Auditor-General
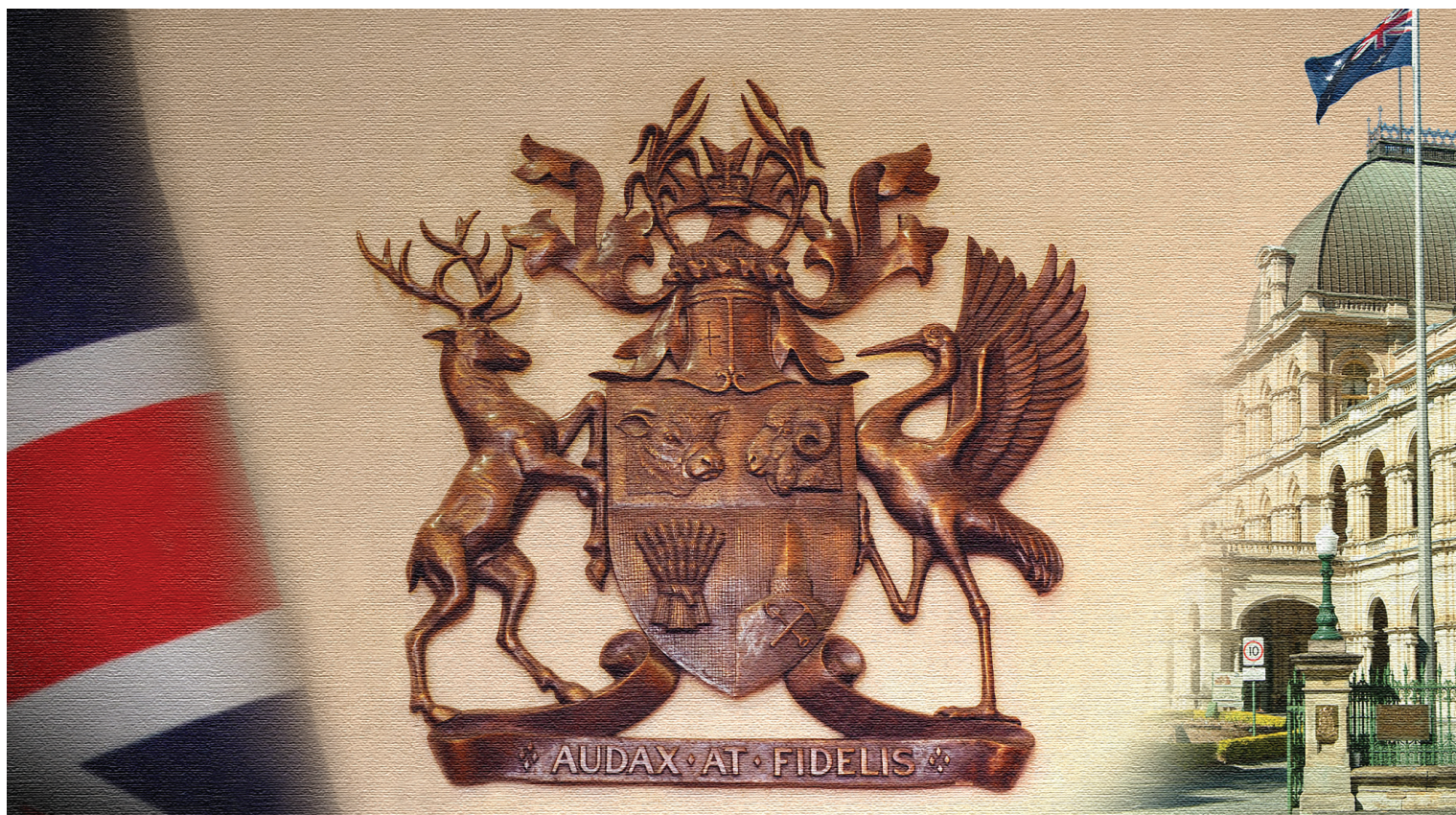# of Queensland

Report to Parliament No. 3 for 2011

Follow up of 2008 audit on administration of grants and funding to community organisations by local government in Queensland

QUEENSLAND AUDIT OFFICE

Enhancing public sector accountability

Auditor-General of Queensland

Report to Parliament No. 3 for 2011

Follow up of 2008 audit on administration of grants and funding to community organisations by local government in Queensland

QUEENSLAND

Auditor-General
of Queensland

June 2011

The Honourable R J Mickel MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled
Follow up of 2008 audit on administration of grants and funding to community organisations
by local government in Queensland. It is number three in the series of Auditor-General Reports to
Parliament for 2011.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the
Legislative Assembly.

Yours sincerely

Glenn Poole
Auditor-General

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Executive summary

Audit overview

This is a follow up audit of administration of grants by local government. The original findings and recommendations were reported in *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland*.

In my 2008 report I found that transparency in how council grants and councillor's discretionary funds are allocated, and accountability of public monies are used, are essential to maintain public trust, confidence and the integrity of a council's decision making processes.[1]

The then Department of Local Government, Sport and Recreation committed to implementing the recommendations made in that report. The objective of this follow up audit was to assess the progress made by the Department of Local Government and Planning (the department) and the 12 councils from the original audit in implementing these recommendations.

Since my initial audit, a new *Local Government Act 2009* and *City of Brisbane Act 2010* have replaced the *Local Government Act 1993* and *City of Brisbane Act 1924* respectively. A new *Local Government (Finance, Plans and Reporting) Regulation 2010* (the Regulation) has replaced the *Local Government Finance Standard 2005*. The former Department of Infrastructure and Planning released *Guidelines for local government administration of community grants* (the Guidelines) in October 2009.

Each of the 12 councils originally audited completed a self-assessment questionnaire on their progress in addressing the recommendations contained in the report to Parliament No. 7 for 2008. The approach focused on councils' documented systems of policies and procedures, but did not test a sample of grants as the original audit had done. This was supplemented by an examination of additional documentation on policies, procedures and reports produced by councils.

Department of Local Government and Planning

Audit conclusion

The department has made substantial progress to address all the recommendations from my original 2008 report. Under the new legislation that now governs local government in Queensland, prescribed requirements for administering grants and funding, including councillor's discretionary funds, have been significantly strengthened and, as a result, have improved transparency and accountability.

However, elements of the recommendations made to the department are still outstanding. A clear definition of what is a grant, which includes all forms of funding to community organisations such as donations, would assist local governments in clearly articulating the purpose of the funding in their *Community grants policy*, and the related accountability treatment for each.

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[1] Auditor-General of Queensland, *Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland, October 2008.*

The Regulation specifies different accountability requirements for different types of grant and councillor's discretionary funds. Local governments are required to publish in their annual reports only a summary of total community grant expenditure, but need to include the name of each community organisation receiving councillor's discretionary funds as well as the amount and purpose of the allocation. Accountability would be further improved by reporting on the details and benefits of the grants programs, the councillor's discretionary funds, and how grant funds have achieved the council's corporate plan objectives.

The department's role in overseeing local governments has to date been focused on capacity building through the Queensland Government's Local Government Reform Program.[2] I expected that the department would examine councils' community grant policies from a risk assessment perspective; however, I found that the department has not yet undertaken a comprehensive compliance check on these policies.

Key findings

Achievements

- The prescribed requirements for allocating grants and councillor's discretionary funds to community organisations have been significantly strengthened. Under s.138 of the Regulation,[3] local governments must now prepare and adopt a *Community grants policy*, which must state the eligibility criteria for grants and the allocation criteria for councillor's discretionary funds.
- The relevant Act and the Regulation stipulate stronger transparency and accountability requirements for councillor's discretionary funds. The new legislation requires councils that allocate councillor's discretionary funds to:
  – advertise publicly the details of the councillor's discretionary funds budget
  – widely promote the availability of the funds and the application process to community organisations
  – publicly report the name of each community organisation, and the amount and purpose of the councillor's discretionary allocation.

