

Auditor-General of Queensland

Executive Summary

Report to Parliament No. 7 for 2008

Administration of Grants and Funding
to Community Organisations by Local
Government in Queensland

A Performance Management Systems Audit



1. Executive Summary

1.1 Audit overview

Grants and funding to community organisations is provided by the Government, at the Commonwealth, State and local levels. Figures provided by the 12 councils audited indicate that over \$20m in grants and funding is made annually by these councils. Community organisations see this type of funding as vital as they typically have limited capacity to raise additional funds themselves.

Councils support a range of organisations to deliver many key services to their local community. Without council support, many of these organisations would not be able to provide these services. At one council alone, almost 800 recipients have been funded over the last two years. Individual payments to organisations range from \$100 to \$150,000.

The audit considered frameworks and systems for the administration of grants and funding at 12 councils in reference to the following basic principles:

Accountability

- *Public entities should be accountable for their performance and be able to give complete and accurate accounts of how they have used public funds, including funds passed on to others for particular purposes. They should also have suitable governance and management arrangements in place to oversee funding arrangements.*

Transparency

- *Public entities should be open in their administration of funds, both to support accountability and to promote clarity and shared understanding of respective roles and obligations between entities and any external parties entering into funding arrangements. Opportunities to access grants should be communicated widely and assessed in a way to promote public confidence in the process.*¹

¹ Public sector purchases, grants, and gifts: Managing funding arrangements with external parties, Office of the New Zealand Controller and Auditor-General, 2008.

1.2 Audit opinion

The *Local Government Finance Standard 2005* (LGFS) sets out the requirements for council policies in managing grants to community organisations. While the intention of the standard may have been to strengthen the framework of Local Government, a lack of clarity on what constitutes a grant has resulted in misinterpretation by some councils. The standard also does not clearly outline requirements for accountability which is leading to inconsistencies in how grants are being managed. The inconsistent and inadequate frameworks and systems found in many councils are leading to a lack of accountability for funds being provided. Improvements in systems are also needed to ensure equity and transparency in the distribution of funds.

I consider that transparency in how funds are allocated and accountability for how public monies are used is essential to maintain public trust and confidence in the integrity of a council's decision-making processes.

Transparency in the distribution and accountability for the use of grant monies is diminished by:

- a lack of standards or guidance in sound practice
- an absence of clear accountability requirements for grants and funding in the LGFS
- a lack of transparency in how grants and funding is distributed by councils to community organisations, individuals and local businesses
- a lack of appropriate accountability mechanisms to ensure that public monies are being used effectively, efficiently and with due economy
- limited evaluation and reporting of the benefits the grants and funding provided to the community
- a lack of transparency in promoting and distributing of mayoral/councillors' discretionary grants and funds.

1.3 Key findings

The LGFS is intended to provide guidance to councils on the administration of grants to community organisations. A lack of clarity in the standards as to what constitutes a grant and how donations should be dealt with have led to inconsistency and confusion. This has allowed public monies to be given away with little or no accountability for how they were used. I found that where councils had no guidelines or best-practice benchmarks they could refer to in administering their grants programs, their frameworks and systems were inconsistent and in some cases inadequate.

Only five of the 11 councils which are subject to the Section 11 of the LGFS meet all of the requirements. The effectiveness of the frameworks and the adequacy of council systems for grants and funding programs was inconsistent both across the councils audited and within individual councils. In particular, grants programs which focussed on 'giving' to worthy causes were less transparent and had limited accountability mechanisms.

Programs such as the Regional Arts Development Fund that had clear guidelines, procedures and systems to support transparency and accountability were well administered. While smaller regional councils relied on materials developed by larger metropolitan councils this did not result in effective frameworks and systems being developed or implemented.

Only six councils had adequate acquittal processes for grants and donations being provided to community organisations. Half of the councils audited were not able to demonstrate that these monies were being used efficiently, effectively or that the community is getting value for money for services.

Governance arrangements to ensure that conflicts of interest are suitably addressed were inadequate at four councils. Grants assessment processes at these councils did not allow council members assessing applications for discretionary funds to make public declarations of any interest that may be conflicts of interest.

The administration of grants and funding is quite complex and requires specialised knowledge, yet at 11 of the 12 councils audited there was little or no formal training for staff. Where training is informal or limited, there is greater risk that inconsistent decision-making will occur.

The systems to ensure the sound administration of grants and funding to community groups were inconsistent across and within councils. Reporting systems were inadequate at eight councils where meaningful performance reports on grant programs were not provided to councils. Monitoring and acquittal systems were inadequate at six councils meaning that they were not able track organisations that had not provided the required proof of expenditure. Communication systems were found to be inadequate at six councils where recipients of grants were not reported publicly. Assessment systems were adequate at eight councils but still in need of improvement at four councils.

There was a lack of transparency in seven of the councils audited, where the availability of discretionary funds administered by councillors or mayors was not readily or widely communicated to the community. This could lead to missed opportunities for equally needy community organisations and makes it difficult for councils to demonstrate that funds are

going to those most in need of public support. The annual budgets for discretionary funds varied across the seven councils, at one council it was \$5,000 and at another it was \$360,000.

