



Australian Government

Department of Families,
Housing, Community Services
and Indigenous Affairs

Final Review Report

Indigenous Programs Management (Management Initiated Review)

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Contents

1. Executive Summary	1
1.1 Background	1
1.2 Rationale for review	1
1.3 Review objective and scope	1
1.4 Review opinion	2
1.5 Principal findings and recommendations	2
1.6 Risk assessment	4
1.7 Overall management comment	4
2. Review Overview	5
2.1 Background	5
2.2 Review objective	5
2.3 Review scope	5
2.4 Audit Approach	6
3. Findings and Recommendations	7
3.1 Record keeping of approved soft commitments	7
3.2 Financial Management Reporting	7
3.3 Skill Set Requirements matched to Roles and Responsibilities	9
3.4 Automated Financial Management Reporting	10
Appendix A – Risk Rating Framework	12



1. Executive Summary

1.1 Background

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) supports Indigenous Australians through a range of programs and services that are framed under the Closing the Gap framework agreed to by the Council of Australian Governments (COAG). This includes grants from FaHCSIA to support Indigenous organisations and individuals.

In this capacity FaHCSIA administers the Community Development and Employment Projects (CDEP) program. CDEP assists communities and Indigenous job seekers to gain employment through participation in meaningful community activities and training. CDEP contributes to meeting the Government and COAG's Closing the Gap target to halve the employment gap between Indigenous and non-Indigenous Australians by 2020.

During 2011-12 the department identified that improvements were needed to accurately track and monitor the expenditure of the CDEP program. s47E(c) - operations of an agency

1.2 Rationale for review

The issue with the over-allocation has been resolved and managed internally. However, to ensure the highest ongoing standards in program management, FaHCSIA sought to understand why and how this differential eventuated and, most importantly, whether the revised commitment tracking and business management processes of the Branch are sufficient to ensure strong program and financial management going forward. 2012-13 is the final year of CDEP prior to the transition to the Remote Jobs and Communities Program.

1.3 Review objective and scope

The objective of this three-phased management initiated review (MIR) was to provide a:

- high level evaluation of the adequacy and effectiveness of the current program financial management control processes around key Indigenous programs; and
- short-list of key actions to be taken to improve controls that can be quickly implemented across the cluster in the coming months to avoid any significant program or financial management issues re-occurring.

Specifically, the review:

- considers the financial and accountability checks in place, systems and processes to properly manage programs and finances, and skills and training of staff in the Department, including reviewing delegations under which the Department makes funding commitments, in relation to the key Indigenous programs (focusing initially on two programs - CDEP and Remote Service Delivery (RSD)) with the aim of identifying a short-list of key actions that can be quickly implemented to prevent similar errors occurring in the future;
- provides advice as to whether a follow-up review or potentially audit is required following this preliminary assessment and mitigation of immediate risk; and
- does not assess service delivery or effectiveness of the programs being delivered by the Department, and is focused on aforementioned financial management control processes.



1.4 Review opinion

The opinion presented below:

- represents the findings in relation to phase one only (refer to Section 2.4 for details of the three phases), and as such is specifically focussed on the CDEP and RSD programs;
- makes four specific findings and recommendations (see Section 1.5), which are a combination of short term remedial actions and longer term 'ideal state' desired actions; and
- makes specific findings and recommendations for improvement to the financial management governance practices for the CDEP and RSD programs. It is expected that other programs in FaHCSIA's Indigenous cluster will consider the findings and recommendations to the extent they are relevant to their broader programs.

The review acknowledges (based on consultation with Indigenous cluster management and the Department's senior management) that FaHCSIA may undertake a follow-up review to ensure all Indigenous cluster programs receive appropriate remedial support as required. In the context of the above, the following opinion is provided:

- in the lead up to the over commitment of CDEP, FaHCSIA needed to have more robust governance, resources or system controls in place to effectively coordinate, monitor and report on the financial management of the CDEP program;
- although to-date the RSD program consistently has been under-committed, it remains a risk to RSD of over-commitment is similar to that to CDEP before the CDEP over-commitment occurred and, ^{s47F - personal privacy} it would be prudent to ensure controls around the risk of over-commitment also are invoked around RSD; and
- the review would advise that the oversight, program budget monitoring and reporting should be assessed and effectively strengthened across programs to ensure their funding is administered efficiently, effectively and ethically.