Work that still needs to be done

- Clearly define a grant to assist local governments in deciding funding based on the framework for giving, shopping or investing (refer to Section 1.5 of this report).
- Undertake a comprehensive, risk-based approach to assess, monitor and report on local governments' compliance with prescribed requirements for the *Community grants policy* and councillor's discretionary funds, from the regional level to the departmental level.
- Provide more detailed guidance on the differing accountability mechanisms for each funding style, appropriate to the level of risk.
- Strengthen the requirements for accountability and transparency in relation to the use of grants and councillor's discretionary funds by reporting the details and benefits of the programs to the community.

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[2] *http://www.dlgp.qld.gov.au/structural-reform/history-of-the-reform-process-and-commission.html*
[3] State of Queensland, *Local Government (Finance, Plans and Reporting) Regulation 2010*, Section 138 and *City of Brisbane (Finance, Plans and Reporting) Regulation 2010*, Section 135.

Local government

Audit conclusion

The 12 councils involved in the original audit have made satisfactory progress in addressing their 2008 audit recommendations. However, I found that many councils are yet to comprehensively review their existing suite of policies and revise and adopt a *Community grants policy* that meets the prescribed requirements of the Act and Regulation effective from 1 July 2010.

Overall, councils have acted on their governance arrangements to ensure the allocation of grants is more transparent. Most councils have done well in ensuring proper assessment of grant applications and approval procedures are in place. In spite of this progress the audit identified that the documentation of clear guidelines and processes could be improved.

Monitoring of individual grants and existing grants policies has improved, with most councils having an internal reporting system in place. An absence of performance indicators for community grants policies and councillor's discretionary funds at most councils could hinder the reporting of the benefits achieved to the community.

Key findings for local government

Achievements

- Councils have acted on their governance obligations to ensure the allocation of grants is more transparent. Grant funding opportunities are advertised widely in the community, which enables a broader range of applicants to apply for funding.
- Monitoring of existing council grants policies has improved with most reporting on funding provided to applicants, grants acquitted and total funding against budget.
- In terms of accountability and transparency, assessment processes of applications for grants funding have been strengthened to require up-front disclosure of conflicts of interests, the eligibility criteria, and approval process for applicants.
- Most councils have provided relevant or related training in the administration of grants based on their risk profile for the amount and volume of grants made.

Work that still needs to be done

- Consolidate existing suite of grants, donations, and other funding policies into a single *Community grants policy* that uses better practice details from the Guidelines and meets the prescribed requirements of the relevant Act and Regulation from 1 July 2010.
- Review and update community grants and councillor's discretionary funds policies and procedures to ensure the following elements are included:
  - funding framework and clear definition of a grant
  - differing accountability mechanisms for each type of funding appropriate to the level of risk
  - strategic planning and *Community grants policy* design requiring the development of grants policy objectives, and relevant and appropriate performance indicators
  - communication of grants funding opportunities to the community

- assessment processes with adequate and efficient funding agreements reflecting the risk to public monies supplied to applicants
- report on the benefits achieved by the *Community grants policy* and against the performance indicators
- acquittal procedures with a council assessment appropriate to the level of risk to verify the claims made by the recipients in their acquittal report.

- Continue to seek and provide suitable ongoing training in grant administration to staff employed in this role.

Departmental response

The acting Director-General of the Department of Local Government and Planning provided the following response on 27 May 2011:

The Department of Local Government and Planning (the Department) takes seriously its responsibility to provide the framework for Local Government accountability, transparency and equity in grants and funding provided by local Councils. It is pleasing to note that the audit has acknowledged that the Department has made substantial progress to address all the recommendations of the original 2008 report. Much of this was due to the achievement of the Local Government Reform Program which was initiated in 2007. In terms of finalising the audit's recommendations the Department will:

- *Finalise the formalised system to monitor Councils' compliance with the new legislation which came into effect from 1 July 2010.*
- *Further update the Department's "Guidelines for Local Government Administration of Community Grants" to incorporate the three elements detailed in the report, including update of Council training and Fact Sheet material to support the Guidelines.*
- *Re-release the Guidelines to Councils as a matter of priority.*
- *Through the Department's regional office network engage with all Councils to ensure:*
  1. *All Councils have received and clearly understood the Guidelines and legislative requirements.*
  2. *All Councils adopt a compliant Community Grants Policy.*
  3. *All councils have appropriate accountability and transparency disclosures in place.*
- *Where shortcomings are identified the Department will continue to offer further training and support through its regional office network to assist Councils meet compliance.*

1 | Audit outline

1.1 Background

In 2008, a Performance Management Systems audit was undertaken at the then Department of Local Government, Sport and Recreation, and 12 selected councils, listed in Figure 1A.

Figure 1A – Councils selected for audit in 2008

12 councils selected for 2008 audit	
• Brisbane City Council	• Logan City Council
• Cassowary Coast Regional Council	• Longreach Regional Council
• Gladstone Regional Council	• Mount Isa City Council
• Gold Coast City Council	• Redland City Council
• Goondiwindi Regional Council	• Townsville City Council
• Ipswich City Council	• Winton Shire Council

The objective of the original audit (Report No. 7 for 2008) was to determine whether the selected local governments had suitable frameworks and appropriate systems in place to administer grants and funding to community organisations, individuals and local businesses.

The findings and recommendations were reported to Parliament in *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland*.

The report to Parliament No. 7 for 2008 identified a number of areas for improvement for the department. The local government legislation administered by the department lacked clarity for grants and funding. The department also needed to implement a system to ensure local governments' policies complied with the legislation, and to develop comprehensive, principles-based guidelines and training for the administration of grants and funding to community organisations.

The original audit also identified areas for local government to improve their grants and funding administration. Many councils' policies did not meet the legislative requirements. Transparency needed to be improved in the allocation, monitoring and reporting of the benefit of grants and funding to the community.

The development of clear and comprehensive guidelines and training would assist in consistent grants and funding administration practices.

A brief overview of the 2008 audit findings and recommendations can be found in Section 4 of this report.

1.2 Events since October 2008

Since tabling of the report in 2008, two machinery of government changes have occurred. The original audit recommendations were made to the Department of Local Government, Sport and Recreation.

The Department of Local Government and Planning (the department) is now responsible for local government. The *Local Government Act 1993* has been replaced by the *Local Government Act 2009* (the Act), and the *Local Government Finance Standard 2005* has been replaced by three regulations.

Similar changes have occurred with a new *City of Brisbane Act 2010* and three regulations replacing the *City of Brisbane Act 1924*. The legislation took effect from 1 July 2010.

A preliminary desktop assessment of the legislative changes found that many of the 2008 audit recommendations have been addressed by the changes to the legislation and regulations.

In October 2009, the department issued *Guidelines for local government administration of grants* (the Guidelines) which provide comprehensive guidance for councils. The Guidelines are in the process of being revised to reflect changes in the new legislation.

The Queensland Government has commenced a Review of Local Government statutes [4] with the aim to facilitate efficient, accountable and effective processes that best serve Queensland communities and make significant savings for business, the community and governments.

The review is in response to the views of councils about working across the many pieces of legislation that relate to their businesses. The review aligns with the Local Government Legislative Reform program and is an initiative of the *Queensland Regulatory Simplification Plan (2009–2013).*

1.3 Audit objective

The objective of this follow up audit is to assess the progress made by the Department of Local Government and Planning and the 12 councils from the original audit in implementing the recommendations made in *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland.*

1.4 Audit scope

1.4.1 Entities subject to audit

The entities subject to this follow up were:

- The Department of Local Government and Planning.
- The 12 councils that were originally audited in 2008 and listed in Figure 1A.

The follow up was conducted from December 2010 to March 2011 through the administration of a questionnaire, audit assessment and the conduct of fieldwork at the department.

