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Australian Government
Department of Defence

Grants Management in Defence



Audit Report June 2020

Prepared by Audit Branch
Audit & Fraud Control Division
Integrity | Accountability | Efficiency

This internal audit activity conforms to the International Standards for the Professional Practice of Internal Auditing

Table of Contents

Part 1 – Executive Summary	3
Part 2 – Background	4
Part 3 – Findings	5
Finding 1: Grant administration practices were below expectations, resulting in non-compliance with mandatory Commonwealth Grants Rules and Guidelines.....	5
Finding 2: A new Grants Management Framework for Defence was released last year, which has the potential to address the issues identified by this audit.	5
Annex A – Audit Details	8
Annex B – Management Action Plan in Detail	9

Part 1 – Executive Summary

Audit Objective and Conclusion

1. The objective of the audit was to examine the appropriateness of Defence grants management processes. The audit scope focussed primarily on grants design and administration practices and less on the evaluation of grant success upon completion.
2. The audit concluded that grants management in Defence was inadequate due to the identified instances where compliance with applicable mandatory *Commonwealth Grants Rules and Guidelines 2017* (CGRGs) criteria could not be demonstrated.
3. The audit sampled seven Defence managed grants finding at least one mandatory CGRG requirement breach for each of them. It should be noted, however, that the breaches were in general administration and no serious wrongdoing was identified. The root cause of this appears to be grant managers not understanding the expected standards and/or a perceived absence of any accountability for their actions or lack thereof. Appropriate measures including compliance monitoring, measuring and reporting were not prevalent at the time of the audit, but are included in the new Grants Management Framework for Defence.
4. In 2019 Defence Finance Group engaged PwC to design a Grants Management Framework for Defence. The now published framework represents a robust approach to grants management that draws on relevant government policies and guidelines. The new framework has the potential to address existing CGRG compliance issues if properly utilised, therefore providing a pathway to effective and compliant grants management.
5. Many of the issues identified by this audit pre-date the implementation and application of the new Grants Management Framework. That being the case Audit Branch intends to re-visit grants management during FY21/22 to validate the effectiveness of the new framework. An examination of whether grant recipients are spending funds as intended will also feature in any future audit.

Audit Findings

6. The audit made two findings:
 - **Finding 1:** Grant administration practices were below expectations, resulting in non-compliance with mandatory Commonwealth Grants Rules and Guidelines.
 - **Finding 2:** A new Grants Management Framework for Defence was released last year, which has the potential to address the issues identified by this audit.

Recommendations

7. The audit made two recommendations directed at strengthening the new framework and improving transparency and compliance with grants management requirements.

Overall Audit Rating

	Major issues identified including key risks that are not controlled
✓	Moderate issues identified including control deficiencies and/or gaps
	Minor issues identified however most controls are operating effectively
	No significant issues identified and controls are operating effectively

Part 2 – Background

8. Grants are used to fund external parties for the purpose of achieving Defence policy objectives. Schedule 1AA & 1AB of the *Financial Framework (Supplementary Powers) Act 1997* (FFSP Act) provides the legislative basis for how Defence grants are established.

9. The *Commonwealth Grants Rules and Guidelines 2017* (CGRGs) establish an overarching Commonwealth grants policy framework that further articulates mandatory expectations for grants administration.

10. The Financial Policy and Governance Directorate (FPGD) within Defence Finance Group (DFG) are the central contact point for grants policy and advice within Defence and administer some ad-hoc (one-off) or unsolicited grants. Day-to-day management of specific grant activities is undertaken by responsible areas across Defence in line with the Defence Grants Framework guidelines.

11. The whole of government Industry Grants Hub, within the Department of Industry, Science, Energy and Resources (DISER) works in partnership with Defence to administer industry-related Defence grants. This also includes the Centre for Defence Industry Capability (CDIC), a program that helps business navigate the Defence market and to improve competitiveness when accessing global markets.

