KPMG

THE DEPARTMENT OF
THE PRIME MINISTER AND CABINET

REPORT OF THE SPECIAL AUDITOR

October 1996
CANBERRA

Contents

1 Executive Summary

On 4 June 1996, the Minister for Aboriginal and Torres Strait Islander Affairs appointed KPMG as Special Auditor for a period of six months. This appointment was made to facilitate compliance by the Aboriginal and Torres Strait Islander Commission (ATSIC) with the Minister's General Direction issued to ATSIC on 10 April 1996. Whilst the effect of the General Direction was considered by the Federal Court on 18 September 1996 to have no force or effect, the appointment required KPMG to report after four months. This report is in response to that requirement.

From the information gathered to date it is possible to draw a number of conclusions and recommendations from the process so far. These recommendations and conclusions are set out below and are expanded further in Sections 2 and 3 to this report.

It must be appreciated that the Special Auditor review process was directed towards accountability within ATSIC / TSRA funded organisations. Whilst ATSIC / TSRA can be seen as having a facilitative and developmental role in accountability, the Special Auditor process was not a review of the operations or performance of ATSIC / TSRA. We have however, provided comment and recommendations in relation to ATSIC / TSRA processes and procedures where we consider that accountability within ATSIC / TSRA funded organisations could be improved if the recommendations were implemented.

It should also be appreciated that ATSIC / TSRA has in the past funded some organisations with poor records of accountability. This has occurred in cases such as where there are no alternative service providers.

1.1 Number of organisations reviewed and determinations made

- As at 18 September 1996, 1,122 organisations had been reviewed and completed. From this total, 1,062 organisations or 95% have been cleared for funding. Some of these organisations have been cleared subject to remedial action being taken to rectify breaches.
- Of the total number of organisations reviewed, 125 or 11% were in full compliance with ATSIC / TSRA grant and loan terms and conditions in the 1995/96 financial year.
- Of the total number of organisations reviewed and completed, the Special Auditor has issued 60 not fit and proper determinations. The audit process was terminated before these organisations had the opportunity to comment. In 1995/96 funding provided to these organisations totalled $27,854,226.
- When the Special Auditor process was terminated additional information had been called for 130 organisations as a determination could not be made from the information provided at the time of our field visit. In 1995/96 funding to these organisations totalled $89,658,590. Had the process of review continued there existed the potential for some or all of these organisations to receive a not fit and proper determination and in this regard, ATSIC / TSRA should consider the information provided by these organisations along with other Special Auditor information it has prepared before any third and fourth quarter funding is released.

- 64 organisations are currently under the control of an Administrator appointed by the Registrar of Aboriginal Corporations (or other such body) or have an ATSIC / TSRA appointed grant controller. While such appointments protect the expenditure of public money they reflect poor financial administration and accountability within the organisations.

1.2 Size of organisations receiving funding

- We consider the current size of organisations is contributing to the level of breaches with ATSIC / TSRA grant and loan terms and conditions.
- 742 or 66% of ATSIC funded organisations receive between 1 to 3 grants which total less than $300,000. This represented 60% of total ATSIC / TSRA grant funding in 1995/96. These organisations are required to comply with similar reporting requirements to those of larger funded organisations.
- 65% of the organisations determined to be not fit and proper had funding levels in 1995/96 totaling less than $300,000. As such, the question must be asked - Is funding 1,122 organisations considered excessive for the delivery of services to indigenous communities? In the majority of instances these organisations did not have strong internal accounting skills.
- A reduction in the number, or a consolidation of funded organisations must be addressed by Regional Councils. We believe that significant economies of scale in service delivery, administrative time and costs could be achieved through this initiative. Furthermore, it would enable organisations to build internal financial and management expertise. A further benefit would be the freeing up of ATSIC / TSRA resources to undertake more field visits. This proposed change should not be viewed as necessarily suggesting a reduction in funding across the portfolio.
- A reduction in the number of funded organisations will require extensive consultation between ATSIC / TSRA, the organisations and the Regional Councils. Such an initiative will require leadership from Regional Councils.

1.3 ATSIC / TSRA grant and loan terms and conditions breached by organisations

- A constant comment, from all Special Auditor field teams related to the repeated lateness in the submission of financial and management information. This was the overriding reason why organisations breached terms and conditions.
- Other common breaches included the failure to lodge project performance reports, unauthorised budget variations resulting in unauthorised expenditure and the late lodgement of acquittal documentation.
- Approximately 75% of the organisations reviewed had repeated breaches in 1994/95 and 1995/96. This indicates that organisations are having difficulty in meeting ATSIC / TSRA funding requirements. Breaches in concurrent years suggest that remedial action has not been taken or where it has, it has not been effective.
- A review of the statistics contained at 3.2 and in Section 4 indicates that remoteness is not the primary reason why organisations breach ATSIC / TSRA grant terms and conditions. For example Offices in the Northern Territory and the TSRA were not issued with any not fit and proper determinations.

Rather, the priority accorded and approach adopted by State and Regional ATSIC Offices seems to be a more significant determinant of variations in regional patterns.

- A comparison of ATSIC / TSRA grant and loan terms and conditions with a selection of other funding agencies revealed that ATSIC / TSRA grant and loan terms and conditions are very detailed and as a consequence provide greater scope for breaches. In general terms, other funding agencies require organisations to report periodically, provide performance reports and have clearly defined strategies, outcomes: however in this instance because of the level of detail and the corresponding increase in the volume of work generated for staff and organisations, the potential is considerably higher for a greater volume of breaches.

1.4 Management skills within organisations

- Feedback from our field teams from discussions with ATSIC / TSRA officers revealed that organisations perceive that the extent and content of ATSIC / TSRA grant and loan accountability requirements is a primary reason for breach. Whilst ATSIC / TSRA reporting requirements are very detailed (and could be reduced as outlined in 1.5 and 3.5), this is not accepted to be the overriding reason why ATSIC / TSRA funded organisations breach grant and loan terms and conditions. We consider the primary reason for breach is the lack of financial management expertise within the organisations themselves and in some instances the lack of attention and effort directed by organisations to reporting requirements. Generally, the skills of management and Board members needs improvement.

- We support that a program of focused Board and management training should be undertaken as it is a critical element in improving the skills and capability of people involved in this area and thus the accountability of indigenous organisations. Furthermore, we believe that the required level of management standards sought by ATSIC/TSRA should be maintained.

  It was of concern to learn recently of ATSIC's decision to reduce management support in CDEP and to terminate the Community Training Program. These actions, which we understand were initiated by ATSIC in response to reductions in ATSIC's 1996/97 budget, have significantly reduced the capacity of ATSIC to fund management training in organisations.

1.5 A refocussing of ATSIC / TSRA procedures particularly a reduction in the number of forms required to be completed by ATSIC / TSRA officers

- It was evident during our review that for ATSIC / TSRA officers it was becoming more time consuming to maintain processes of accountability and equity due to the level of documentation required to be maintained and the Commission's expanding portfolio over the past few years. Furthermore, it was restricting the time that project officers had to undertake field visits to assess how organisations were performing and provide counsel where appropriate.

- A change in the focus of how ATSIC / TSRA fund organisations must be considered in order to overcome these concerns.

In this regard, we believe ATSIC / TSRA should be viewing organisations holistically and funding them accordingly rather than funding organisations on a grant by grant basis. Under such an approach, an organisation would be required to submit only one grant application for the range of services it chooses to provide. If ATSIC / TSRA considers this application in a similar light, and develops only one grant agreement with a number of components then there exists significant potential to reduce forms and paper.