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[4] State of Queensland, Department of Infrastructure and Planning, *Review of Local Government Statutes Discussion Paper*, December 2010. The review commenced on 1 July 2010 and is expected to take 18 months. It will include a comprehensive review of over 200 statutes applicable to local government.

1.4.2   Exclusions from audit scope

The audit did not include:

- Legislative changes outside the original audit scope.
- Site visits to councils (unless to validate audit evidence of grant funding documentation to formulate findings and conclusions).
- An examination of service delivery outcomes by local government councils.
- An examination of the characteristics of service recipients.
- An examination of complaints handling and the nature of those complaints made against local government councils.

1.5   Funding framework

Report to Parliament No. 7 for 2008 presented a simple framework for grant makers of giving, shopping and investing funding styles. The funding framework is also included in the department's Guidelines.

The framework assists entities to understand and decide on the style of funding they want to provide, and to be clear about the objectives, priorities and the intended impact to be achieved for each funding style. The different funding styles have a different impact on the organisations receiving the funds.[5]

The funding framework for giving, shopping and investing can be modified to suit the entity.

The funding framework, developed by the National Audit Office in the United Kingdom and the Australian Centre of Philanthropy and Non-profit Studies,[6] defines three categories of funding:

- **Giving –** aligned with the concept of charity or more general support or a contribution to worthy cause. In this model government typically does not define the expected outputs and allows the recipient to decide on the best use of funds. Core accountability mechanisms would be the grant application and subsequent acquittals.

- **Shopping –** aligned with the concept of procuring services. Here government's focus is on cost and quality of the service delivered. In this model government typically defines the expected outputs and specifies this in a contractual format. Core accountability mechanisms would be the funding agreement and subsequent detailed performance reporting.

- **Investing** – aligned with the concept of building capacity in the sector by seeking a long-term outcome from the spending, such as a policy change or developments in organisation's or sector's capacity. Core accountability mechanisms would be grant application and subsequent acquittals.

The funding framework should be utilised by local governments in their *Community grants policy* to assist councils with the objectives they want to achieve. The framework may improve the efficiency of the grants administration process for councils and applicants, due to a more targeted approach. The funding framework can be applied as follows:

- Categorise funding as either giving, shopping or investing. This depends on what the local government is trying to achieve.

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[5] The Baring Foundation, Julia Unwin, *The Grantmaking Tango: Issue for Funders*, June 2004, Reprinted April 2005.

[6] *http://www.bus.qut.edu.au/research/cpns.*

- Develop accountability mechanisms for each category. For instance, structure the content of application forms, acquittal reports, and funding agreements, depending on the intent of the funding and the monetary value that is appropriate to the level of risk.
- Develop relevant and appropriate performance indicators against each category, which are aligned to the Corporate Plan objectives. Regular performance reporting and evaluation on the effectiveness of the *Community grants policy* can then be undertaken.

2 | Progress at the Department of Local Government and Planning

Summary

Background

In 2008, a Performance Management Systems audit was undertaken at the then Department of Local Government, Sport and Recreation, which examined the department's frameworks and systems to support local governments in the administration of grants and funding to community organisations.

The 2008 audit found weaknesses in the legislative requirements on governance, transparency and accountability of grants and councillor's discretionary funds to community organisations.

Key findings

- The Department of Local Government and Planning has made substantial progress to address all the recommendations from the original 2008 report.
- Work still needs to be done to ensure councils comply with the prescribed requirements, and to strengthen guidance provided to councils.

2.1   Background

In 2008, a Performance Management Systems audit was undertaken at the then Department of Local Government, Sport and Recreation, which examined the department's frameworks and systems to support local governments in the administration of grants and funding to community organisations. Findings and recommendations were reported in the *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland*.

Since the original audit, the department has reviewed the legislation current at the time of the audit that governs the operations of local governments. New laws came into effect on 1 July 2010:

- The *Local Government Act 2009* (the Act) replaced the *Local Government Act 1993*, and is supported by three regulations.
- The *Local Government (Finance, Plans and Reporting) Regulation 2010* (the Regulation), is one of the regulations that replaced the *Local Government Finance Standard 2005*. The Regulation contains prescribed requirements for grants to community organisations.
- The *City of Brisbane Act 2010* replaced the *City of Brisbane Act 1924*, and is supported by three regulations.

The 2008 audit found weaknesses in the legislative requirements on governance, transparency and accountability of grants and councillor's discretionary funds to community organisations.

Refer to Section 4.1 of this report for a brief overview, findings and recommendations from the original report to Parliament.

2.2   Follow up findings

2.2.1   Governance

Figure 2A – Report to Parliament No. 7 for 2008

Audit Recommendation

1.   It is recommended that the Department of Local Government, Sport and Recreation:
   a.   review the *Local Government Finance Standard 2005* 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.

Assessment of progress

The Department of Local Government and Planning (the department) assessed its progress against this 2008 audit recommendation, as 'Implemented'. Overall, based on the findings, audit agrees with the department's assessment.

Refer to Section 4.2 of this report for the department's self-assessment on its progress in implementing the audit recommendations from report to Parliament No. 7 for 2008.

Review of legislation

The original audit found weaknesses in the legislation administered by the then Department of Local Government, Sport and Recreation. The review of the *Local Government Act 1993* was part of the Queensland Government's Local Government Reform program.[7] The Program attempted to address four key components – legislative reform, structural reform, performance management and capacity building.

The new legislation addressed the intent of the original audit recommendations with prescribed requirements for councils and councillors that make grants to community organisations.[8] Local governments must now prepare and adopt a *Community grants policy*. The Regulation requires the policy to state criteria for a community organisation to be eligible for a grant, procedures for approving the grant and the criteria for allocating councillor's discretionary funds. These minimum requirements improve transparency and accountability in the administration of grants.

- The Act and the Regulation stipulate stronger transparency and accountability requirements for councillor's discretionary funds. The new legislation requires councils that allocate councillor's discretionary funds to:
  - advertise publicly the details of the councillor's discretionary funds budget
  - widely promote the availability of the funds and the application process to community organisations
  - publicly report the name of each community organisation, and the amount and purpose of the councillor's discretionary allocation.

Accountability for grants and funding to community organisations

The Regulation and the department's current *Guidelines for Local Government Administration of Community Grants* (the Guidelines) do not include a specific definition of a grant. Some council community grants and funding policies do not clearly articulate what a grant is, and describe some funding arrangements as either donations or gifts. This can lead to inconsistent grants, funding administration practices and accountability requirements.

Audit considers donations to be forms of grants. The *Financial Accountability Handbook* [9] defines a grant as:

'A "grant" is a generic term applied to funding or other incentives provided to individuals or bodies (including community groups, statutory bodies or commercial enterprises) that exhibit some, or all, of the following characteristics:

- *A transfer to a recipient which may be in return for compliance with certain terms and conditions.*

- *A transfer which may not directly give approximately equal value in return to the Government. (that is, there is a non-exchange transaction or subsidisation).*

- *A recipient may have been selected on merit against a set of program-specific criteria.'*

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7   *http://www.dlgp.qld.gov.au/structural-reform/history-of-the-reform-process-and-commission.html*

8   State of Queensland, *Local Government (Finance, Plans and Reporting) Regulation 2010,* Sections 137-138, and *City of Brisbane (Finance, Plans and Reporting) Regulation 2010*, Sections 134-135.

9   State of Queensland, Queensland Treasury, *Financial Accountability Handbook, Volume 6, Grant Management*, August 2010.

There are different accountability requirements for different types of grants, as specified in the Regulation. For example, local governments are required to publish only a summary of total community grants expenditure in their annual reports.[10] On the other hand, they need to include the name of each community organisation receiving councillor's discretionary funds as well as the amount and purpose of the allocation.[11]

Accountability and transparency requirements should be the same for all grants, including any funds described as donations or gifts to community organisations. This requires reporting of the benefits achieved against the policy's and Corporate Plan's objectives and disclosure of the recipients' details for all grants and councillor's discretionary funds, by inclusion on the council's website, or in the annual report.