12. The below figure provides an overview of how Defence manages its various grantee relationships, either through interdepartmental functions or its interactions with the CDIC.

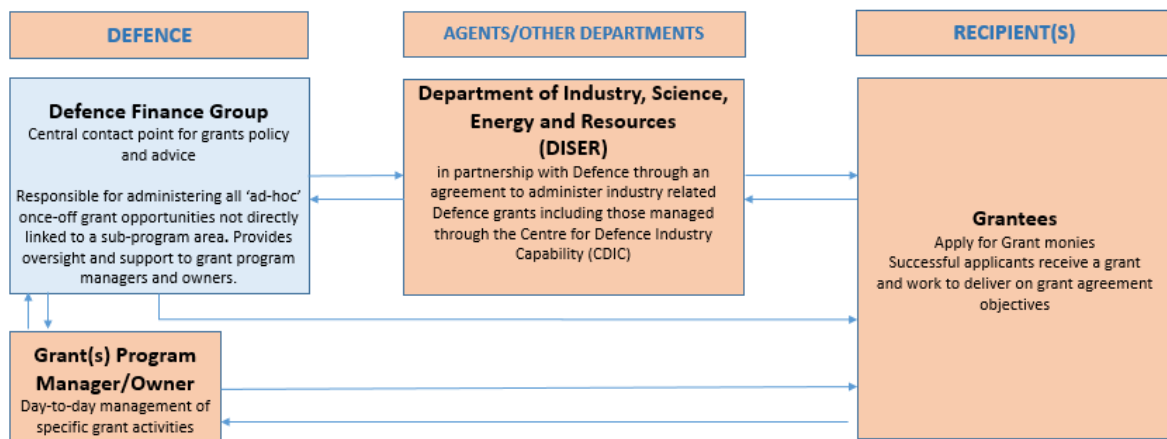


Figure 1 – High level overview of the Defence Grants Management Process

13. Defence grants are governed by the recently implemented *Defence Grants Management Framework*, which supports compliance with the CGRGs and outlines a methodology for administering grants. At the time of the audit, the Framework had been implemented, but not all grants tested were from the period within which the Framework was in place.

14. Defence approved grants with a total value of \$131.7 million during FY2017-18¹ and \$165 million during FY2018-19.²

¹ 2017-18 Defence Annual Report

² 2018-19 Defence Annual Report

Part 3 – Findings

Finding 1: Grant administration practices were below expectations, resulting in non-compliance with mandatory Commonwealth Grants Rules and Guidelines.

Finding 2: A new Grants Management Framework for Defence was released last year, which has the potential to address the issues identified by this audit.

Implication

15. The CGRGs serve as a legislative instrument issued under the *Public Governance, Performance and Accountability (PGPA) Act 2013*. Non-compliance with mandatory CGRG clauses represents a breach of the PGPA Act.

Supporting Analysis

16. The CGRGs specify mandatory administrative procedures applicable to non-corporate Commonwealth entities in relation to the administration of grants. Based on audit analysis of seven Defence managed grants, every grant breached at least one mandatory CGRG requirement. It should be noted that the breaches were in general administration and no serious wrongdoing was identified. An overview of the grants sampled during this audit is provided below.

Selected Grant / Test	Grant Type	Grant \$ (GST Ex)
Grant 1	Sub-program	\$4,456.00
Grant 2	Ad-hoc	198,000.00*
Grant 3	Sub-program	\$56,185.00
Grant 4	Ad-hoc	\$20,000.00
Grant 5	Ad-hoc	\$1,450,000.00
Grant 6	Ad-hoc	\$10,000.00
Grant 7	Grant declined	0
* total amount is paid in equal annual instalments of \$66,000		

Figure 2 – Sampled Grants

Areas of Concern

17. Conflict of interest records, documenting grantor and grantee independence risks, were either not provided to the audit, or were inadequate. The CGRGs requires appropriate mechanisms to identify and manage potential conflicts of interest for grants opportunities (CGRG 2017, Section 13.8). While these mechanisms can vary, records of decision making in relation to grants opportunities must demonstrate consistency with the PGPA Act and Rule, including requirements for officials to be impartial. Defence records demonstrating this requirement either did not exist, could not be located by grants administration areas, or were not sufficiently robust to demonstrate the requirement being met.