To facilitate this change in focus, ATSIC / TSRA need to concentrate and direct greater effort and attention prior to funding to the key outcomes and outputs each organisation is seeking to achieve rather than on the level of financial input the organisation is requesting. The full implications of this approach should be fully assessed through a sequence of pilots and this should be undertaken promptly.

1.6 Increased focus on key outcomes and outputs and not financial input

- This change in focus will also require ATSIC / TSRA organisations to adopt a more focussed strategic or business planning process when compiling an application for funding. That is, basic business plans should accompany applications and be incorporated into the letter of offer and acceptance. An information kit needs to be developed and a preferred format agreed upon. This initiative should be linked with the training process outlined at 1.4 and 3.4.
- The current performance reporting regime does not link strongly enough to the performance of individual organisations to future funding decisions. Equally, the setting of performance indicators by organisations is directed more towards individual components of grant expenditure and appears to lack the appropriate linkages with the overall strategies of the organisation.
- Currently organisations are required to report quarterly and sometimes monthly on their financial performance but only annually in terms of outcome and output performance. We consider these timeframes should be reversed so that outcomes and outputs form the primary focus of monitoring, are monitored at shorter intervals and financial performance or inputs are monitored less frequently.
- Our field teams identified that some organisations were applying for funding that was significantly excessive to the ultimate funding approved. Whilst this is not uncommon in grants programs generally, it can lead to incorrect assumptions and conclusions being drawn by the organisations when they are formulating funding proposals. In order to address this concern and to enable the development of business plans, a process of consultation needs to be developed where organisations are provided some guidance as to realistic funding levels. This process needs to be independent from the funding approval process undertaken by the Regional Councils and as such, should involve ATSIC / TSRA project staff. Furthermore, the involvement of project staff prior to funding will also provide organisations with the opportunity to set meaningful performance measures.

  We have been recently advised by ATSIC that the ATSIC Board have changed the application process to ensure that organisations will be better advised about the limited funding available and given guidance about the termination of funding in future years if grant conditions are not properly complied with.

- We consider that in order to shift the focus of funding towards key outcomes and outputs, significant co-operation will be required by all parties, however, if implemented appropriately offers substantial downstream benefits through increased accountability and service delivery.

1.7 Enhancements to grant information

- ATSIC / TSRA needs to consider simplifying the format of documentation it issues to, and requires from, funded organisations and adopt better risk management principles when developing and setting the information requirements of organisations.
- For example, we question the need, particularly for small organisations, to have up to three contract documents (standard, supplementary and special). By consolidating these three documents into one succinct document and focussing on the specific aims of the grant, performance of the organisation and acquittal, we consider that organisations will better understand the responsibilities placed upon them.

1.8 Further standardise reporting

- Our review revealed that problems exist with financial statements and acquittal documentation and improvements need to be made. In this regard, we note that the Queensland State Manager for ATSIC has recently released an information kit which contains a preferred format for organisations to report to ATSIC. We support this initiative.

1.9 The need for external auditors to better understand the reporting requirements of organisations and ATSIC / TSRA.

- Our review of a number of organisation's financial statements revealed that auditing and accounting standards were in some instances unacceptable and potentially contributed to accountability breakdowns.
- In order to improve these standards, ATSIC / TSRA Offices should conduct an annual education forum for auditors, during which technical issues could be discussed. A charge for attendance should apply. Alternatively, an annual quality standards review should be undertaken and auditors who fail to meet the standards should not be allowed to provide the services.
- ATSIC / TSRA should maintain a national Register of Auditors who have a demonstrated understanding of an organisation's and ATSIC / TSRA reporting requirements and timeframes. This register should be maintained on behalf of organisations nationally and be held centrally.
- An auditor, while needing to be independent, can provide reliable financial counsel and be an independent sounding board to an organisation. Whilst value for money needs to be evident, the engaging of an auditor using the three quotes system can result in audits being performed to a price and limit the matters referred to above. As such, we question whether the obtaining of services of this nature under this system is the most appropriate.

1.10 Computerised accounting packages

- At this stage we cannot recommend the implementation of a computerised accounting package as many organisations lack the technical ability and resources to fully utilise such a package. We consider that organisations need to build financial expertise before implementing software, however, as expertise is acquired, then serious consideration to adopting accounting software packages should be given.

1.11 A concerted effort be directed towards training ATSIC / TSRA project officers so as to assist organisations in financial management and accountability requirements

- The majority of our field teams observed that training in the area of financial statement analysis for project officers or selected Regional Office staff was critical. Accordingly, as a matter of priority ATSIC / TSRA should develop and implement a training package in this area for selected Regional Office staff.

1.12 The Special Auditor process going forward

- The Special Auditor process was an independent and arms length review of ATSIC / TSRA funded organisations. It has accumulated a large volume of information initially provided by ATSIC / TSRA and subsequently generated data which we believe can be drawn from to enhance accountability. Significant findings and problems were identified as part of this process such as 60 not fit and proper determinations with the potential for further not fit and proper determinations in the remaining 130 organisations had the process of review continued. Additionally, we identified 184 organisations requiring immediate and close monitoring by ATSIC / TSRA. This action is necessary to determine the effectiveness of remedial action put in place by the organisations themselves. In 1995/96 funding to these organisations totalled $124,104,655.

  It was also able to confirm good practice on the part of organisations in that 125 or 11% of organisations reviewed were in full compliance with grant and loan terms and conditions in the 1995/96 financial year.

- There was anecdotal evidence that while ATSIC / TSRA noted the process to be a burden primarily due to its timing, it did:
  - provide a focus on an organisation's performance rather than on grant and loan assessment;
  - required ATSIC / TSRA to focus on diligent performance; and
  - provided an arms length independent assessment of organisations and ATSIC / TSRA.

- We consider however, that any process going forward should be considered in two parts:
  - the immediate finalisation of uncompleted reviews; and
  - any future reviews in 1997/98 and beyond.

- In the immediate future, we consider that for organisations where additional information has been called for, ATSIC / TSRA officers should closely consider this information when it is received and before a determination to continue funding is made.
- In regards to future reviews and on the basis of the current approach, we would suggest that a sampling methodology be applied to those organisations that were identified by ATSIC / TSRA as compliant organisations (ie the 'Green' organisations) and for the remaining organisations a significantly increased risk profile should be applied to the sampling methodology.

  Additionally, we believe that any ongoing process of ensuring accountability should involve a review of the following organisations:

  - all organisations that are seeking funding from ATSIC / TSRA who have not been subject to Special Auditor reviews. These organisations would include organisations seeking funding for the first time or organisations that have had past funding but for a number of reasons did not seek funding for the 1996/97 financial year;
  - organisations that have been classified as not fit and proper who are reapplying for funds; and
  - organisations that have been determined by the current process as requiring immediate monitoring in relation to remedial actions they have taken (ie 184 organisations).

  We strongly suggest that this type of approach be applied.
- We also believe that any future reviews should be undertaken by the Office of Evaluation and Audit, not as part of its current internal audit program as this concentrates on ATSIC / TSRA internal activities, but as separate function as the Special Auditor process has focused on organisations.

1.13 ATSIC / TSRA assistance

- A significant feature of the Special Auditor process has been the effort and co-operation provided by Regional / State managers and their staff. Considering that the process was undertaken at their busiest time, generally, we can report that the commitment, support and effort was excellent.
- ATSIC Central Office senior management and officers provided a significant contribution and valuable assistance throughout the duration of the assignment.
- The Office of Evaluation and Audit provided constructive advice and support to the Special Auditor.