1.5 Principal findings and recommendations

The four principal findings and six associated recommendations in regard to the CDEP program (represented in Figure 1 below):

People and culture - program staff cultural issues that might have contributed to the over-commitment:

- staff placed an emphasis on service delivery and resulting in less attention paid to ensuring expenditure of Commonwealth funds being done efficiently, effectively and ethically, and
- a high frequency of staff changes may have contributed to continuity as well as role and responsibility clarity issues in what is a complex program delivery environment. Staff changes combined with an apparent lack of role clarity, pressure to deliver services and, in some instances, inadequate change management processes may have resulted in staff focussing on certain aspects of their work to the detriment of others;

Communication:

- management reporting that captured commitments, spending and budgets at the national office and the network were not as effective or regular as they could have been;

^{s47F - personal privacy}

addition, financial management roles and responsibilities ^{s47F - personal privacy} were not well defined; and

In

Technology - tracking of progress against budgets, commitments and spending was not completely automated, which increased the risk of oversight and incompleteness, as there is no 'single source of truth'.



Figure 1



It should be noted that since April 2012 certain changes have been undertaken by CDEP that are aligned to the recommendations of section three of this report. s47F - personal privacy

This new appointment has in turn enabled changes which potentially mitigate the associated risks of the above findings. These are further discussed in section 3 of this report.

The table below outlines further details regarding the areas which this review covered, and the associated findings in the CDEP program during 2011-12. This review also took note of similar controls in RSD to provide a commentary on where similar controls gaps exist.

Area of Review	Summary of finding	Rating
People and culture 1. The skill sets requirements at the National Office and the regions are matched to the roles and responsibilities particularly in relation to financial management. 2. Clear and established roles and responsibilities between regions regarding the review of budgets, forecasts, approvals and overall financial management.	CDEP s47F - personal privacy 2. At the time of the over commitment the roles and responsibilities not adequately defined. s47F - personal privacy & s47E(d) - operations of an agency	High
	RSD 1. Currently the position of finance support or management accountant has not been created for the RSD program.	High
Communication 1. A clear audit trail of documents, approvals and minutes exists. 2. Reporting of management accounts, including budgets, actuals and commitments, is communicated to the regions, Section Managers and Branch Manager to assist decision making.	CDEP 1. Approved commitments, s47E(d) - operations of an agency previously were not captured in an agreed/formalised central database. 2. Regular, effective and agreed reporting between the National Office and the regions was not in place.	High
	RSD – Special Accounts 1. Regular, effective and agreed reporting between National Office and the regions was not in place. Whilst quarterly reporting between National Office and the Network exists, no confirmation of balances or feedback is sought once the quarterly reports have been issued.	High
Technology 1. Financial management reporting is automated with system generated reporting, data storage and analysis	CDEP 1. Tracking progress against budgets, commitments and spends is not completely automated and relies on manual processes, which may increase the risk of oversight and completeness.	Moderate
	RSD – Special Accounts 1. Tracking of progress against budgets, commitments and spends is not always completely automated and includes reliance on the use of manual processes, which may increase the risk of oversight and completeness.	Moderate



The associated high level recommendations are as follows:

People and culture - target staff awareness training to ensure their responsibilities as APS employees are clearly understood, particularly around the administration of grant funding; ensuring it is in line with the Program's objectives.

Communication:

- develop roles and responsibility for staff to clearly outline the required outputs s47F - personal privacy ; and
- clear job descriptions should be developed s47F - personal privacy , with a focus on the requirement of management accounting skill sets and the monitoring of program commitments at their various stages.

