SAP and the corresponding payment. Similarly, integration with the TRIM helps ensure that key records associated with grant projects are appropriately stored and retained.
	The design and implementation of any such interfaces can be considered as a component of the wider system implementation. Accordingly, it is important that it is subject to appropriate control and oversight.
	It is noted that the SAP solution is most readily able to interface with AGD's FMIS, given it is an add-on module.
	Clarity™ does have the capability to interface with an FMIS, however, it is noted that some agencies (e.g. NHMRC) have had issues with this. Accordingly, it is important that such a requirement is addressed in contracting.

E Grant System – Information Requirements

The following section contains a list of fields / grant information which were considered by Finance and Indian Ocean Territories (IOT) to be the minimum requirements to fulfil their reporting and grant management requirements.

Fields Required by Finance to Report Externally on Grants
Program Title
Program Component
Recipient
Recipient ABN
Value (inc GST)
Purpose
Contact Officer
Approval Authority
Approval Date
Grant term (Months)
Grant funding location
Postcode
Grant Approved by Minister Against Agency Advice
Grant Approved by the Minister in their own Electorate

Fields Required by IOT to Manage Their Granting Activities
File No.
Recipient
Location
Project Name
Funding Request ($)
Responsible WA State Agency
Status
Received (date)
Sent to State (date)
State Recommendation Received (date)
Package to Minister (date)
Ministers Recommendation (date)
Reg 9 (date)
Reg 13 (date)
Sent Funding Agreement (date)
Signed Funding Agreement (date)
Grants Register 09 #810402DOC (date)
Payment Made (date)
Completion Date (date)
Report Due (date)
Reminder Sent (date)
Report Received (date)
Comments (Free text Field)

F   Allocation of Resources to Risk

The diagram below is a simple tool that can be used to help rate and compare programs administered by the Department. At its most basic level, the tool aims to align program resources and administrative cost with the level of risk of the program. Depending on the risk / resource mix, actions are suggested to make improvements.

High Risk

Program B

Level of risk potentially unacceptable. Consider additional resources or program re-design (e.g. to reduce risk)

Program A

Further consideration required. Determine if expenditure is appropriate, the level of risk is acceptable or whether program re-design is possible

Risk Level

Low priority for change. Risk and program cost most likely appropriate and within tolerable levels.

Potential inefficiencies. Program expenditure and administrative effort may be excessive given the program risk

Program D

Program E

Program C

Low Risk

Low   **Resources Allocated / Administrative Effort**   **High**

G   Example Risk Assessment Considerations

The following table provides two example risk considerations: for program governance and project appraisal. The development of a comprehensive program risk assessment guide would assist staff target key risks in an efficient manner.

Risk Area	*Have you thought about?*
Program governance	• Inadequate or incomplete planning • FMA or other legislative breaches in program administration and delivery • ANAO better practice guidance and expectations are not complied with • Record keeping requirements are not complied with (e.g. documenting of key decisions) • Suitability of program guidelines with program objectives • Time pressures resulting in oversight of key accountabilities or governance requirements
Project appraisal and prioritisation	• Volume of project submissions received exceeds capacity to review • Inconsistent interpretation of program guidelines and assessment criteria • Documentation of project assessment decisions and variations to agreed processes is not maintained • Department recommends projects for approval that do not meet program guidelines • Applicants feel they are not assessed fairly

H   Departmental Staff Consulted

The following program areas and AGD staff were consulted with during fieldwork.

Staff Member	Program Area
Grant Winkler	NT Law and Order Measure ('Night Patrols') – Social Inclusion Division
Margaret Beattie Vivienne Breen	Family Violence Prevention Legal Services (FVPLS) Program – Social Inclusion Division
Sonia Burton Dan Ticehurst	Legal Aid for Indigenous Australians Program – Social Inclusion Division
Rebecca Whittington	Payments for Indigenous Interpreter Services – Social Inclusion Division
Wendy Christiansen	Indigenous Justice Program – Social Inclusion Division
Joan Jardine Wendy Spicer James Park	Community Legal Services (CLS) – Social Inclusion Division
Chris Colegate John Boersig Tamsyn Harvey Leith Watson	Native Title Anthropologist Grants Program; Human Rights Branch – Social Inclusion Division
Terina Koch Linda Marsden Elanor Lewis	Financial Assistance – Social Inclusion Division
Garry Berlingham Mary-Anne Day Megan Lane Janine McFarlane	Legal Aid – Social Inclusion Division
Iain Anderson Dianne Heriot Gillian Malconi Ian Brown	National Community Crime Prevention Program; Schools Security Program; Safer Suburbs Program; Proceeds of Crime Act 2002 (s98 payment) – Criminal Justice Division

Staff Member	Program Area
Alan Kuslap Grant Barons Hilary Owens	Indian Ocean Territories – Territories Division
Toni Pirani Jean Lynch Catherine Catanzariti Janet Douglas	Family Relationship Services Program – Access to Justice Division
Patrick Collins Matt Minogue Joseph Angel	Grants to Australian Organisations – Access to Justice Division
Mike Norris Peter Channells	National Disaster Resilience Program
Jamie Lowe Gemmie Alliston	Countering Violent Extremism to Prevent Terrorism (CVE)
Eddie Carthew Gary Barkley	National Counter-Terrorism Committee (NCTC)
Carly Panagiotopolous Robert Lee	Disaster Resilience Australia Package

Other consultations

Name	Title / Area
Stephen Lutze	General Manager, Finance and Property Division
Katherine Jones	General Manager, Social Inclusion Division
Elizabeth Kelly	Deputy Secretary, Civil Justice and Legal Services Group
Julian Yates	General Manager, Territories Division
Alison Playford	General Manager, Access to Justice Division
Peter Arnaudo	Assistant Secretary, Indigenous and Community Legal Services Branch
Lyne Browning	Senior Project Manager, People, Information & Technology Division

Name	Title / Area
James Allen	A/g Director, Financial Systems and Accounting Operations
John Donaldson	Senior Advisor in Procurement, Financial Framework Section
Rachael Jackson	Cabinet and Ministerial
Rachel Weatherby	Director, Financial Systems and Accounting Operations
Helen Curtis	Senior Executive Lawyer, Australian Government Solicitor representative
Stephen McDougall	SAP – Solution Architect
Brendan Wilson	Finance (FPD)
Tracey Jolly	Applications Development, Information & Technology Division
Aiden Collie	Divisional Executive Officer, National Security Capability Development Division
Geoff Parr	Business Manager, National Security Capability Development Division

I   Scope

This review considered 19 programs areas (17 that administer grants) as identified by the Department (see Attachment H for a list of these programs and staff consulted). Fieldwork was conducted at a high-level with findings and observations raised in this report based on representations made by staff.

KPMG undertook discussions with all in-scope program areas to understand the nature of the program and document key processes. This was supplemented by a questionnaire aimed to confirm program staff understanding of the mandatory requirement and better practice principles contained in the Commonwealth Grant Guidelines (CGGs) and the ANAO Better Practice Guides on Grants Administration and Contract Management (high-level only). Testing and review of program / project documentation has not been undertaken.