2 Summary of Recommendations

- ATSIC / TSRA along with Regional Councils and organisations seriously consider reducing or consolidating the number of organisations to be funded. (refer 1.2)
- Resources be set aside by, or provided to ATSIC / TSRA, Regional Councils and organisations in order for board, management and staff to access co-ordinated training programs in the areas of corporate, financial and project delivery skills. (refer 1.4)
- ATSIC / TSRA change its focus on how it funds organisations to one of viewing organisations holistically rather than on a grant by grant basis. Under such an approach, an organisation would be required to submit only one grant application for a range of services its chooses to provide. If ATSIC / TSRA consider the application in a similar light and develop only one grant agreement with a number of components then such a change in focus would allow ATSIC / TSRA to view an organisation in its entirety and better assess its performance against it overall direction and strategies. ATSIC / TSRA should implement this recommendation through a staged or pilot approach. (refer 1.5)
- ATSIC / TSRA need to direct greater effort prior to funding on the key outcomes and outputs each organisation is seeking to achieve rather than on financial input. To this end strategies are needed which include regular reviews of organisations both from a financial and output / outcome point of view as well as through the provision of performance indicator and financial reports. Furthermore, we consider that the timeframes for reporting in terms of key outcomes and outputs should be shortened and reporting in terms of financial inputs should be lengthened. (refer 1.6)

  It is in this area that a significant contribution is required by all parties, however, if implemented appropriately, offers substantial downstream benefits through increased accountability and service delivery.
- ATSIC / TSRA simplify the format of documentation it issues to, and requires from, funded organisations. (refer 1.7)
- Other states should adopt the reporting format contained in the information kit developed by the Queensland State Manager and that ATSIC / TSRA give consideration to reviewing its current reporting requirements with this statement in mind. (refer 1.8)
- In order to improve external audit standards, ATSIC / TSRA Offices should conduct an annual education forum for auditors, during which technical issues peculiar to ATSIC / TSRA and organisations could be discussed. Alternatively, an annual quality standards review could be undertaken and auditors who fail to meet the standards should not be allowed to provide the services. (refer 1.9)
- ATSIC / TSRA at a central level and on behalf of organisations, maintain a national Register of Auditors who have a demonstrated understanding of an organisation's and ATSIC / TSRA reporting requirements and timeframes. This register would be available for organisations to access when considering the appointment of auditors. (refer 1.9)

- ATSIC / TSRA should enhance their grant administration and management training strategies to better equip project officers or selected Regional Office staff to analyse financial statements. (refer 1.11)
- Any future reviews (1997/98 and beyond) of organisations should be based on risk management principles and be undertaken by the Office of Evaluation and Audit. (refer 1.12)
- ATSIC / TSRA officers should review the information provided by organisations where calls for additional information have been made. This review should be undertaken before a determination of further funding is made. (refer 1.12)
- ATSIC / TSRA should immediately commence monitoring organisations which have been funded on the basis of remedial action being taken to rectify breaches and terminate funding if the remedial action is not effective. (refer 1.12)

3 General Findings and Observations

The task of the Special Auditor was to review all organisations that ATSIC / TSRA intended to release new grants and loans to during the period of our appointment to determine whether the organisation is not a fit and proper body to receive public money.

In undertaking these reviews and reaching our determination the consultancy agreement required that we focus our effort and attention on:

- past compliance by ATSIC / TSRA funded organisations with ATSIC / TSRA grant and loan terms and conditions; and
- the information provided in the audited financial statements of the organisations.

Additionally, we were to consider any other relevant information bought to our attention in writing by ATSIC / TSRA officers. Where a determination could not be made from the information provided, additional information could be sought.

The consultancy to date has been undertaken by staff from nine KPMG offices and three non KPMG affiliated accounting firms located in the capital cities of Australia and Cairns. Non KPMG affiliated firms were engaged where KPMG offices identified a conflict of interest. In total, 99 accountants have been engaged in undertaking and managing the reviews.

As at 18 September 1996, reviews of 1,122 organisations had been completed. Additionally, 130 organisations have been reviewed, however, these reviews have yet to be completed due to the need to call for additional information. At the time of the Federal Court decision of 18 September 1996 we had been advised by ATSIC and TSRA that the population of organisations to be reviewed was 1,293.

Sufficient reviews have been completed (87% of the total population) to enable a number of observations to be made. The commentary set out in the following subsections is based on the organisations reviewed to date. We have no reason to believe that the observations would differ if the reviews of the remaining organisations were completed.

We do however, qualify this statement in relation to the current level of not fit and proper determinations. Specifically, there exists the potential for organisations where we have called for additional information to be determined not fit and proper.

3.1 Review methodology

The process for Special Auditor review of each organisation was developed in conjunction with ATSIC and commenced with ATSIC and TSRA classifying organisations according to the level of past breaches of ATSIC and TSRA grant and loan terms and conditions. These classifications were colour coded as 'Green', 'Amber' and 'Red'. This coding was adopted so as to prioritise organisations for review. Additionally, organisations with immediate funding needs were classified first.

Organisations that received a 'Green' coding were organisations that had experienced only minor technical breaches of grant and loan terms and conditions in the 1994/95 year but were fully compliant with the terms and conditions in the 1995/96 year.

Organisations that received an 'Amber' classification (which have constituted 84% of the organisations reviewed to date) had grant breaches in 1994/95 and 1995/96 and the nature of these breaches were of a more frequent nature than those of 'Green' organisations. Where breaches were occurring in both years this demonstrated that remedial action had not been taken, or if taken, had been shown to be ineffective in relation to breaches in the 1994/95 year. Organisations that had an administrator or grant controller appointed or were seeking funding for the first time were also classified as 'Amber'.

For organisations that were classified as 'Red', the breaches were considered to be serious and in particular included major qualifications to audited financial statements, failure to provide documentation to enable acquittal and continual breaches of ATSIC / TSRA grant and loan terms and conditions. Additionally, these organisations were only being recommended for funding by ATSIC / TSRA as the nature of their service was considered to be of a life or death nature or there were no alternate service providers.

ATSIC / TSRA officers were required to complete a "reporting package" for each organisation they or the Regional Council were recommending for funding. Each reporting package consisted of a number of documents, the principal being the most recent set of financial statements and grant acquittal documentation.

The reporting package was designed to assist ATSIC / TSRA officers in identifying past breaches by the organisation with grant and loan terms and conditions and hence provided a foundation for organisational classification. The reporting package also provided an opportunity for ATSIC / TSRA officers to document for the Special Auditor issues including:

- a general overview of the performance of the organisation;
- significant matters raised by the organisation or their auditor in management letters and audit reports;
- remedial action taken to date to remedy grant breaches; and
- whether a grant controller or administrator had been appointed.

Considerable effort and resources were invested by ATSIC and TSRA in completing the reporting packages for each organisation. At all times officers of ATSIC and TSRA were willing to provide assistance. Considering the time constraints faced in getting the review process up and going and the timing generally of the process (the timing of our field visits coincided with the heaviest workload for all officers) their effort should be commended.

Since our appointment on 4 June 1996, KPMG or non KPMG affiliated firms have visited all ATSIC offices and the TSRA. It was at these offices that all fieldwork was undertaken.