2.2.2   Compliance

Figure 2B – Report to Parliament No. 7 for 2008

Audit Recommendation
1. b. Ensure that councils' policies for the administration of grants and funding to community organisations, individuals and local businesses comply with the *Local Government Finance Standard 2005*.

Assessment of progress

The department assessed its progress against this 2008 audit recommendation, as 'Partially Implemented'. Based on the findings, audit agrees with the department's assessment.

Refer to Section 4.2 of this report for the department's self-assessment on its progress in implementing the audit recommendations from report to Parliament No. 7 for 2008.

Structure to support local governments

Since the original audit in 2008, the department responsible for developing and administering legislation and supporting local government has experienced two machinery of government changes. It has endeavoured to improve coordination and support through a restructure of its operations for local government, with the establishment of five regional offices that now provide a more direct interface with councils.

Compliance process for local governments

The department's 2009-10 Annual Report states that it '*Led the Queensland Regulatory Reform Agenda'*.[12] With the commencement of the new Act and Regulation on 1 July 2010, the department advised audit that it has adopted a capacity building approach for councils to assist them to identify and comply with the prescribed requirements. This approach includes the provision of training and fact sheets to make councils aware of their legislative obligations.

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[10] State of Queensland, *Local Government (Finance, Plans and Reporting) Regulation 2010,* Sections 137(a), and *City of Brisbane (Finance, Plans and Reporting) Regulation 2010*, Section 115 (a).

[11] State of Queensland, *Local Government (Finance, Plans and Reporting) Regulation 2010,* Sections 137(b)(i-ii), and *City of Brisbane (Finance, Plans and Reporting) Regulation 2010*, Section 115(b)(i-ii).

[12] State of Queensland, Department of Infrastructure and Planning, *Annual Report 2009-10*, September 2010.

Audit expected that, with the introduction of new legislation, the department would have completed a risk assessment to identify high risk areas for the focus of initial compliance checking across all councils. In respect to grants, this would be the prescribed requirements for the content of the policy and the allocation of councillor's discretionary funds.

Currently, the department's regional office staff utilise a high level governance checklist. Audit is aware that the implementation of the checklist at regional offices may have become delayed due to the natural disasters earlier this year.

Audit's assessment of the department's compliance management system was based on a review of the current governance compliance checklist and discussions with staff at the department's head office. No fieldwork was undertaken at the regional offices.

Audit found that the department did not know whether councils were compliant with the prescribed requirements as it has yet to undertake a comprehensive review of all councils. Audit understands the compliance checklist includes verification of whether councils have a *Community grants policy.* However, there is no requirement to check the content of the policy against the prescribed requirements, or to check whether the councillor's discretionary funds have been allocated '*in a way that is consistent with the local government's community grants policy'*. [13]

Areas for improvement have been identified and include:

- Setting a timeframe for regional offices to assess each council for compliance to ensure all councils are checked over a period of time.
- Issuing guidance and plans to ensure compliance with all aspects of the checklist is covered over a period of time.
- Developing a system to centrally record and report on the result of compliance checks of councils by the department.

At this stage, the department has a basic system to assess, monitor and report on councils' compliance with the legislation and prescribed requirements for grants administration. The department is in the process of implementing a formalised compliance management system to monitor councils' compliance with the new legislation, effective from 1 July 2010.

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[13] State of Queensland, *Local Government (Finance, Plans and Reporting) Regulation 2010,* Section 138 (2).

2.2.3   Guidance

Figure 2C – Report to Parliament No. 7 for 2008

Audit Recommendation

1. 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.

Assessment of progress

The department assessed its progress against this 2008 audit recommendation, as
'Partially Implemented'. Based on the findings, audit agrees with the department's assessment.

Refer to Section 4.2 of this report for the department's self-assessment on its progress in
implementing the audit recommendations from report to Parliament No. 7 for 2008.

Guidelines for Local Government Administration of Community Grants

The department issued a principles based document called *Guidelines for Local Government
Administration of Community Grants* (the Guidelines) in October 2009. The Guidelines principally
address the original audit recommendation.

A revised version of the Guidelines, incorporating the requirements of the new Act and Regulation,
is to be issued in mid 2011. A review of the draft revised Guidelines concluded that these should
provide councils with comprehensive guidance on all facets of grants and funding administration, as
identified in this 2008 audit recommendation.

Audit found that there are further opportunities for improvement in the guidance provided.

The Guidelines should:

- Include a clear definition of a grant, and encourage councils to apply the giving, shopping
  and investing funding framework described in Section 1.5, and document it in their
  Community grants policy.

- Explain the differing accountability mechanisms for each funding style based on the giving,
  shopping and investing funding framework, that are appropriate to the level of risk.

- Better explain the inherent risks in grants administration, for example the need to document
  grants funding terms and conditions to protect public monies of ratepayers and council.

- Encourage the same accountability and transparency disclosures for all grants to community
  organisations. This should provide guidance on the minimum accountability disclosures for
  reporting the benefits achieved by the *Community grants policy* to the community.

- Update the Sample Grants Policy, in the Guidelines, to reflect the areas for improvement
  identified in this report.

- Improve information regarding the application of the *Judicial Review Act 1993* and how the
  administrative decisions of council can be subject to external review. The Guidelines should
  include details about the application of the *Right to Information Act 2009* regarding the
  community's right to access information held by council.

When the Guidelines are re-issued, the department should widely promote them to local governments, so they are aware of the Guidelines' existence and use them to update their *Community grants policy* accordingly.

Training

The department has adopted a capacity building approach to make councils aware of their new legislative responsibilities, and the availability of the community grants Guidelines. The department held training sessions on the new legislation, including grants and funding requirements, at 15 seminars attended by more than 500 councillors and local government staff throughout the State. It also has published 20 fact sheets on the new legislation to assist education and implementation.[14]

In addition, the department conducted workshops at various councils on the prescribed requirements in the Act and the Regulation for councillor's discretionary funding. At the regional level, officers have undertaken a train-the-trainer program to assist staff who provide advice to councils on the new statutory requirements. The department provides training, support and advice to local governments on request as part of the Local Government Capacity Building Program.[15]

2.3   Work that still needs to be done

To fully implement all elements of the recommendations of *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland*, the department needs to:

- Strengthen its compliance management system by implementing a more comprehensive, risk-based approach to assess, monitor, manage and report on local government's compliance with prescribed requirements.
- Enhance the guidance provided to councils by incorporating the areas for improvement identified in this report, including:
    - clearly define a grant to include funding currently described as donations or gifts in some councils' and councillor's discretionary funds policies
    - encourage councils to apply the giving, shopping and investing funding framework and relevant accountability mechanisms, and document them in their *Community grants policy*
    - better explain the need to document grants funding terms and conditions, and the application of other laws such as *Right to Information Act 2009.*
- Ensure the same transparency disclosures apply for all grants to community organisations, and enhance accountability by reporting the benefits achieved through the *Community grants policy* to the community.

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[14] State of Queensland, Department of Infrastructure and Planning, *Annual Report 2009-10*, September 2010.

[15] State of Queensland, Department of Infrastructure and Planning, *Service Delivery Statement 2010-11*, June 2010.

3 | Progress within local government

Summary

Background

In 2008, a Performance Management Systems audit was undertaken to determine whether the selected 12 councils had suitable frameworks and appropriate systems in place to administer grants and funding to community organisations.

Audit identified improvement opportunities that included ensuring grants policies and procedures complied with legislative requirements, transparent allocation of funds, improved accountability in the monitoring and reporting of the benefits achieved to the community, and the provision of training to staff in grants administration.