18. The majority of grants sampled did not document their determination that the proposed activity was defined as a 'grant'. Section 4.2 of the CGRGs requires officials to establish and document whether a proposed activity is a grant, prior to applying the CGRGs. This is essential for determining the nature of the financial arrangements being entered into by relevant parties.

19. Grant reporting on GrantConnect (the Australian Government grants information system) was found to be non-compliant with the 21-day publication requirement. Four of the seven approved grants have not been published on GrantConnect, whilst the remaining three were published more than 40 days later than required.

20. Relevant grant approval documentation, including Ministerial Briefs, were either not provided to the auditors or did not contain sufficient detail to meet CGRGs requirements. The inability to provide this documentation was a result of either the documentation not existing or grants administration areas not being able to locate the documentation.

21. The lack of detail included information required by the CGRG when assessing grants applications or when seeking Ministerial approval. This included outlining of the grant selection process, selection criteria and financial assessment (CGRG section 4.6) and records of assessment against grant opportunity criteria. These records are essential in demonstrating the veracity of grants related decision making and that CGRG accountability, probity and transparency requirements have been met (CGRG section 12.6).

22. Grant agreements sampled by the audit contained grantee deliverable clauses requiring periodic reporting. Where required as a grant agreement deliverable, these reports are a necessary mechanism to fulfil grant agreement obligations and also provide Defence with the visibility to ensure grant funds are being expended in accordance with the grant agreements (CGRG, section 12.10). Most of the grants sampled could not provide records to support these requirements, and where such documentation was provided, the grant manager did not demonstrate they had assessed the adequacy or quality of the deliverables.

23. The majority of grants sampled did not document their grant monitoring activities. The CGRGs require officials to develop policies, procedures and documentation necessary for the effective and efficient governance and accountability of grants administration (CGRG section 12). In these instances, written evidence of any day-to-day meetings or interactions between the relevant Defence grant management area and the grantee could not be provided. A well-drafted grant agreement, supported by ongoing communication, active grants management and performance monitoring is required to ensure that the objectives of grant activities are met.

24. The majority of grant agreements sampled specified that financial acquittal documentation was required. Despite this requirement, four of the seven sampled grants could not provide an acquittal or other form of declaration demonstrating that grant monies had been expended for their intended purpose.

25. For the majority of grants sampled a clear link between the activity and Defence's overarching strategic goals and priorities appears not to have been established during the initial stages of the grants lifecycle. A failure to align grants with Defence goals and priorities reduces transparency, making it harder for Defence to ensure grant programs have met intended policy outcomes.

Root Cause

26. The issues above have arisen in part due to grant managers not understanding the expected standards and/or a perceived absence of any accountability for their actions or lack thereof. Appropriate measures including the monitoring, measuring and reporting of compliance to ensure that individual grant managers are meeting expected standards were not prevalent at the time of the audit, but are included in the new framework that was released in mid-2019, discussed below.

Grants Management Framework

27. In early 2019 the CFO commissioned PwC to undertake a review of Defence Grants Management. The review resulted in the development and delivery of the Grants Management Framework. The framework and associated tools were released on 1 July 2019.

28. The Grants Management Framework and associated tools provide an effective approach to grants management that is aligned with the CGRG. When applied and utilised correctly the framework has the potential to address the issues identified by this audit.

29. The Grants Management Framework (section 3.1) states *‘In addition to program-specific evaluation activities which will be managed by the grant program administrators, FPGD, DFG will also undertake yearly evaluation activities by selecting a random sample of grants and testing for compliance with the PGPA Act and CGRGs, including alignment of approved grants to stated policy objectives, and policy and procedural compliance’*.