In undertaking these field visits the Special Auditor sought and gained access to the grant files for each organisation. The information contained in the reporting package was agreed back to these grant files and from discussions with ATSIC and TSRA project officers and managers this process has formed the basis for the determinations made.

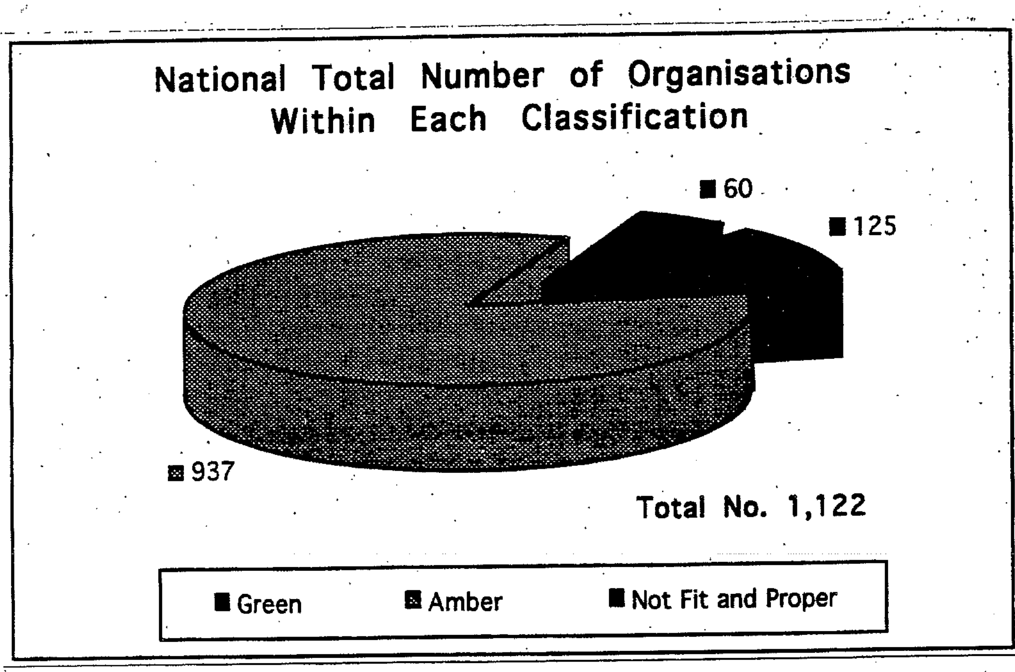
3.2 Number of organisations reviewed and determinations made

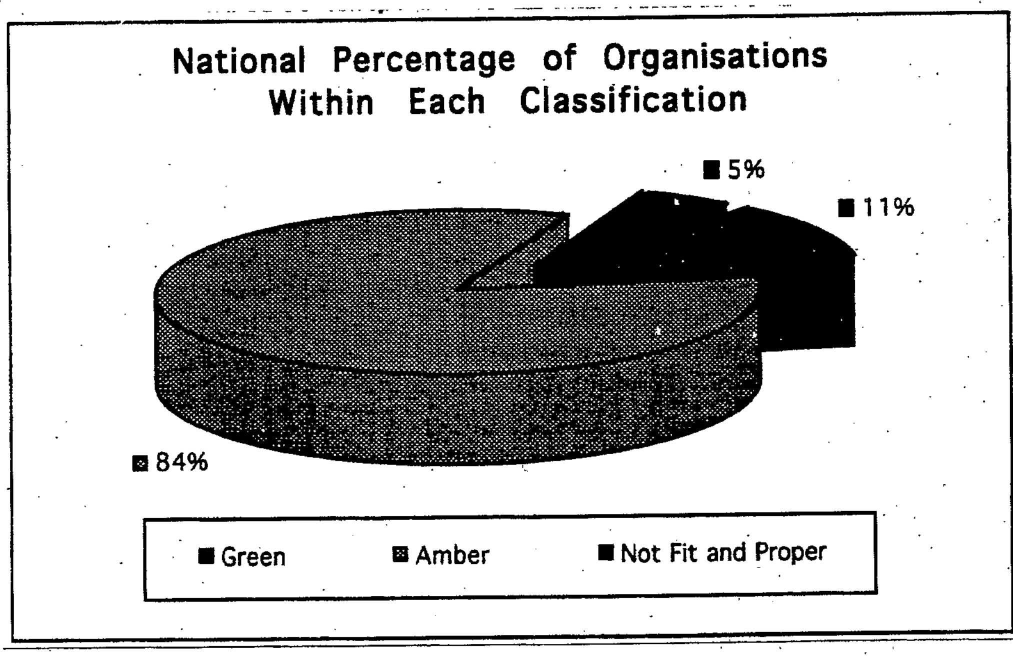
We have provided to the Department of Prime Minister and Cabinet a summary of our findings for organisations reviewed and completed for each Regional Office. As ATSIC State Offices provide a policy and coordinating role for their respective State, they administer a minimal number of grants and loans. Accordingly, the results of any organisations reviewed in these Offices have been incorporated in the statistics of the relevant capital city Regional Office.

This summary also includes a benchmarking of the organisations administered by each Regional Office against their respective State average as well as against the National average. We strongly urge that this information be passed to the Office of Evaluation and Audit for consideration and future reference. Significant observations have been drawn from the information gathered as summarised below. Graphical representations follow.

- As at 18 September 1996, 1,122 organisations had been reviewed and completed. From this total, 1,062 organisations or 95% have been cleared for funding;
- Of the total number of organisations reviewed, 125 or 11% were in full compliance with ATSIC / TSRA grant and loan terms and conditions in the 1995/96 financial year;
- As at 18 September 1996, the Special Auditor has issued 60 not fit and proper determinations. In 1995/96 funding provided to these organisations totalled $27,854,226.
- Additional information has been called for 130 organisations as a determination could not be made from the information provided at the time of our field visit. In 1995/96 funding to these organisations totalled $89,658,590. Had the process of review continued there existed the potential for some or all of these organisations to receive a not fit and proper determination;
- A review of the statistics indicates that the remoteness of organisations is not the primary reason why organisations breach ATSIC / TSRA grant and loan terms and conditions. For example, no organisations in the Northern Territory and the TSRA received a not fit and proper determination. Rather, the priority accorded and approach adopted by State and Regional ATSIC Offices seems to be a more significant determinant of variations in regional patterns.
- 64 organisations are currently under the control of an Administrator appointed by the Registrar of Aboriginal Corporations (or other such body) or have an ATSIC / TSRA appointed grant controller. These appointments reflect poor financial administration and accountability within the organisations.

Set our below is a graphical representation of the statistics referred to on the previous page.





The tables below identify the State averages and numbers of organisations classified as Green, Amber and Not Fit and Proper.

