

3.4

Funding Arrangements with Non-government Organisations

The arrangements under which non-government organisations are paid public money to provide goods or services to third parties need to be drawn up so as to ensure:

- *adequate accountability for the money paid; and*
- *that compliance costs are kept to the minimum for both the paying agency and the provider organisation.*

The Treasury is leading a group of officials with the objective of formulating best practice guidelines by early-2001.

Background

3.401 In early-2000 the Hon Richard Prebble MP asked us to consider a range of issues in relation to the Health Funding Authority's contracting arrangements with Te Whanau o Waipareira Trust (the Waipareira Trust). The particular concerns raised were more appropriately addressed – and were subsequently reported on – by the Serious Fraud Office.

3.402 However, a range of more general issues arose out of the preliminary work that we did in order to respond to Mr Prebble's request. In particular, we noted the need for the Government to develop consistent practice among departments in dealing with private entities such as the Waipareira Trust – especially the need to monitor performance when purchasing is by way of contractual arrangements.

3.403 A number of enquiries we made identified specific aspects of contracting arrangements with non-government organisations (NGOs) that need further consideration. These aspects include:

- processes for selecting appropriate recipients of Government funding;
- purchasing and contracting arrangements between funders and NGOs;
- monitoring by funders of contracted service delivery by NGOs; and
- evaluation of the outcomes of Government-funded activities.

3.404 We pursued these issues through further discussions with officials, with a view to best practice guidelines being developed.

Government Response

3.405 As a result of our recommendation to develop best practice guidelines, the Treasury is leading an officials group with the objective of formulating the guidelines by early-2001. Given the policy considerations that will probably have to be addressed, this is a task that is best undertaken by executive government. Nevertheless, we are contributing to the process by way of advice based on the extent of our knowledge and experience.

3.406 The officials group has a challenging task on its hands. The group has to determine how to balance the need to:

- maintain and demonstrate adequate accountability in the arrangements that funders enter into with NGOs;
- minimise compliance costs for funders and NGOs alike;
- achieve and measure the funder's desired outcomes;
- ideally, produce guidelines that will mean that NGOs are treated similarly by, and consistently between, funders;
- provide best value for both the ultimate recipients or beneficiaries of the funding and the taxpayer.

3.407 The contractual model that has typically been relied on to date has, on the face of it, offered the simplest and most transparent form of accountability relationship. However, taking all factors into account may well result in a conclusion that contracting is only one of a range of possible arrangements.

Impact Evaluation

3.408 In paragraph 3.403 we refer to evaluating the outcomes of Government-funded activities – which means that funders need to be able to demonstrate and measure the desired outcomes from the funding provided. We addressed at length the subject of *Impact Evaluation – Its Purpose and Use* in a report earlier this year.¹

3.409 We are encouraged by the Government’s response to that report and the work of another officials group – in this instance led by the State Services Commission – in addressing the issues we raised.

Our Powers of Inquiry

3.410 NGOs such as the Waipareira Trust are (as already stated) private entities and, consequently, we have no mandate to audit them. Our powers are limited to asking such entities to supply information to us about how they have spent any public money paid to them by a government department or Crown entity that we are auditing.

3.411 The question of whether our mandate should be extended to include the power to audit NGOs in receipt of public money was raised during the first reading debate on the Public Audit Bill. As a result:

- the Finance and Expenditure Committee asked us to comment on our existing powers to obtain information from NGOs when auditing public entities that had paid them money; and

¹ First Report for 2000, parliamentary paper B.29[00a], pages 99-140.

- the Minister in charge of the Audit Department asked us to provide draft legislation to the Committee concerning our ability to “monitor and report on” public money provided to an NGO as a private provider.
- 3.412** We responded (in a joint report with the Treasury) to the Committee in the following terms:
- we already have power to “follow” taxpayer funds into an NGO – by seeking information from the NGO about whether it has, in fact, performed a contract or provided services;
 - there is currently no need to extend our functions and powers concerning NGOs; and
 - additional provisions, to avoid doubt, specifying in more detail our existing functions and powers concerning NGOs were unnecessary.
- 3.413** We also expressed the view that the better approach lay in ensuring *that each public entity which contracts service provision to NGOs, or makes grants of taxpayer funds for public services, has sound practice in respect of its:*
- *design of policy on service delivery;*
 - *choice of method of service delivery;*
 - *appointment of the service provider;*
 - *specification of monitoring and enforcement provisions in the contract, arrangement or grant (to the extent that the choice of service delivery permits);*
 - *actual performance in monitoring and enforcement; and*
 - *evaluation of the impact of the actual service delivery.*
- 3.414** The Committee accepted that the functions and powers that we are to be given by the Public Audit Bill were adequate concerning NGOs and did not recommend any change.