Technology - develop tools and processes for the automation of program budget, commitment and spend reporting. As far as practicable this should be system based to avoid the potential manipulation of data and ensure process efficiencies are achieved. This is to be supplemented by reporting framework guidance for staff to shape management accounting reports that align to the Program's management framework; and

1.6 Risk assessment

The analysis tabled below is based on FaHCSIA's risk matrix at **Appendix A**. The table describes the risks identified by the review, related strategic risks, review findings and their actual risk ratings (the level of risk in the current control environment); related recommendations and an estimate of residual risk once implemented.

Risk Description	Related Strategic Risk	Review Findings	Actual Risk Rating	Related Rec's	Residual Risk Rating
Lack of robust management processes results in program ineffectiveness.	All	In some cases, there was a lack of effective record keeping of approved commitments.	H	1	M
Lack of robust budget monitoring results in decisions that lead to program failure, ineffectiveness or over or underspending of program funds.	All	In some cases, there was ineffective dissemination of budget and financial management reporting.	H	2,3	M
Lack of effective governance and direction results in inadequate program management leading to program failure or ineffectiveness.	All	In some cases, there was a lack of required staff skills sets and clarity of roles and responsibilities.	H	4,5	M
An inadequate monitoring and reporting tool results in ineffective an inefficient use of resources and limits management decision making leading to program inefficiencies or failure.	All	There was a lack of automated financial management reporting.	M	6	L

1.7 Overall management comment

The Department accepts the recommendations in the report and notes that considerable progress has already been made towards implementing the recommendations to ensure continued improvement and strong program management going forward.



2. Review Overview

2.1 Background

FaHCSIA supports Indigenous Australians through a range of programs and services that are framed under the Closing the Gap framework agreed to by the Council of Australian Governments (COAG). This includes grants from FaHCSIA to support Indigenous organisations and individuals.

In this capacity FaHCSIA administers the Community Development and Employment Projects (CDEP) program. CDEP assists communities and Indigenous job seekers to gain employment through participation in meaningful community activities and training. CDEP contributes to meeting the Government and COAG's Closing the Gap target to halve the employment gap between Indigenous and non-Indigenous Australians by 2020.

During 2011-12 the department identified that improvements were needed to accurately track and monitor the expenditure of the CDEP program.^{s47E(d)} - operations of an agency

The issue with the over-allocation has been resolved and managed internally. However, to ensure the highest ongoing standards in program management, FaHCSIA is seeking to understand why and how this differential eventuated and, most importantly, whether the revised commitment tracking and business management processes of the Branch are sufficient to ensure strong financial management going forward. 2012-13 is the final year of operation for CDEP prior to the transition to the Remote Jobs and Communities Program.

2.2 Review objective

The objective of this MIR was twofold, to provide a:

- high level evaluation to ensure the highest standards of adequacy and effectiveness in current program financial management control processes around key Indigenous programs, and
- short-list of key actions to be taken to improve controls that can be quickly implemented across the cluster in the quickly to ensure ongoing robust financial management.

2.3 Review scope

The review scope included an examination of the circumstances that gave rise to the over commitment of funding from the CDEP program and the effectiveness of current program financial management control processes including but not limited to the:

- governance and management controls in place to manage the programs in the Indigenous cluster;
- mechanisms used for program budget monitoring and reporting;
- extent of program management capacity and capability within the Indigenous cluster; and
- currency and adequacy of implementation of program management policy, processes and procedural documentation.

The review will not assess service delivery or effectiveness of the programs being delivered by the Department, and is focused on aforementioned financial management control processes. Findings and risks from previous internal audits of CDEP Projects and Administration of Indigenous Programs, and relevant ANAO audits will be referred to during this review.