Key findings

- The 12 councils involved in the original audit have made satisfactory progress in addressing their 2008 audit recommendations.
- A number of areas for improvement have been identified to fully implement the 2008 recommendations. They include consolidating the existing suite of funding policies into a single *Community grants policy* that meets the prescribed requirements, setting the funding framework in the policy, and documenting the grants administration processes.

3.1 Background

The 2008 audit was undertaken to determine whether the 12 councils selected for audit had suitable frameworks and systems in place to administer grants and funding to community organisations, individuals and local businesses in a transparent manner and in accordance with relevant legislation. The audit found a number of weaknesses in the administration of grants and funding systems at the councils audited. Areas that required attention included ensuring grants policies and procedures meet legislative requirements, transparent allocation of funds, improved accountability in the monitoring and reporting of grants, and the provision of training to staff in grants administration.

Findings and recommendations were reported in *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland*.

Refer to Section 4.3 of this report for details of those councils audited, a more detailed overview, and findings and recommendations from report to Parliament No. 7 for 2008 for local government.

3.2 Follow up findings

3.2.1 Compliance with legislation

Figure 3A – Report to Parliament No. 7 for 2008

Audit Recommendation
2. a.   Review the policies and procedures for administering grants to ensure they meet the requirements of the *Local Government Finance Standard 2005*.

Assessment of progress

The 12 audited councils assessed their progress against this audit recommendation. Their self-assessment varied from 'Implemented' to 'Partially Implemented'. While most councils have reviewed their policies and procedures since the 2008 audit, audit found that no council policy fully complied with the new Act and Regulation.

Refer to Section 4.4 of this report for the councils' self-assessment on their progress in implementing the audit recommendations from report to Parliament No. 7 for 2008.

Compliance with previous legislation and 2008 audit recommendations

Since the original audit in 2008, most councils have addressed the original audit recommendations and updated their grants and funding polices and procedures to reflect the former *Local Government Act 2003* and *Local Government Finance Standard 2005*. A new *Local Government Act 2009* (the Act) and three supporting regulations came into effect from 1 July 2010. In particular, the *Local Government (Finance, Plans and Reporting) Regulation 2010* (the Regulation), contains prescribed requirements for grants to community organisations. The legislation for Brisbane City Council underwent similar changes.

Compliance with grants and funding legislation effective 1 July 2010

A desktop review was undertaken of the 12 councils' policies and procedures, with a site visit at one council to seek further clarification. Audit found that no council policy fully complied with the new Act and Regulation effective 1 July 2010.

Audit expected that, under s.138 of the Regulation, councils would have consolidated their existing policies into a single *Community grants policy* with the various funding programs elaborated on in related sub-policies and procedures. However, audit found that most councils still have numerous policies for their grants and funding programs, rather than one overarching policy. There is room for improvement for councils to consolidate various grants and funding policies, including councillor's discretionary funds, into a single *Community grants policy*. This would improve governance, prevent inconsistent grants and funding administration practices, and minimise confusion.

It is audit's view that there is no difference in intent between funding provided as a grant, donation or councillor's discretionary funds, and that all such funding should be included in a single *Community grants policy.* Nearly all 12 councils audited allocate donations, however, few include a definition of either a grant or donation, and frequently use both words interchangeably. Some council policies did not clearly articulate a difference between grants and donations**.**

The review of policy documents provided by councils also found that only four of 12 councils complied with the requirement of the Regulation to disclose the eligibility criteria and approval procedures. It is important that the relevant prescribed requirements are stated in full in the *Community grants policy* to ensure that those involved with grants administration comply with these prescriptive requirements.

Audit identified areas for improvement in relation to the *Community grants policy*:

- The funding framework for grant makers for giving, shopping and investing, described in Section 1.5 of this report, should be used by local governments and documented in their *Community grants policy*. The framework will help councils determine what type of funding they want to provide and clarify objectives, priorities and intended impact for each funding style.[16] This would result in grant policies and funding programs having a more focused and targeted approach, aligned to the Corporate Plan objectives, and better supporting the community.

- The *Community grants policy* should state the differing internal accountability mechanisms for each type of funding appropriate to the level of risk, and the amount allocated to community organisations.[17]

- Some councils' policies include an appeal process, however, few mention the *Right to Information Act 2009*. Inclusion of this Act in councils' policies will create awareness in the community about their right to access information held by council.

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[16] The Baring Foundation, Julia Unwin, *The Grantmaking Tango: Issue for Funders*, June 2004, Reprinted April 2005.

[17] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants, October 2009.*

3.2.2   Work that still needs to be done

To fully implement the recommendation from report to Parliament No. 7 for 2008, as shown in Figure 3A, councils need to:

- Consolidate the various grants and funding policies into a single *Community grants policy* to improve governance and prevent inconsistent grants and funding administration practices.

- State the full requirements and explain the application of s.137 and s.138 of the *Local Government (Finance, Plans and Reporting) Regulation 2010*, and, where applicable, the full requirements of s.150 for councillor's discretionary funds in the council's *Community grants policy* to assist the administration of grants and funding programs in complying with the legislation.

- Include a clear definition of a grant, that includes donations, in the *Community grants policy.*

- Document the funding framework in the *Community grants policy,* to help achieve a more focused and targeted approach.

- Clearly state the differing accountability mechanisms for each type of funding, appropriate to the level of risk.

3.2.3   Governance arrangements

Figure 3B – Report to Parliament No. 7 for 2008

Audit Recommendation
2. 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.

Assessment of progress

The 12 audited councils assessed their progress against this audit recommendation. Their self-assessment varied from 'Implemented' to 'Partially Implemented'. Overall, councils have acted on their governance arrangements to ensure the allocation of grants is more transparent. However, all councils could enhance their accountability by reporting to the community the benefits achieved through their grants programs.

Refer to Section 4.4 of this report for the councils' self-assessment on their progress in implementing the audit recommendations from report to Parliament No. 7 for 2008.

Allocation of grants

In the original audit in 2008, audit found that transparency in the allocation of grants relates to councils' activities in:

- Communicating widely the availability of grant funding opportunities to the community.

- Having processes in place to declare conflicts of interest to avoid bias.

- Using funding agreements with strong accountability requirements to ensure public monies are not placed at risk on the grants recipient.

- Disclosing the names and amount of funding provided to approved grant applicants to the community.

Transparency also relates to the process of assessment of applications against published eligibility criteria, and persons involved in approving grants.

For all grants, the Regulation now prescribes that the *Community grants policy* must contain the criteria for a community organisation to be eligible for a grant, the procedure for approving a grant, and the criteria for a councillor to decide how to allocate the councillor's discretionary funds, as discussed in Section 3.2.1.[18]

Audit found all councils have a documented process associated with their Code of Conduct for councillors and staff to declare and record conflicts of interest.[19] Funding agreements could be improved to adequately address the risk to protect public monies provided to the approved applicant. Further detailed comment on conflicts of interest, communication, funding agreements and reporting is provided in Section 3.2.4 of this report.

Councils provided audit with details about how they disclose, or intend to disclose the details of the approved grants and funding recipients in their annual report. Some councils have also provided ongoing updates about approved grant applicants on their websites, providing real-time reporting throughout the year.

Case study A

Better practice case study			
Transparency in grants administration – Logan City Council			

Logan City Council website

The Logan City Council publishes the details of the grants recipients, stating the name of the recipient, the amount and purpose of the grant as each grants funding round is completed. An extract from the Logan City Council website is depicted below.

2010/2011 Mayor's and Councillors' Community Benefit Fund

Division	Recipient	Purpose	Amount
Mayor **Cr Parker**	Make a Wish Foundation of Australia Ltd Applicant Jimboomba Amateur Basketball Association Protect all Children Today Inc Applicant Applicant	Contribution towards ongoing support Contribution towards wheelchair accessible vehicle for applicant Contribution towards raffles for season Grand Finals Contribution towards various equipment Contribution towards Shanghai World Expo 2010 Music Festival Contribution towards Goalkeeper tour for applicant	$500 $500 $250 $200 $100 $200

Why is this better practice?