Organisations classified as Green

State	State Percentage	No. of Organisations
NSW	8%	19
QLD	4%	11
NT	23%	52
WA	9%	22
SA	10%	10
VIC	7%	2
TAS	7%	1
Central Office	17%	1
TSRA	24%	7
TOTAL		**125**

Organisations classified as Amber

State	State Percentage	No. of Organisations
NSW	87%	213
QLD	86%	220
NT	77%	164
WA	85%	191
SA	89%	88
VIC	93%	24
TAS	93%	10
Central Office	83%	5
TSRA	76%	22
TOTAL		**937**

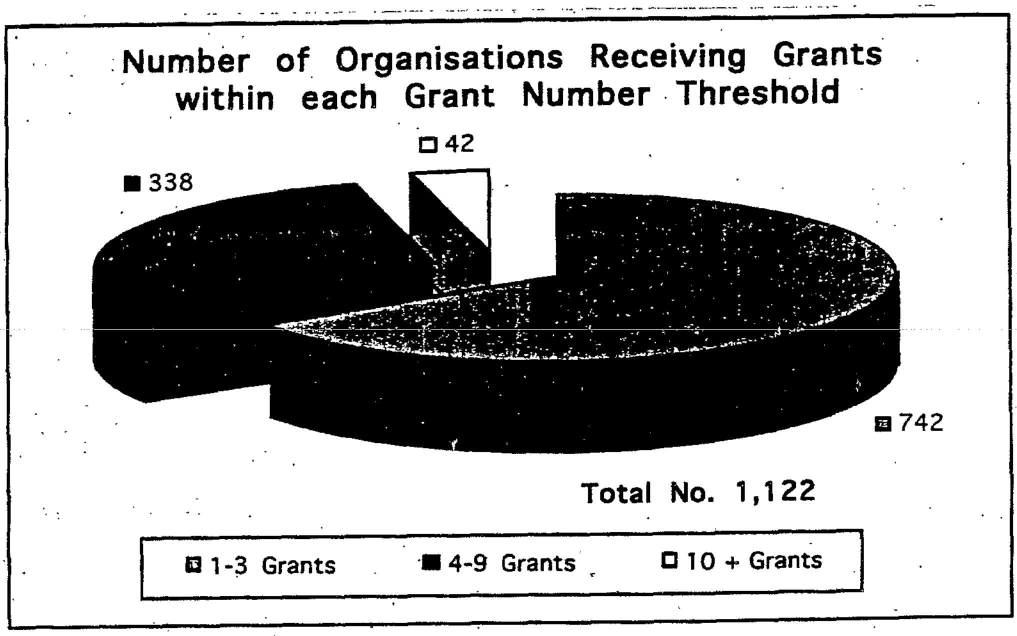
Organisations classified as Not Fit and Proper

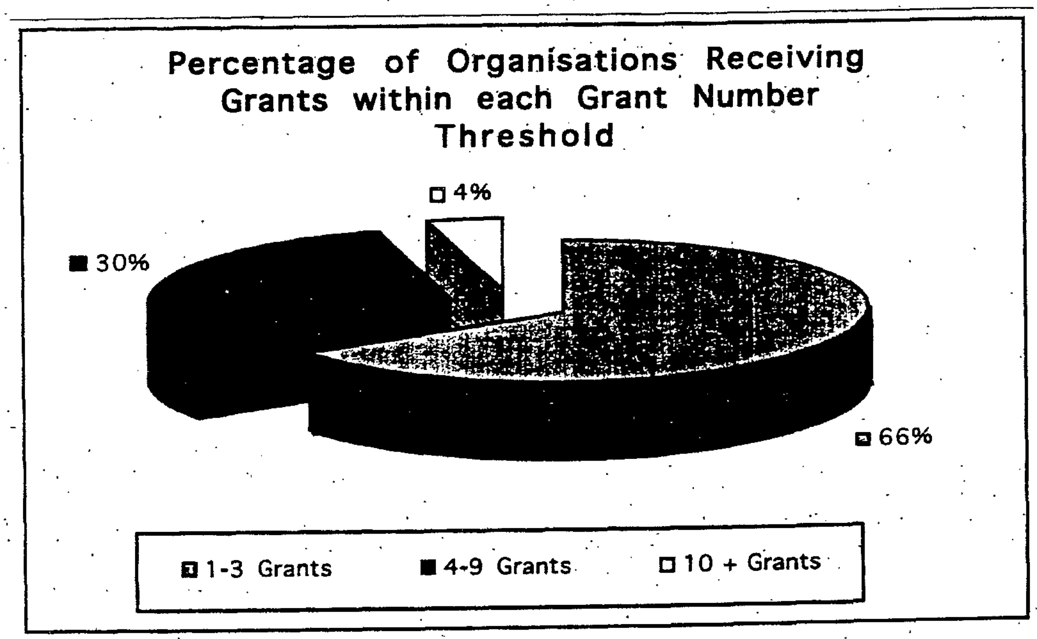
State	State Percentage	No. of Organisations
NSW	5%	14
QLD	10%	31
NT	0%	0
WA	6%	13
SA	1%	1
VIC	0%	1
TAS	0%	0
Central Office	0%	0
TSRA	0%	0
TOTAL		**60**

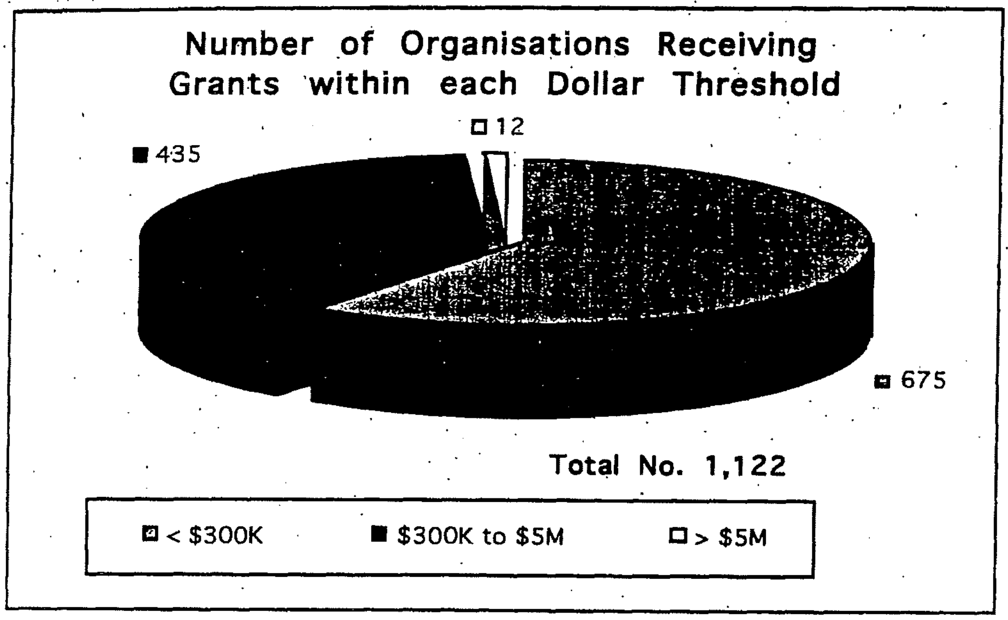
3.3 Size of organisations receiving funding