2.4 Audit Approach

The engagement was conducted in accordance with the following established approach:

Phase 1:

- understood and evaluated the decision making process for commitment of CDEP and RSD project funds, how commitments and expenditure are monitored, and ascertain reasons for the funding over-commitment;
- examined supporting documentation for individual transactions relating to CDEP and RSD expenditure for the 2011-12 and 2012-13 financial years;
- assessed whether the events highlight potential systematic issues across other programs;
- reported results of Phase 1 to key stakeholders, so as to:
 - communicate operational and strategic level findings and recommendations,
 - assess whether the findings and recommendations have applicability across other programs; and
 - agree whether Phase 2 will be undertaken, including confirmation of programs to be reviewed¹.

Phase 2:

- based on outcomes of phase 1, consider the broad program issues and assess whether findings relate to other programs within the Indigenous cluster;
- examine processes for a sample of three Indigenous programs within other Indigenous areas, including:
 - Indigenous Leadership Program,
 - Indigenous Communities Strategic Investment Program,
 - Indigenous Land Programs, including native title; and
- report results of Phase 2 to key stakeholders, and agree whether subsequent phases will be undertaken.

Phase 2 has not been undertaken as yet, and is subject to management agreement.

Phase 3:

- consider the key strategic issues that contributed to the issues identified during fieldwork including:
 - governance of, and support for FaHCSIA's policies, procedures and processes; and
 - extent of program, contract, and financial management capacity and capability of the Indigenous cluster.
- discuss the findings with management as required through the review and co-develop recommendations to address these;
- conduct an exit interview;
- prepare and distribute the draft review report;
- obtain formal management comment; and
- prepare and distribute the final review report.

¹ In the event Phase 2 is not undertaken the audit would then move to Phase 3.



3. Findings and Recommendations

s47E(c) - operations of an agency

Finding 1:	In some cases, there was a lack of robust record keeping of approved commitments.
Risks:	Inadequate management processes results in program ineffectiveness.
Likelihood:	Likely
Consequence:	Moderate
Rating:	High

Recommendation 1

Establish a process for submitting funding proposal documentation to the Financial Management Section of the CDEP program s47E(c) - operations of an agency

Management Response

Group responsible:	Indigenous Delivery Group
Group response:	The recommendation is supported and processes are being established.
Summary of action:	CDEP has developed business rules to facilitate and support the tracking of funding proposals. Funding proposals are now channelled through a central point for processing.
Expected outcome:	Funding proposals captured and reported in a central data base.
Implementation date:	CDEP completed.

3.2 Financial Management Reporting

To provide consistent information to enhance governance and informed decision making for effective and efficient use of Commonwealth funding, it is imperative that financial information is reviewed by appropriate stakeholders to ensure it is accurate, current and complete.

Whilst NO has systems and capability to produce various financial reports, prior to April 2012 no structured process had been established during 2011-12 to ensure CDEP had appropriate reporting and accurate analysis of financial and budgetary information. This predominantly was due to a lack of clear roles and responsibilities
s47F - personal privacy

This is further discussed in section 3.3 below. This included the use of standard, regular management reporting between the Network and NO that required disseminated reports to be reviewed by the Network to confirm balances and the accuracy of information.

A similar situation was the case for RSD Special Accounts. Quarterly financial management reports are generated at NO and circulated to the Network. There was limited management reporting process between the Network and NO that required disseminated reports to be reviewed by the Network to confirm balances and accuracy of the information. RSD management advised that reconciliations between the Impact/Grants



Management System and the Cash Accounts have been reported monthly to the Branch Manager.

Finding 2: In some instances, there was limited dissemination of budget and financial management reporting.

Risks: Inadequate budget monitoring results in decisions that lead to program failure, ineffectiveness or over or underspending of program funds.