This provides real-time updates to the community on who has been successful in receiving a grant and the amount and purpose of the grant. Ratepayers and interested stakeholders are kept informed on the expenditure of the council's grants funding program, which achieves good transparency.

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18 State of Queensland, *Local Government (Finance, Plans and Reporting) Regulation 2010*, Section 138, and *City of Brisbane Act 2010*, Section 135.

19 Auditor-General of Queensland, *Report to Parliament No. 2 for 2011 – Results of Local Government Audits*, March 2011, Page 7.

Reporting to the community

While there is no statutory requirement for local governments to disclose to the community the benefits achieved through their grants funding, they could enhance their accountability and report the benefits and achievements either in the annual report or through another reporting mechanism.

Audit reviewed the 2009-10 annual reports of the 12 councils and found that disclosure on community grants met the minimum statutory requirement, such as reporting only a summary of expenditure. Some councils reported additional information including listing the grants recipients.

Audit found that one of the 12 councils had performance indicators for 2010-11 to enable it to report on the benefits of its *Community grants policy* to the council and community. Overall, audit observed that the wide spread absence of *Community grants policy* objectives and related relevant and appropriate performance indicators could inhibit councils' intention to report on the benefits of their grants and councillor's discretionary grants to the community. Further detailed comment on councils' monitoring of grants policy is provided in Section 3.2.4 of this report.

3.2.4   Accountability and transparency of grants administration

In October 2009 the then Department of Infrastructure and Planning issued principles based *Guidelines for Local Government Administration of Community Grants* (the Guidelines). The diagram below, taken from the Guidelines, illustrates the principles that should guide councils in the development and design of their *Community grants policy* and administrative procedures.

Community grant guidelines – Six step process[20]

Audit's review of councils' progress against the following recommendation is based on the directions provided in the Guidelines.

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[20] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants*, October 2009.

Audit Recommendation
2. 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.

Assessment of progress

The 12 audited councils assessed their progress against this audit recommendation. Their self-assessment varied from 'Implemented' to 'Partially Implemented'. Overall, audit found that more work was required to ensure councils better document all elements of the grants administration process.

Refer to Section 4.4 of this report for the audited councils' self-assessment on their progress in implementing the audit recommendation from report to Parliament No. 7 for 2008.

Strategic planning and design of the Community grants policy

Strategic planning is the most significant stage of the grants process and answers the fundamental question, 'what outcome is council trying to achieve with its *Community grants policy*?'

It requires the council to go back to basics and ask itself, 'what are our strategic goals for our community and how can we go about achieving these?'

It seeks to link the identified need for a grants program to the council's Corporate Plan objectives and performance indicators, Community Plans, long term financial plans for sustainability and long term asset and infrastructure management plans.

The purpose of the design of the grants program is to establish policy and procedures that will enable the council to achieve the objectives that it has identified for the community.[21]

Audit's review of supplied policies and procedures found most councils are yet to appropriately design a *Community grants policy* incorporating councillor's discretionary funding, and document procedures and performance indicators that comprehensively address their obligation for strategic planning and design of their grants to community organisations. Only one council appropriately addressed the need to document its strategic planning in procedures for its *Community grants policy*. The outcome of this approach is provided in the better practice example (Case study B) on the next page.

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[21] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants*, October 2009, Pages 9 and 12.

Case study B

Better practice case study
Strategic planning and design – Redland City Council

Grant policy's objectives matched to corporate objectives

Redland City Council clearly states the objective of its *Community Grants Policy*, which is aligned and linked to Redland City Council's Corporate Plan for the community.

The objective stated in the Financial Assistance to the Community Sector Policy is:

Policy Objective

To achieve the objectives of the Corporate Plan by the provision of funds to organisations in the city in the following ways:

- *Community Grants Program.*
- *Other non grant Targeted Funding Allocations.*

The objectives stated in the Grants and Sponsorship Program Guidelines are:

Program objectives

The program is designed to meet and respond to Council's priorities and vision as outlined in the Redland City Council's Corporate Plan.

Council will provide funds to the community that enhance the breadth and quality of community facilities, services, programs and events in Redland City.

The intent of the Financial Assistance Program is to:

- *Assist community organisations to provide services.*
- *Empower community organisations and build capacity.*
- *Build community infrastructure.*
- *Assist disadvantaged/vulnerable groups.*
- *Provide cost-efficient initiatives.*
- *Increase leverage to gain additional funds from state/federal departments.*
- *Increase employment and boost the local economy.*
- *Create identity, a sense of place and celebration.*
- *Contribute to a sustainable environment.*
- *Support a robust living culture in the Redlands.*

The Guidelines then lists the 2010-2015 Corporate Plan Outcome Areas.

Why is this better practice?

Stating the objective of a grants program, which is linked to council's Corporate Plan objectives allows a council to identify the outcomes it is trying to achieve with the *Community grants policy*. It shows that the council has considered how the grants program will contribute to its corporate goals for the community and prioritised grant funding accordingly. In addition, it provides clear and measurable outcomes that should be able to be incorporated into performance indicators for the community to assess benefits achieved.

Audit also found that only one council had performance indicators considered relevant and appropriate to assess achievements against the *Community grants policy* objectives and their contribution to corporate and community plan objectives. A better practice example of developing performance indicators for the *Community grants policy* is provided in Case study C.

Case study C

Better practice case study
Community grants policy performance indicators – Townsville City Council

Townsville City Council's *Financial Assistance Procedures* list performance indicators for the *Community Grants and Sponsorship Scheme*. They state:

Key performance indicators for the Community Grants and Sponsorship Scheme include:

- *Number, amount and type of grants provided (program analysis).*
- *Number and type of grant recipients (organisational analysis).*
- *Suburb location of grant recipient (for individual grant programs).*
- *Purpose for which grants have been used.*
- *Contribution to objectives of the Community Grants Scheme (community benefits obtained).*
- *Targeted groups involved in and/or benefiting from activities funded by grants.*
- *Level of activity which has been attracted to Townsville (state, national or international).*
- *Number of residents involved in and/or benefiting (including membership numbers and numbers attending and/or participating).*
- *Funds contributed and/or attracted from other sources.*
- *Community, city and Council profile outcomes.*

Why is this better practice?

The council identifies and collects data on various aspects of the *Community grants policy*, taking a holistic view of financial and non-financial data relevant to community grants objectives, focused on the priorities set for the community. This information provides a good basis for reporting on benefits to the Council and the community.

Communication

It is important for all in the community to have an equal opportunity to apply for a grant, provided they meet the criteria set by the council. If only some of the potential grant recipients are aware of the grants and others are not, the community may raise concerns regarding potential bias.[22]

Audit's review of councils' response to the questionnaire found that seven councils have addressed the need to communicate their various grants programs widely to attract more community organisations as applicants. This is a slight improvement on the original audit finding in 2008, where only six councils communicated the availability of funding widely to the community. In their response to the questionnaire, councils advised how they utilised local media and their websites to communicate the availability of grants funding widely to community organisations. However, audit found that the communication process is often not formally documented in the policy and procedures.

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[22] State of Queensland, Department of Infrastructure and Planning, Guidelines for Local Government Administration of Community Grants, October 2009, page 17.

Assessing grants applications

The key to successful assessment of applications is to have predetermined, well developed assessment criteria and separation of roles for decision making between applicants, assessors and approvers of the grants funding. The assessment criteria should be tied to the objectives of the *Community grants policy*. This introduces transparency and reduces the risks of perceived bias and conflict of interest.