30. To complement evaluation activities proposed within the framework, the audit recommends that grants management areas be required to undertake an annual self-assessment of their compliance against the Grants Management Framework and report any non-compliance to DFG. This control would assist in removing any perceived absence of accountability and would help inform future audits undertaken by second and third ‘line of defence’ assurance functions³.

Recommendation number 1:	Agreed
Audit Branch recommends that grants management areas be required to undertake an annual self-assessment of their compliance against the Grants Management Framework and report any non-compliance to Defence Finance Group. The Grants Management Framework should be updated to reflect this new control.	

Recommendation number 2:	Agreed
Audit Branch recommends that Defence Finance Group report grants management non-compliance matters at least annually to the Enterprise Business Committee with a copy to Defence Finance and Resourcing Committee.	

The actions to address these recommendations are reflected in the Management Action Plan at **Annex B**

³ In the Three Lines of Defence model, management control is the first line of defence risk management; the various risk control and compliance oversight functions established by management are the second line of defence; and independent assurance is the third line of defence.

Annex A – Audit Details

Method

31. The audit reviewed and assessed key documents associated with an identified sample of selected grant programs including grant agreements, MOUs, Grant design documentation, grantee reporting, acquittal documentation and relevant checklists.
32. The audit interviewed key stakeholders with grants management responsibility from DFG, DPG, SP&I and Army.
33. A total of seven grants were selected for review. These grants were managed internally by Defence, comprising sub-program area grants, ‘ad-hoc’ once-off grant opportunities and one grant that had undergone a rejection process.
34. Key grant documentation was reviewed and assessed to determine whether compliance with the CGRGs was demonstrated. A copy of the audit testing package was provided to each of the grants managers as part of the end of fieldwork discussion.

Related Enterprise Risks

35. The audit primarily related to the Finance and Stakeholder Engagement - Defence Enterprise Risks.

Areas Consulted in Preparing the Report

36. The following areas were consulted during the audit: DFG, Army, DSTG, SP&I and DPG.

Point of Contact

37. The Point of contact for this audit is Mark Lawrence – Director Audit Branch, who can be contacted on 02 6266 4416 or via email mark.lawrence6@defence.gov.au.

Annex B – Management Action Plan in Detail

Proposed Audit Branch Recommendation				Implementation Action	
No.	Recommendation Title	Grading	Responsible Officer	Recommendation Action	Implementation Date
1.	Audit Branch recommends that grants management areas be required to undertake an annual self-assessment of their compliance against the Grants Management Framework and report any non-compliance to Defence Finance Group. The Grants Management Framework should be updated to reflect this new control.	Level 2	AS FC is responsible for coordination of the self-assessment survey. All Program Managers are responsible for completing the survey and returning it within the required timeframe.	Grants management areas will be required to undertake an annual self-assessment of their compliance against the Grants Management Framework. The first self-assessment survey will be undertaken in early 2021. The survey will be undertaken annually thereafter.	31 March 2021
2.	Audit Branch recommends that Defence Finance Group report grants management non-compliance matters at least annually to the Enterprise Business Committee with a copy to Defence Finance and Resourcing Committee.	Level 2	AS FC is responsible for reporting the outcomes of the self-assessment surveys to EBC.	The outcomes of the first grants management self-assessment survey will be reported to EBC within the next possible quarterly Financial Compliance Report. Reporting will be annually thereafter.	30 June 2021

Grading Assessment:

- Level 1 -** Significant operational/management deficiencies which have a high materiality or financial/performance risk that requires urgent action, or opportunities to obtain significant performance/resource benefits which should be addressed as a matter of urgency.
- Level 2 -** Operational/management deficiencies having medium materiality or financial/performance risk which should be rectified by management in the short term, or an opportunity to obtain performance/resource benefits which should be implemented in the short term