Likelihood: Likely

Consequence: Moderate

Rating: High

Recommendation 2

Develop standard monthly financial management reports for programs that clearly and accurately prescribes the financial position at the particular point in time

Management Response

Group responsible:	Indigenous Delivery Group
Group response:	The recommendation is supported. Monthly reporting on the IRSD Special Account has been in place since the commencement of the Special Account. IDG agrees that thorough analysis of the reports is required to ensure accurate monitoring of commitments and expenditure. The recent creation of a dedicated finance and reporting section will allow more detailed analysis and active monitoring of the Special Account. CDEP has formulated weekly / monthly financial management reports which accurately reflect the programs financial position (PIT).
Summary of action:	The RSD Finance and Reporting Section is now in place. Additional monthly monitoring and reporting processes are currently being developed and will be utilised a part of monthly RSD Management Board meetings. CDEP – reporting regime is now in place and is being continually reviewed to ensure that reporting needs are sufficiently discharged and that specific individual reporting requirements are met.
Expected outcome:	Improved financial reporting and governance.
Implementation date:	31 October 2012 (CDEP Implemented).

Recommendation 3

Responsibility for the review of the financial management reports should be allocated to relevant Section Managers and Branch Managers. In turn these Managers should communicate their expectations to the Networks, to ensure a two way flow of accurate financial information in a timely manner. The reports should be disseminated to Networks within agreed timeframes and the following confirmed by the Program Support Manager: acknowledgment of receipt; and review and confirmation of balances provided.

Management Response

Group responsible:	Indigenous Delivery Group
Group response:	The recommendation is supported.
Summary of action:	Improved processes are under development and will be agreed through Regional Operations Centres and the RSD Management Board. CDEP – management reports are circulated to the relevant parties, reports are both timely and meaningful.
Expected outcome:	Improved financial reporting and governance.
Implementation date:	31 October 2012 (CDEP Implemented).



3.3 Skill Set Requirements matched to Roles and Responsibilities

To enable enhanced governance and informed decision making for effective and efficient use of Commonwealth funding it is imperative that the financial management function for the program have adequate experience and training in the provision of management accounting reporting and analysis. Clear roles and responsibilities must be established between the financial management function and other stakeholders to ensure all outputs are adequately reviewed.

s47F - personal privacy

Finding 3: There was a lack of required staff competency and skills and clarity of roles and responsibilities.

Risks: Lack of effective governance and direction results in inadequate program management leading to program failure or ineffectiveness.

Likelihood: Likely

Consequence: Major

Rating: High

Recommendation 4

Develop and document clear roles and responsibilities (through position descriptions) s47F - personal privacy and also between the National Office and the Network for financial management roles. Implement targeted training to equip these roles and positions with appropriate capability to manage program finances.

As an element of these positions, it is essential that those positions requiring financial management competency, acumen, skills, experience and qualifications are described as such so that only suitably qualified and experienced candidates are considered.

Management Response

Group responsible:	Indigenous Delivery Group
Group response:	The recommendation is supported.
Summary of action:	s47F - personal privacy A plan to ensure appropriate training of staff in National Office and the Network is under development. CDEP – partial implementation - steps are being taken to fully implement and will be addressed through Branch/Section planning and identified training.
Expected outcome:	Improved financial management accountability.
Implementation date:	RSD 31 December 2012, CDEP 31 October 2012



Recommendation 5

Steps should be undertaken by the CDEP and Remote Employment Branch in consultation with the Business Planning & Financial Governance Branch to determine whether potential breaches of the FMA have occurred to be reported in FaHCSIA's annual Certificate of Compliance report.

Management Response

Branch responsible:	CDEP and Remote Employment Branch
Branch response:	The recommendation is supported
Summary of action:	Potential breaches identified and reported
Expected outcome:	Breaches reported in the Certificate of Compliance
Implementation date:	31 October 2012

A high frequency of staff changes may have contributed to continuity as well as role and responsibility clarity issues in what is a complex program delivery environment. Staff changes combined with an apparent lack of role clarity, pressure to deliver services and inadequate change management processes may have resulted in staff focussing on certain aspects of their work to the detriment of others.

Management Improvement Opportunity

FaHCSIA review its change management processes to ensure changes to staff minimises disruption and integrates with strategies to ensure continuity/succession.