As with other decisions made by council, it is important to properly record all administrative decisions in approving grants. It should be noted that public documents and decisions in relation to community grants are subject to the *Right to Information Act 2009* and *Judicial Review Act 1993,* which could result in challenges to the lawfulness of the decision making process of council.[23] Further, it is a requirement in the *Local Government Act 2009* and *City of Brisbane Act 2010* to adhere to the principle to have transparent and effective processes, and decision making that is in the public interest.[24]

The issues that audit commonly found in the original audit in relation to this process were:

- The need for a process to declare and document in a register any conflict of interests that councillors and council staff may have.
- For councils to have an appropriate funding agreement to manage risks and accountability of grant funds disbursed.

In this follow up, audit found all councils have appropriate documented processes on assessing the grants applications as well as their code of conduct for councillors and council staff to declare and record conflicts of interest. However, in three councils this could be strengthened by documenting this requirement in their *Community grants policy* and procedures to remind councillors and staff involved in assessing or approving grant applications and funding to consider if they have a conflict they need to disclose.

Funding agreements

Audit found that some councils are yet to develop formal funding agreements that address the risk to public monies provided as grants. Five councils do not provide the terms and conditions of the funding to applicants, until these are advised they are successful.

Audit also found an example of better practice (see case study below) in this process where the council has incorporated the funding agreement into the application form for a community grant. This approach informs applicants at the beginning of the process about the funding conditions to achieve the *Community grants policy* objectives. The applicants thus better understand their obligations to council in the use of public monies.

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[23] State of Queensland, Department of Infrastructure and Planning, Guidelines for Local Government Administration of Community Grants, October 2009, Page 22.

[24] State of Queensland , *Local Government Act 2009* Section 2(a), and *City of Brisbane Act 2010*, Section 4(2)(a).

Case study D

Better practice case study
Funding agreement – Ipswich City Council

Streamlining the grant funding agreement process

Ipswich City Council has included, as part of the application form for community grants, the formal funding agreement that will be formalised if the application is successful. This ensures that the applicant is fully informed at commencement of the grants process of their contractual obligations.

If the applicant is successful, the application form and a letter of approval become the funding agreement. This removes an additional administrative process audit found at the other councils, where a separate funding agreement is formulated and documented once a grant application was approved.

Why is this better practice?

This is an efficient way to streamline the grants funding agreement process as it removes the administration and management overhead of preparing a funding agreement once an application is approved. It also provides the applicant, at the commencement of the application process, details of each party's rights and obligations, terms and conditions, and reporting obligations, if they are successful in receiving a community grant.

Acquittals

The procedures for the acquittal of grants need to be based on risk management principles. For all grants, it is sound practice to require recipients to determine what has been achieved by the grant recipient, which can be tied back to the objectives and for council to assess if this has occurred.

Small grants might only require written confirmation that the amount has been expended in accordance with the funding agreement. For more significant amounts, it may be necessary to analyse copies of receipts with the formal acquittal. For larger grants, or where risk is high, it may be necessary to have site inspections and financial reports that have been independently audited to ensure that funds have been expended in accordance with the grant guidelines and funding agreement.[25]

Audit found that half of the councils audited did not have good documented acquittal processes for their grants to community organisations. Most councils only request a self-assessment by the grant recipient of how they expended the monies provided in the stipulated time frames, with copies of invoices and receipts to be supplied. Councils could improve their acquittal processes by assessing the acquittal report supplied by the recipient and by having council staff document whether, in council's view, the grant has been expended in accordance with the funding terms and conditions, and the objectives of the *Community grants policy*.

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[25] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants*, October 2009, Page 26.

Case study E

Better practice case study
Acquittal of grant funding – Mount Isa City Council

Acquittal Evaluation

Mount Isa City Council has a grant acquittal form which must be completed within three months of the event/project being held. Their Sponsorship, Funding and Grants Policy states under the heading 'Acquittal Details':

'Any organisation that cannot demonstrate that funds have been expended in accordance with the purpose for which the funds were granted will be required to return the funds to the Mount Isa City Council within six months of the proposed event/project.'

Why is this better practice?

The statement in the policy demonstrates that council staff are assessing the grant recipients' responses in the acquittal form to determine whether the funds have been expended as agreed. The statement alerts the grant recipients as to what the council expects of them.

Monitoring

Monitoring is important to ensure that funds are being spent correctly so that the council can be confident that it is achieving its policy objectives and the grants are used by approved applicants as intended. The extent and frequency of monitoring will vary according to the size of the grant and the risks associated with the grant. Monitoring is an important part of risk management because it enables the council to identify, at the earliest opportunity, if there are problems with the administration of the policy or an individual grant. Regular reporting against progress on grant acquittals as part of monitoring also assists in identifying appropriate use by the recipient of public monies.[26]

Audit found that five of the 12 councils had elements of a formal monitoring system in place. Most monitoring reports were basic, detailing available grants funding, listing approved applicants, the amount and purpose of the grants, acquitted grants and outstanding acquittal reports. In most councils, the monitoring reports required to be prepared for council were not documented in policies or procedures for community grants.

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[26] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants,* October 2009, Pages 25-26.

Reporting

Local governments should report periodically for accountability and transparency of the use of public monies:

- To council.
- To the community (refer to Section 3.2.3 of this report).

Reporting to council is undertaken to provide information regarding value for money from its *Community grants policy* and which organisations and individuals in the community are receiving grants.[27] Annual evaluation of the *Community grant policy* and programs assist in providing a rounded assessment of benefits achieved against policy objectives and performance indicators.

Audit found the reports provided to councils for consideration were mainly monitoring reports detailing the available budget, grants approved and details of the recipients and grants acquitted. The ability of councils to evaluate their policy is strongly influenced by whether they have relevant and appropriate performance indicators to report against.

Only one council had prepared a report on the evaluation of benefits achieved from its *Community grants policy* for internal use. However, this council did not have any objectives or performance indicators for its grants policy, reducing the value of the evaluation.

3.2.5   Training

Figure 3D – Report to Parliament No. 7 for 2008

Audit Recommendation
2. d.   Provide training to council staff in grants management so they can adequately undertake this function.

Assessment of progress

The 12 councils assessed their progress against this 2008 audit recommendation. Their self-assessment varied from 'Implemented' to 'No substantial action'. Overall, audit found that most councils had undertaken some form of training, whether on-the-job or more formal courses.

Refer to Section 4.4 of this report for the audited councils' self-assessment on their progress in implementing the audit recommendation from report to Parliament No. 7 for 2008.

Training

The effective administration of grants depends on well trained council staff. Local governments should invest in training to ensure that all relevant staff are competent to manage council grants policies and programs. Training is also important to ensure that there is a consistent approach when administering the grants policy.[28]

Audit's assessment of documentation provided revealed that most councils had undertaken some form of grants or associated corporate governance training in grants administration and governance risks. Some councils have accessed a local government master class for grants administration.

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[27] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants,* October 2009, Page 27.

[28] State of Queensland, Department of Infrastructure and Planning, *Guidelines for Local Government Administration of Community Grants*, October 2009, Page 8.

3.2.6 Work that still needs to be done

- Consolidate existing suite of grants, donations, and other funding policies into a single *Community grants policy* that uses better practice details from the Guidelines and meets the prescribed requirements of the Act and Regulation from 1 July 2010.

- Review and update community grants and councillor's discretionary funds policies and procedures to ensure the following elements are included:
  – funding framework and clear definition of a grant
  – differing accountability mechanisms for each type of funding appropriate to the level of risk
  – strategic planning and *Community grants policy* design requiring the development of grants policy objectives, and relevant and appropriate performance indicators
  – communication of grants funding opportunities to the community
  – assessment processes with adequate and efficient funding agreements reflecting the risk to public monies supplied to applicants
  – report on the benefits achieved by the *Community grants policy* and against the performance indicators
  – acquittal procedures with a council assessment appropriate to the level of risk to verify the claims made by the recipients in their acquittal report.