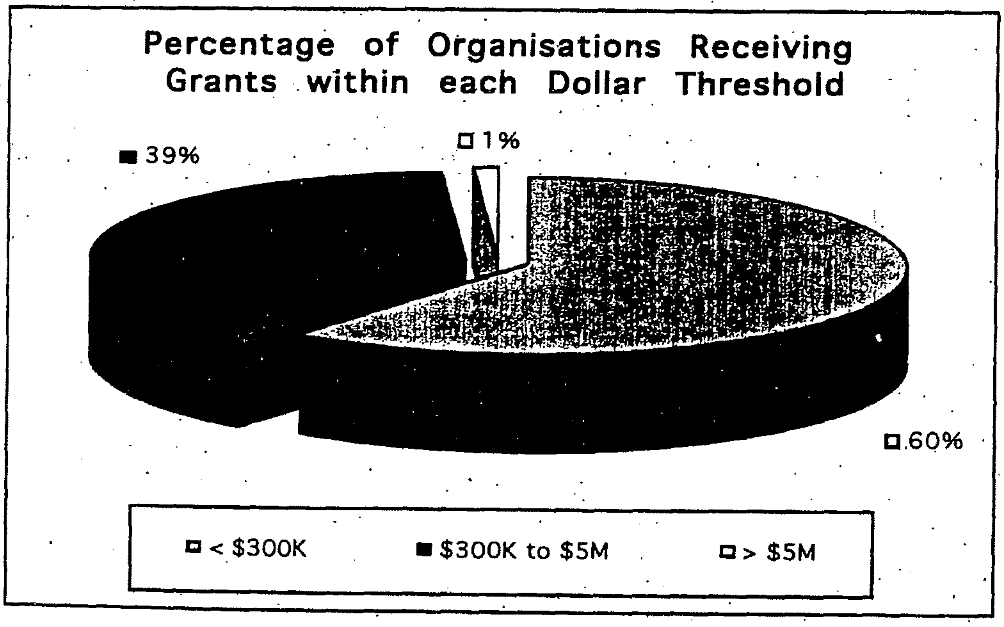
We have set out below a number of graphs identifying the composition of funding to ATSIC and TSRA funded organisations. These graphs indicate that:

- 742 or 66% of ATSIC / TSRA funded organisations receive between 1 to 3 grants which total less than $300,000. This represented 60% of total ATSIC / TSRA grant funding in 1995/96; and
- Only 1% of organisations receive funding that totals in excess of $5 million.






Number of Organisations Receiving Grants within each Dollar Threshold
12
435
675
Total No. 1,122
< $300K
$300K to $5M
> $5M


Percentage of Organisations Receiving Grants within each Dollar Threshold
1%
39%
60%
< $300K
$300K to $5M
> $5M

Clearly, these statistics demonstrate that ATSIC / TSRA fund a significant number of small organisations. This funding comprises a combination of capital and recurrent funding for operational purposes and covers a wide range of services from housing, enterprise or business activities and social and cultural initiatives. CDEP funding in most instances is captured between the $300,000 to $5,000,000 range.

Given the number of organisations that breached terms and conditions in the 1994/95 and 1995/96 financial years (approximately 75% of all organisations reviewed and completed) we question whether funding such a large number of organisations with relatively low levels of funding is an optimal strategy for Regional Councils and ATSIC / TSRA to adopt.

We have not attempted to quantify the optimal number of organisations that ATSIC / TSRA should fund as such an exercise can only be achieved through extensive discussions between ATSIC / TSRA, Regional Councils and the organisations themselves. We question, however, the effectiveness and efficiency of funding such a large number of small organisations considering the level of grant breaches. Furthermore, in some instances we identified that this level of funding was being provided to similar service providers such as housing co-operatives in the same region, city or town.

We consider that funding a number of small organisations and organisations that provide similar services in the same town spreads management skills thinly and inhibits the building of financial expertise and reserves in each organisation.

It is considered that significant economies of scale in terms of service delivery and administrative time and costs could be achieved through a reduction in or consolidation of the number of funded organisations. This proposed change should not be viewed as necessarily suggesting a reduction in funding across the portfolio. Through this process, administrative costs could be minimised freeing up additional resources to be directed towards service delivery. In addition, funding such a large number of small organisations restricts ATSIC / TSRA resources in grant monitoring and performance monitoring activities as ATSIC / TSRA officers have to service a large number organisations, some undertaking similar activities.

Accordingly, we recommend that ATSIC / TSRA along with Regional Councils and organisations seriously consider reducing or consolidating the number of organisations to be funded.

3.4 ATSIC / TSRA grant and loan terms and conditions breached by organisations

Whilst it was evident from our field visits that there was considerable work and effort undertaken by organisations to move themselves into compliance after the appointment of the Special Auditor, the statistics gathered clearly demonstrate that organisations are having difficulty meeting ATSIC funding requirements. We have set out in the Regional Offices summaries provided to the Department of Prime Minister and Cabinet the common breaches for organisations within each Regional Office. These breaches are summarised below.

- the late or non submission of periodic financial statements;
- the failure to provide periodic performance reports;

- organisations undertaking unauthorised budget variations resulting in unauthorised expenditure;
- the late or non lodgement of acquittal documentation;
- failure to keep appropriate records of fixed assets and / or appropriate insurance coverage for assets;
- the failure to provide Certificates of Funds Usage; and
- in relation to CDEP organisations the late lodgement of participant schedules and other standard CDEP forms.

Overlaying these breaches, particularly in relation to organisations determined not fit and proper, was the failure of the organisation to maintain appropriate and adequate accounting records and systems of internal control.

A repetitive comment, from all Special Auditor field teams related to the repeated lateness in the submission of financial and management information as the overriding reason why organisations breached terms and conditions.

It is difficult to accurately quantify the seriousness of breaches as this is contingent on the nature of the organisation, the type of breach and the timing of the breach. Instead, we consider a more meaningful way to view these breaches would be at a holistic level in relation to each organisation. As such, we consider that for all organisations that were classified as not fit and proper and for organisations were immediate monitoring should occur (184 organisations), then the levels of breaches collectively would be constituted as serious. Accepting this logic it is possible to state that 19% of the organisations reviewed and completed would exhibit the characteristics of serious breaches. It must however be stated that approximately 75% of the organisations reviewed had repeated breaches in 1994/95 and 1995/96 which to us is indicating that organisations are having difficulty in meeting ATSIC / TSRA funding requirements.

3.5 Management skills within organisations

Feedback from our field teams from discussions with ATSIC / TSRA officers revealed that organisations perceive that the extent and content of ATSIC / TSRA grant and loan accountability requirements is a primary reason for breach. We do not, however, accept this as the overriding reason why ATSIC / TSRA funded organisations breach grant and loan terms and conditions. Whilst it is accepted that current reporting requirements, specifically for small organisations, place strains on the internal management of organisations due to the repetitious nature of reporting, we consider the primary reason for breach is the lack of financial management expertise within the organisations themselves and in some instances the lack of attention and effort directed by organisations to reporting requirements.

In order to confirm this we undertook a review of ATSIC / TSRA grant and loan procedures and compared these against a selection of other grant programs run by Federal and State bodies. Whilst our review was not exhaustive it did indicate that ATSIC / TSRA procedures were very detailed. In general terms, other agencies require organisations to report periodically, require performance reports and require clearly defined strategies, outcomes and budgets. However, because ATSIC / TSRA procedures are so detailed this creates additional work for organisations and ATSIC / TSRA staff and consequently increases the potential for breaches to occur.

Accordingly, as 89% of organisations reviewed were breaching terms and conditions we believe that the frequency of breaches indicates that the level of management across organisations is varied, that board and management skills need improvement and in some instances an increased commitment by organisations to funding requirements is required.

We consider that an improvement of any organisations accountability must commence with the establishment of sound corporate and management structures. Such structures require organisation's board and management to be skilled and well trained in their responsibilities. In this regard Regional Councils can play a more active role in assessing an organisations strength and skills before funding is released.

Moreover, we consider that a system of focused board and management training is a critical element in improving the skills and capability of people involved in this area and thus the accountability of indigenous organisations.

It must however, at this stage be recognised that not all organisations, particularly small organisations where the need would be most prevalent (65% of organisations that received a not fit and proper determination has cumulative funding levels in 1995/96 of less than $300,000) have the funds and resources to access this group. As such, whilst this initiative is supported we again question whether 1,122 organisations is the most effective method of service delivery.