Management Response

Group responsible:	Indigenous Delivery Group
Group response:	The recommendation is supported.
Summary of action:	Core business functions are being identified and where applicable replicated to ensure consistency of function across program areas.
Expected outcome:	Continuity/Succession in business functions
Implementation date:	31 December 2012.

3.4 Automated Financial Management Reporting

s47E(c) - operations of an agency

Finding 4: There was a lack of automated financial management reporting and a reliance on spreadsheets for reporting.

Risks: An inadequate monitoring and reporting tool results in ineffective and inefficient use of resources and limits management decision making leading to program inefficiency or failure.

Likelihood: Possible

Consequence: Major

Rating: **Moderate**



Recommendation 6

Develop processes and tools to automate program budget, commitment and spend reporting. As far as practicable this should be system-based to avoid the potential manipulation of data and data errors and ensure process efficiencies achieved; thereby providing a 'single source of truth'.

Management Response

Group responsible:	Indigenous Delivery Group
Group response:	The recommendation is supported noting that the system will need to be appropriate to the programs involved. CDEP – where practical automation has been adopted. In instances whereby it is not feasible source documentation is provided or the source identified for verification to demonstrate data integrity.
Summary of action:	A single source of truth has now been developed for both programs and this process will be increasingly automated over time.
Expected outcome:	Increased System generated reporting
Implementation date:	CDEP Implemented.



Appendix A – Risk Rating Framework

Risk ratings contained in this report are based on the FaHCSIA's risk consequence and likelihood definitions as endorsed by the Executive Management Group as follows.

Risk Matrix:

Risk levels

L = Low

M = Moderate

H = High

E = Extreme

			Consequence					
			People	Minor skills impact	Minor impact to capability	Unavailability of core skills affecting services	Unavailability of critical skills or personnel	Protracted lack of critical skills/people
				Minor injury	Medical Treatment	Major Injury	Death	Multiple Deaths
	Financial			Less than marginal chance of material affect on value of financial assets.	Limited reduction in value of small proportion of financial assets.	Loss of financial assets/temporary reduction in value of significant proportion of financial assets.	Loss of significant proportion of financial assets/significant reduction in value of financial assets.	Total loss of financial assets/permanent reduction in value of financial assets.
	Reputation			Internal dissent/criticism	Criticism from minor community segment. Adverse press coverage.	Criticism from the Government and Public Service.	Local public outrage/condemnation and high level political criticism.	National public outrage/condemnation and high level political criticism.
	Business process and systems			Minimal impact on non-core business operations. Impact can be dealt with by routine operations.	Some impact on business areas able to be dealt with at operational level.	Impact on business resulting in reduced performance. Targets are not met. Activity not threatened, but may be subject to significant review or changed operations.	Breakdown of key activities leading to reduction in business performance. Survival of activity threatened	Critical business failure, preventing performance of core activities. Impact threatens not only the survival of the activity, but FaHCSIA itself.
Likelihood	Likelihood / Historical Probability			Insignificant	Minor	Moderate	Major	Extreme
	Is expected to occur in most circumstances	Has occurred on an annual basis in FaHCSIA in the past or circumstances are in train that will cause it to happen.	Almost certain	L	M	H	E	E
	Will probably occur in most circumstances	Has occurred in the last few years in FaHCSIA or has occurred recently in similar agencies or circumstances have occurred that will cause it to happen in the next few years.	Likely	L	M	H 1,2,3	H	E
	Might occur at some time	Has occurred at least once in the history of FaHCSIA or is considered to have a limited chance of occurring in the next few years.	Possible	L	M 4	M (1),(2),(3)	H	H
	Could occur at some time	Has never occurred in FaHCSIA but has occurred infrequently in similar agencies or is considered to have a marginal chance of occurring in the next few years.	Unlikely	L	L (4)	M	M	H
	May occur only in exceptional circumstances	Is possible but has not occurred to date in any similar agency and is considered to have very much less than a marginal chance of occurring in the short term.	Rare	L	L	L	M	M