- Continue to seek and provide suitable ongoing training in grant administration to staff employed in this role.

4 | Report to Parliament No. 7 for 2008 and self-assessments

4.1   Report to Parliament No. 7 for 2008

Audit overview

In 2008 an audit was undertaken that examined the department's frameworks and systems to support local governments in the administration of grants and funding to the community. The audit found a number of weaknesses in the legislative requirements on governance, transparency and accountability of grants and councillor's discretionary funds to community organisations. The findings and recommendations were included in the report to Parliament No. 7 for 2008 tabled in October 2008.

Overall findings

- The *Local Government Finance Standard 2005* (LGFS) does not define clearly what is meant by a 'grant' or what council policies should state about accountability requirements for recipients.
- While the department provides training and information to council staff on a range of topics, no training has been provided on the principles and practices for managing grants programs.

Report to Parliament No. 7 for 2008 – Audit recommendations

1. It is recommended that the Department of Local Government, Sport and Recreation:

    a. Review the *Local Government Finance Standard 2005* 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 *Local Government Finance Standard 2005*.

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.

4.2 The Department of Local Government and Planning's self-assessment

The department was asked to self-assess its progress made in implementing the recommendations from report to Parliament No. 7 for 2008. The self-assessment is contained in Figure 4A below.

Figure 4A – Department of Local Government and Planning's self-assessment*

Report to Parliament No. 7 for 2008	Implementation status

1. It is recommended that the Department of Local Government, Sport and Recreation:
 	
  a. Review the *Local Government Finance Standard 2005* 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.
	Implemented

b. Ensure that councils' policies for the administration of grants and funding to community organisations, individuals and local businesses comply with the *Local Government Finance Standard 2005*.	Partially Implemented

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.
	
	Implemented
	Partially Implemented
	Partially Implemented
	Partially Implemented
	
	Partially Implemented
	Partially Implemented

*Based on the department's response to a questionnaire administered by QAO, January 2011.

4.3 Report to Parliament No. 7 for 2008 Local government

Audit overview

The 2008 audit was undertaken to determine whether the 12 councils selected for audit had suitable frameworks and systems in place to administer grants and funding to community organisations, individuals and local businesses in a transparent manner and in accordance with relevant legislation.

The audit found a number of weaknesses in the administration of grants and funding systems at the councils audited. Areas that required attention included ensuring grants policies and procedures meet legislative requirements, transparent allocation of funds, improved accountability in the monitoring and reporting of grants, and the provision of training to staff in grants administration.

To determine whether local governments had suitable frameworks and systems in place, 28 councils were initially surveyed. Twelve councils were then selected for audit visit and detailed examination:

Figure 4B – Councils selected for detailed examination

12 councils selected for 2008 audit	
• Brisbane City Council	• Logan City Council
• Cassowary Coast Regional Council	• Longreach Regional Council
• Gladstone Regional Council	• Mount Isa City Council
• Gold Coast City Council	• Redland City Council
• Goondiwindi Regional Council	• Townsville City Council
• Ipswich City Council	• Winton Shire Council

Overall 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. Audit 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 met 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 to 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.

Report to Parliament No. 7 for 2008 – Audit recommendations

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 *Local Government Finance Standard 2005.*

    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.

4.4   Local governments' self-assessment

The 12 councils subject to the original audit were asked to self-assess their progress in implementing the recommendations from Report to Parliament No. 7 for 2008. The councils' self-assessment is contained in Figure 4C.

Figure 4C – Summary of the 12 audited councils' self-assessment*

Report to Parliament No. 7 for 2008 Audit recommendations	Total Response	Status			
		Implemented	Partially Implemented	Alternate Action Taken	No Substantial Action Taken
2. a. Review the policies and procedures for administering grants to ensure they meet the requirements of the *Local Government Finance Standard 2005*.	12	9	3	0	0
2. 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.	12	7	5	0	0
2. 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.	12	7	5	0	0
2. d. Provide training to council staff in grants management so they can adequately undertake this function.	12	6	1	3	2

*Based on the councils' response to a questionnaire administered by QAO, January 2011.

5 | Appendices

5.1 Audit procedures

A two stage process was undertaken to assess the progress made in implementing the 2008 audit recommendations by the Department of Local Government and Planning (the department) and the 12 councils originally audited.

The assessment of progress included:

- **Questionnaire** – the department and each of the 12 councils originally audited completed a self-assessment questionnaire of their progress made in the implementation of each recommendation in the report to Parliament, and the recommendations in the management letters, where applicable.
- **Questionnaire assessment and additional supporting evidence** – a desktop assessment was undertaken of the completed questionnaire and accompanying supporting documentation. Additional evidence and supporting documentation was sought and analysed, where necessary, to provide adequate audit evidence to formulate audit findings and conclusions.
- **Fieldwork** – conducted at the department's corporate office, and at one council.

5.2 Reason for the audit

The follow up audit process holds agencies accountable for implementing the recommendations or undertaking suitable alternative action to address the findings identified in reports to Parliament. This follow up audit aimed to assess the progress made by the department and the 12 councils originally audited in implementing the recommendations made in *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland*.

With new legislation and regulations operative for the local government sector from 1 July 2010, the follow up audit provides Parliament with assurance over the current level of implementation at the department and the systems that have been developed to comply with the new legislative requirements at councils.

5.3   PMS audit approach

The legislative basis for this audit is section 38 of the *Auditor-General Act 2009* (A-G Act). A performance management systems (PMS) audit is an independent examination which includes determining whether an entity or part of an entity's activities have performance management systems in place to enable management to assess whether its objectives are being achieved economically, efficiently and effectively. While a PMS audit will not review or comment on government policy, it may extend to include a focus on the entity's performance measures and whether in the Auditor-General's opinion, the performance measures are relevant, appropriate and fairly represent the entity's performance.

The intent of a PMS audit is to provide independent assurance to Parliament, and to act as a catalyst for adding value to the quality of public administration by assisting entities in the discharge of their governance obligations. A PMS audit has a focus on ascertaining whether the systems and controls used by management to monitor and measure performance, assist the entity in meeting its stewardship responsibilities.

The statutory office of the Auditor-General, as the external auditor for Parliament, is established pursuant to the A-G Act. While the Auditor-General takes note of the entity's perspective, the scope of a public sector audit is at the sole discretion of the Auditor-General as the A-G Act prescribes that the Auditor-General may conduct an audit as considered appropriate.

5.4   Audit cost

The cost of the follow up audit, including staff costs and overheads is estimated at $250,000.

5.5   Audit team

The audit team included:
- S Heidrich (Engagement leader)
- C Trimble (Team leader)
- D Shield
- S Yatapanage.

5.6   Related PMS audits

- *Auditor-General Report to Parliament No. 7 for 2008 – Administration of Grants and Funding to Community Organisations by Local Government in Queensland.*
- *Auditor-General Report to Parliament No. 11 for 2010 – Implementation and Enforcement of Local Laws.*

5.7   Acronyms

DLGP   Department of Local Government and Planning

LGFS   Local Government Finance Standard 2005

PMS   Performance Management Systems

5.8   Glossary

Effectiveness

The achievement of objectives or other intended effects of activities at a program or entity level.

Efficiency

The use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

5.9   References

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6 | Auditor-General

Reports to Parliament

6.1   Tabled in 2011

Report No.	Subject	Date tabled in Legislative Assembly
1	*Auditor-General Report to Parliament No. 1 for 2011* *Management of offenders subject to supervision in the community* Performance Management Systems audit	February 2011
2	*Auditor-General Report to Parliament No. 2 for 2011* *Results of local government audits* Financial and Assurance audit	March 2011
3	*Auditor-General Report to Parliament No. 3 for 2011* *Follow up of 2008 audit on administration of grants and funding to community organisations by local government in Queensland.* Performance Management Systems audit	June 2011

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