Training alone will not be sufficient as the organisations currently have difficulty in attracting skilled board members particularly in remote areas, however, coordinated training programs, for board, management and staff in corporate, financial and project delivery skills will greatly assist in enhancing compliance.

It was of concern to learn recently of ATSIC's decision to reduce management support in CDEP and to terminate the Community Training Program. These actions, which we understand were initiated by ATSIC in response to reductions in ATSIC's 1996/97 budget, have significantly reduced the capacity of ATSIC to fund management training in organisations.

3.6 A refocussing of ATSIC / TSRA procedures particularly a reduction in the number of forms required to be completed by ATSIC / TSRA officers

As mentioned at 3.4 a contributing, but not an overriding factor for organisations breaching ATSIC / TSRA grant and loan terms and conditions is the repetitious nature of ATSIC / TSRA reporting.

During our field visits we frequently encountered instances where ATSIC project officers were commenting that they were under resourced and were inundated with forms and paper. Added to this, ATSIC / TSRA officers considered that because of the politically sensitive nature of their portfolio they were continually wary of the need to document their actions and enforce the strict letter of the agreements whilst at the same time endeavouring to ensure that due processes were being followed.

Whilst the following of due process in regards to accountability and equity should always be a fundamental part of a project officers responsibilities, it was evident that it was becoming more time consuming to maintain due to the level of documentation required to be maintained and the Commission's expanding portfolio over the past few years.

Furthermore, it was restricting the time that project officers had to undertake field visits to assess how organisations were performing and provide counsel where appropriate.

ATSIC / TSRA currently fund organisations on a grant by grant basis, As such, organisations who are seeking funding for a variety of functions such as capital, recurrent and one off funding for specific events or initiatives are required to sign individual letters of acceptance and report individually against each grant. Simultaneously, ATSIC / TSRA are required to acquit each grant individually. Accordingly, where an organisation receives between 4 to 9 grants as is the case in 30% of the organisations reviewed to date, 4 to 9 letters of offer and 4 to 9 grant acquittance forms are required to be completed. This clearly is a time consuming task both for ATSIC / TSRA and the organisations.

A change in the focus of how ATSIC / TSRA fund organisations we believe could overcome these concerns. Specifically, we believe ATSIC / TSRA should be viewing organisations holistically and funding them accordingly rather than funding organisations on a grant by grant basis. If organisations are required to submit only one grant application for the range of services they are wanting to provide and if ATSIC / TSRA consider this application in a similar light, and develop only one grant agreement with a number of components then there exists the potential to reduce the number of forms and paper.

This is not to say that grant purposes should be amalgamated. At this stage we believe that organisations should still be required to separate capital and recurrent grants as is currently the case, but when reporting to ATSIC / TSRA their reporting should be focused with an organisational perspective rather than on a grant by grant perspective. Of course reporting should also be in a format that facilitates overall government and any international reporting requirements.

We have noted that in a number of instances this is already occurring although in an informal way. For example, a number of the organisations who receive funds for a variety of purposes consolidate their funds into one bank account and direct their efforts and expenditure towards the goals of the organisation. When however, they report to ATSIC / TSRA they are required to deconsolidate this expenditure and prepare separate periodic financial statements, separate performance indicator reports and separate funds usage forms for each grant. We consider a better way would be to prepare one set of consolidated periodic financial statements broken down into the components of funding, one performance indicator report assessing the performance of the organisation as a whole and one certificate of funds usage. Such a change in focus would allow ATSIC / TSRA to view an organisation in its entirety and better assess its performance against it overall direction and strategies.

Of course there will continue to be instances where one off funding is still required and in these instances current grant procedures should still be followed.

3.7 Increased focus on key outcomes and outputs and not on financial input

To facilitate this change in focus ATSIC / TSRA need however, to concentrate and direct greater effort prior to funding on the key outcomes and outputs each organisation is seeking to achieve. Specifically, we consider than the timeframes for reporting in terms of key outcomes and outputs should be shortened and reporting in terms of financial inputs should be lengthened.

We note at present that the current performance regime does not does not link strongly enough to the performance of individual organisations to future funding decisions. Equally, the setting of performance indicators by organisations is directed more towards individual components of grant expenditure and appears to lack appropriate linkages with the overall strategies of the organisation. Overlaying this was that we identified that a common breach encountered during our reviews was that performance reporting was late or non existent and frequently consisted of a one page report identifying statistics of a general nature.

To increase the focus on key outcomes and outputs both ATSIC / TSRA and the organisations should direct resources towards this area. Organisations should adopt a more focussed strategic or business planning process when compiling an application for funding. That is, basic business plans should accompany applications and be incorporated into the letter of offer and acceptance.

Our field teams identified that some organisations were applying for funding that was significantly excessive to the ultimate funding approved. Whilst this is not uncommon in grants programs generally, it can lead to incorrect assumptions and conclusions being drawn by the organisations when they are formulating funding proposals. In order to address this concern and to enable the development of business plans, a process of consultation needs to be developed where organisations are provided some guidance as to realistic funding levels. This process needs to be independent from the funding approval process undertaken by the Regional Councils and as such should involve ATSIC / TSRA project staff. Furthermore, the involvement of project staff prior to funding will also provide organisations with the opportunity to set meaningful performance measures.

We have been recently advised by ATSIC that the ATSIC Board have changed the application process to ensure that organisations will be better advised about the limited funding available and given guidance about the termination of funding in future years if grant conditions are not properly complied with.

We consider that in order to shift the focus of funding towards key outcome and outputs, a significant contribution will be required by all parties, however, if implemented appropriately offers substantial downstream benefits through increased accountability and service delivery.

3.8 Enhancements to grant information

With the exception of acquittal requirements, little difference in external reporting exists between the various types and sizes of grants. Additionally, grant terms and conditions, grant application forms and grant assessment forms are generic. As such, small organisations are required to report in similar timeframes and formats to large organisations.

Given the number of organisations that were breaching terms and conditions it was evident that management of organisations had difficulty understanding the terms and conditions relating to grants. When ATSIC / TSRA officers assisted organisations or placed pressure on organisations to comply, then matters of non compliance were usually resolved.

Accordingly, coupled with the recommendation that management and staff of organisations receive training, ATSIC / TSRA at the same time should consider simplifying the format of documentation it issues to, and requires from, funded organisations. As indicated previously we do not consider the substance of the terms and conditions of grant and loan funding to be onerous and lacking in accountability, however, we consider that better risk management principles could apply when developing and setting the information requirements of organisations.

For example, we question the need, particularly for small organisations, to have up to three contract documents (standard, supplementary and special). By consolidating these three documents into one succinct document and specifically focussing on the aims of the grant, performance of the organisation and acquittal, organisations we believe will better understand the responsibilities placed upon them. Furthermore, ATSIC / TSRA should develop 'one page' assessments for minor grants to reflect the risk associated with these types of grants and move away from the ratings system for these grants to a stronger emphasis on justification for the project.

3.9 Enhancements to financial reporting

At present there is generally a lack of consistency in the quality of financial information submitted by organisations to ATSIC / TSRA. We consider that there are two specific issues that need to be addressed in this area. These are:

- the need to further standardise reporting; and
- the need for external auditors to better understand the reporting requirements of organisations and ATSIC/TSRA.