Reporting systems were found to be inadequate at many councils. Formal monitoring or evaluation of the benefits of grants programs to the community was not undertaken on a regular basis. At seven councils, grant programs had no performance indicators to monitor effectiveness or efficiency. This means that decisions to continue to fund programs as part of the budget process were not based on evidence of performance or need.

In many cases, councils were providing funds to organisations without entering into formal agreements or contracts. Some involved significant amounts of money, in one example over \$50,000. This makes it difficult for councils to ensure the money is spent as intended or to recover unspent or misspent monies.

Conclusion

Because of these inconsistencies in the council frameworks and systems audited, I have recommended that the Department of Local Government, Sport and Recreation needs to take a greater role in developing clearer legislation, guidelines and training to foster greater accountability, transparency and equity in grants and funding provided by councils.

1.4 Recommendations

1. **It is recommended that the Department of Local Government, Sport and Recreation:**
 - a. **review the LGFS to ensure:**
 - i. **it provides a clear definition of a grant and how donations and gifts should be treated**
 - ii. **it clearly states that council policies must include the accountability requirements for all types of grants**
 - iii. **that transparent and accountable control systems apply for any grant programs where individual councillors or mayors have discretion in the allocation of grants or funds**
 - b. **ensure that councils' policies for the administration of grants and funding to community organisations, individuals and local businesses comply with the LGFS**

- c. develop principles based guidelines and training for councils to improve the transparency and accountability for the administration of grants and funding to community organisations, individuals and local businesses. The guidelines and training should cover:**
 - i. effective communication of grants opportunities**
 - ii. how to report the benefits of the community grants programs**
 - iii. the roles and responsibilities of staff and councillors**
 - iv. procedures for staff and councillors to avoid potential conflicts of interests**
 - v. appropriate acquittal systems and processes**
 - vi. the use of formal funding agreements and contracts.**

2. The following is a summary of the recommendations made to individual councils where these issues have been noted:

- a. review the policies and procedures for administering grants to ensure they meet the requirements of the LGFS**
- b. improve governance arrangements to ensure all council grants to community organisations, individuals and local businesses are allocated transparently and council is formally monitoring and reporting the benefit of its grants programs for the community**
- c. improve accountability and transparency in the administration of grants and funding to community organisations, individuals and local businesses by ensuring council has clear guidelines and processes for planning, communicating, assessing, monitoring, acquitting and reporting**
- d. provide training to council staff in grants management so they can adequately undertake this function.**

1.5 Department of Local Government, Sport and Recreation response

In a response dated 25 September 2008 the Acting Director-General stated:

“The Department of Local Government, Sport and Recreation (the Department) takes seriously its responsibility to provide the framework for local government accountability, transparency and equity in grants and funding provided by councils. To directly address these, and other issues, the Local Government Reform Program was initiated in 2007 to build stronger local governments to be better able to deliver on their long term plans for sustainability, viability and community service obligations as needed by their respective communities.

The program comprises four key elements: structural reform, legislative reform, performance evaluation and reporting, and capacity building. The second stage of the program, legislative reform, is currently underway and will address Recommendation 1.a of the audit.

In this regard, new local government legislation is being developed to replace the Local Government Act 1993 and its subordinate instruments such as the Local Government Finance Standard 2005. The new legislative framework will set clear expectations and high standards about transparent decision-making, inclusive community consultation practices and local government performance. It will be designed to foster a culture of personal integrity and accountability for elected and administrative officials, and be unambiguous about the consequences of not meeting these standards. It will articulate the integrity, accountability and transparency requirements for local government by providing a strong focus on the behaviour of councillors and the performance of local governments in the delivery of sustainable development and proper management of assets and infrastructure.

The new legislation will be designed to be outcomes focussed and be based on five key principles. The first of these principles is transparent and effective processes and decision-making in the public interest. Local Government will be required to act in accordance with this principle which directly addresses, the issues identified in Recommendation 1.a of the audit.

With respect to Recommendation 1.b of the audit, the Department believes that the deficiencies the recommendation seeks to remedy will be addressed by the Local Government Reform Program. The new legislative framework for local government will provide mandatory financial management requirements. As a result of the Queensland Audit Office's recommendation within its Report to Parliament No. 1 for 2007, Results of Local Government Audits for 2005-06, the new legislation will require all local governments to have internal audit processes. Larger councils (for example: category 3 to 9, as determined by the Local Government remuneration Tribunal) will be required to have audit committees.

In addition, the new legislative framework will equip the State with a range of interventions necessary to provide a swift response to any incidence of local government dysfunction of poor performance.

Similarly, the Department believes that the outcomes sought in Recommendation 1.c will be addressed through the fourth element of the reform program, capacity building. Capacity building will focus on the Department providing support and advocacy to councils to help delivery their plans to their communities. This will be delivered, in part, by changing delivery of service to a regional model. The new service delivery model will better understand local conditions and problems, and respond quickly. It will recognise the diversity of local government contexts and increase the capacity of local governments to introduce effective governance and internal control."

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