3.10 Further standardise reporting

Because of the range of structures organisations are constituted under, the standard of annual financial statements varies and during our analysis of financial statements we noted a wide range of formats and accounting treatments, some incorrect. For example, some organisation's annual financial statements had:

- no notes supporting the balance sheet or profit and loss statement;
- no notes setting out the accounting policies adopted;
- showed capital grants as revenue;
- failed to dissect assets and liabilities as current and non current thereby making it difficult to derive any meaningful indication of working capital;
- indicated that they were prepared in accordance with the Corporations Law when in fact the organisation was a Housing co-operative; and
- in one instance, an organisation's financial statements failed to account for $334,557 of grant funds processed through the organisation's own solicitors trust account.

In relation to audited grant acquittal documentation, schedules were not prepared in accordance with ATSIC / TSRA requirements or did not incorporate all of the required information such as budgets and lists of debtors and creditors. ATSIC / TSRA had to specifically request that this information be provided subsequently, often much later than the due date.

ATSIC / TSRA currently has in place a standard reporting format however from our results to date it is only being complied with to varying degrees. Moreover, it has been viewed as cumbersome and difficult to interpret by organisations. Clearly, given the above problems with financial statements and acquittal documentation, improvements could be made.

In this regard, we note that the Queensland State Manager for ATSIC has recently released an information kit which contains a preferred format for organisations to report to ATSIC. We have reviewed the reporting format and believe it offers a workable solution to address the quality of information submitted to date. Specifically, it includes provision for organisations to reconcile their cash position in a financial year to opening cash surpluses. This is considered a key control and improvement as a number of observations were made during our field visits that this was not occurring.

Accordingly, we believe other states should adopt the same information kit and that ATSIC / TSRA give consideration to reviewing its current reporting requirements with this statement in mind.

3.11 The need for external auditors to better understand the reporting requirements of organisations and ATSIC / TSRA .

Accompanying the information kit is a standard letter of engagement for auditors. This letter is to be issued by the Chairperson and sets out the reporting requirements the organisation is seeking from their audit. We consider this to be a positive initiative by ATSIC as our review of a number organisations financial statements revealed that auditing and accounting standards were in some instances unacceptable and potentially contributed to accountability breakdowns.

For example, our fieldwork indicated that:

- in some instances audit reports were very brief and did not comply with current audit standards;
- from the opinions provided, it would appear some auditors did not understand the terms and conditions under which they were to report; and
- some auditors were not registered with the Australian Securities Commission, a condition of the grant.

Whilst the information kit for auditors will assist auditors in understanding an organisations and ATSIC / TSRA needs, we consider the following matters should also be considered.

- An auditor while needing to be independent can provide reliable financial counsel and be an independent sounding board to an organisation. Whilst value for money needs to be evident, the engaging of an auditor using the three quotes system can result in audits being performed to a price and not a standard.

As such, we question whether the obtaining of services of this nature under this system is the most appropriate;

- ATSIC / TSRA Offices should conduct an annual education forum for auditors, during which technical issues could be discussed. Alternatively, an annual quality standards review should be undertaken and auditors who fail to meet the standards should not be allowed to provide the services; and
- ATSIC / TSRA could on behalf of organisations maintain a national Register of Auditors who have a demonstrated understanding of an organisation's and ATSIC / TSRA reporting requirements and timeframes. This register should be held centrally.

We consider that auditors can be a valuable asset to improving accountability and in this regard should be directed by ATSIC / TSRA to enhance their contribution.

3.12 Computerised accounting packages

During our planning process for the review we were specifically asked by ATSIC whether a computerised accounting package would assist organisations in meeting their reporting requirements. It was considered by ATSIC that a suitably structured package could offer:

- better preparation for audits therefore resulting in higher quality financial reports with fewer qualifications;
- comparability of information generated from one organisation to information generated by another;
- consistency of the reporting information would make it easier to train ATSIC / TSRA review officers and therefore improve the monitoring of financial information; and
- enable standardised training at affordable rates.

We concur with these benefits, however, at this stage we cannot recommend the adoption of a computerised package as many organisations lack the technical ability and resources to fully utilise such a package. We consider that organisations need to build financial expertise before implementing software, however, as expertise is acquired, then serious consideration to pursuing this initiative should be given.

3:13 A concerted effort be directed towards training ATSIC / TSRA project officers so as to assist organisations in financial management and accountability requirements

During our field visits we noted that some grants had been acquitted even with the presence of a heavily qualified audit report. In other instances periodic performance reports although submitted were not analysed. As such, this has led us to believe that for some project officers if the stipulated information was received then the acquittal process was complete. Moreover, closer analysis or a better understanding of how to read financial statements would have detected problems in organisations earlier.

The majority of our field teams observed that training in the area of financial statement analysis for project officers or selected Regional Office staff was considered critical.

We note that each Regional Office has a Quality Assurance officer who has as part of their duties, the function of reviewing selected grant files for organisations. As a step in implementing a training package in financial statement analysis, these officers should be the first to undertake such a program.

Complimenting this is the need for ATSIC / TSRA to recruit appropriately skilled staff.

3.14 The Special Auditor process going forward

The Special Auditor process was an important arms length review of ATSIC / TSRA funded organisations. It has accumulated a large volume of information and data which we believe can be drawn from to enhance accountability. Significant findings and problems were identified as part of this process such as 60 not fit and proper determinations with the potential for further not fit and proper determinations in the remaining 130 organisations had the process of review continued. Additionally, 184 organisations have been identified by the Special Auditor as requiring immediate monitoring and close attention by ATSIC / TSRA in relation to remedial action put in place by the organisations. In 1995/96 funding to these organisations totalled $124,104,655;

It was also able to confirm good practice on the part of organisations in that 125 or 11% of organisations reviewed were in full compliance with grant and loan terms and conditions in the 1995/96 financial year.

We consider however, that any process going forward should be considered in two parts:

- the immediate finalisation of uncompleted reviews; and
- any future reviews in 1997/98 and beyond.

In the immediate future, we consider that for organisations where additional information has been called for, ATSIC / TSRA should closely consider this information before making a determination to fund for the remainder of the 1996/97 financial year.

In regards to future reviews and on the basis of the current approach we would suggest that a sampling methodology be applied to those organisations that were identified by ATSIC / TSRA as compliant organisations (ie the 'Green' organisations) and for the remaining organisations a significantly increased risk profile should be applied to the sampling methodology.

Additionally, we believe that any future process should involve a review of the following organisations:

- all organisations that are seeking funding from ATSIC / TSRA who have not been subject to Special Auditor reviews. These organisations would include organisations seeking funding for the first time or organisations that have had past funding but for a number of reasons did not seek funding for the 1996/97 financial year;
- organisations that have been classified as not fit and proper who are reapplying for funds; and

- organisations that have been determined by the current process as requiring immediate monitoring in relation to remedial actions they have taken (ie 184 organisations).

This stratification of organisations along risk management principles will ensure that ATSIC / TSRA will achieve a more targeted and sharper focus. Additionally, before any processes are put in place the methodology should be piloted in varying instances so it can be tested and refined.

We do however, support the current approach as it has provided a starting point for moving forward. Furthermore, there was anecdotal evidence that while ATSIC / TSRA noted the process to be a burden primarily due to its timing, it did:

- provide a focus on an organisations performance rather than on grant and loan assessment;
- required ATSIC / TSRA to focus on diligent performance; and
- provided an arms length independent assessment of organisations and ATSIC / TSRA.

Finally, we believe that any future reviews should be undertaken by the Office of Evaluation and Audit, not as part of its current internal audit program as this concentrates on ATSIC / TSRA internal activities, but as separate function as the Special Auditor process has focused on organisations.