



Performance audit report

Department of Internal Affairs: Administration of two grant schemes





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Department of Internal Affairs: Administration of two grant schemes

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report about a performance audit
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Auditor-General's overview

The Department of Internal Affairs (the Department) aims to contribute to building strong, sustainable communities, hapū, and iwi. One way it does this is by distributing grants for community projects and organisations.

Many community organisations, such as clubs, charities, cultural bodies, and small incorporated societies, depend heavily on grants for their operational funding or special projects.

The Department is responsible for several grant schemes. My staff audited the Department's administration of two grant schemes:

- the Lottery Grants scheme (which is expected to distribute about \$153 million in 2010/11 to between 2500 and 4000 organisations); and
- the Community Organisation Grants Scheme, or COGS (which is expected to distribute about \$14 million in 2010/11 to between 4200 and 5400 organisations).

The Department processes applications for grants and provides administration, training, and support services to the committees that are responsible for deciding which applicants will receive a grant under each scheme. These committees are appointed by the Minister of Internal Affairs (Lottery Grants scheme) or elected by their communities (COGS).

The Department's approach to administering the two schemes is based on six main principles. These principles are consistent with the good practice guide that my Office produced in 2008 – *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*. Appendix 2 sets out these principles and Appendix 3 sets out the associated expectations that the Department has for itself and for grant recipients. I encourage any public entity involved in grant administration to read Appendix 2 and our 2008 good practice guide.

Overall, the Department's systems and processes are effective in helping the Department to put the principles into practice during all four main stages of grant administration: planning how the grant schemes will work, selecting applicants (in this case, supporting the committees in their decision-making), monitoring how the money is spent, and reviewing the effectiveness of the grant schemes.

However, the Department's existing electronic grant administration system, Grants Online, has limitations that affect the effectiveness and efficiency of grant administration. The Department intends to address these limitations by implementing a new grant administration system and other interdependent improvement projects.

In our view, the Department could do more to support greater transparency and accountability in decision-making by the committees. We have made three recommendations to support this improved transparency and accountability. This report also includes some suggestions that we encourage the Department to adopt.

In making our recommendations and suggestions, we have been mindful that:

- any funding arrangement should be as simple and practical as possible, considering the amounts involved, the complexity of the project to be funded, and the level of risk; and
- it is appropriate to consider compliance costs for the parties and seek to reduce them where possible.

We expect the Department to consider these factors when responding to our three recommendations and to avoid undue compliance costs for all the parties involved.

Work that the Department has under way

Since 2008, the Department has substantially reviewed its grant systems and processes. That work has identified many of the aspects of grant administration that staff told us needed to improve and that we also observed.

The improvements now under way include putting in place a new electronic grant administration system. In July 2010, the Department selected a preferred vendor for this system and expects to complete contract negotiations by the end of 2010. The Department's original aim of full implementation by April 2011 will be confirmed or otherwise when these negotiations are completed.

If the new grant administration system is effectively implemented, it should make better information more readily available about who has previously received grants, the purpose for which grants were made, and what the effect on the community has been.

It is important that the new grant administration system is implemented in a timely manner and that it meets the requirements that the Department has identified. We have made a recommendation to support this happening.

Better understanding of the results of grants should enable the Department to more effectively assess whether the grants are supporting the intended purpose of building strong, sustainable communities, hapū, and iwi.

I thank the Department's staff for their open and constructive assistance and their willingness to consider and act on suggestions about the improvements they were making. I would also like to thank the committee members and others who assisted my staff during the audit.



Lyn Provost
Controller and Auditor-General

1 November 2010

Our recommendations

We recommend that the Department of Internal Affairs:

1. implement, in a timely manner, a new business system for grant administration that meets the identified requirements, and then monitor that system to ensure that it improves the effectiveness and efficiency of grant administration as intended;
2. improve the recordkeeping about decisions made by Lottery Grants and Community Organisation Grants Scheme committees by:
 - working with the committees to ensure proper recording of reasons why applications are approved or declined or a lesser amount than requested is granted; and
 - ensuring that members of the Community Organisation Grants Scheme committees properly and consistently complete the information required by the Local Distribution Committee Members' Assessment Tool; and
3. revise its agreement with the Lottery Outdoor Safety Committee to ensure that accountability requirements for recipients of large grants are adequate and appropriate for the size and nature of those grants.

Part 1

Introduction

- 1.1 In this Part, we set out:
- what a grant is;
 - why we carried out a performance audit of the administration of grants by the Department of Internal Affairs (the Department);
 - our expectations about balancing accountability, costs, and benefits; and
 - the scope of our audit.

What is a grant?

- 1.2 A grant is a funding arrangement that is designed to support an organisation or activity rather than to buy goods or services. Typically, grants are an appropriate arrangement to support a “public good” activity, organisation, or project where the organisation involved is non-commercial.
- 1.3 The provision of a grant is one means by which a public entity can support a community organisation or activity. A grant may have significant conditions attached to the ongoing payment of funds (a conditional grant), or only a few and relatively simple conditions (a limited conditional grant). Grants to community groups are usually limited conditional grants.

Why we carried out this performance audit

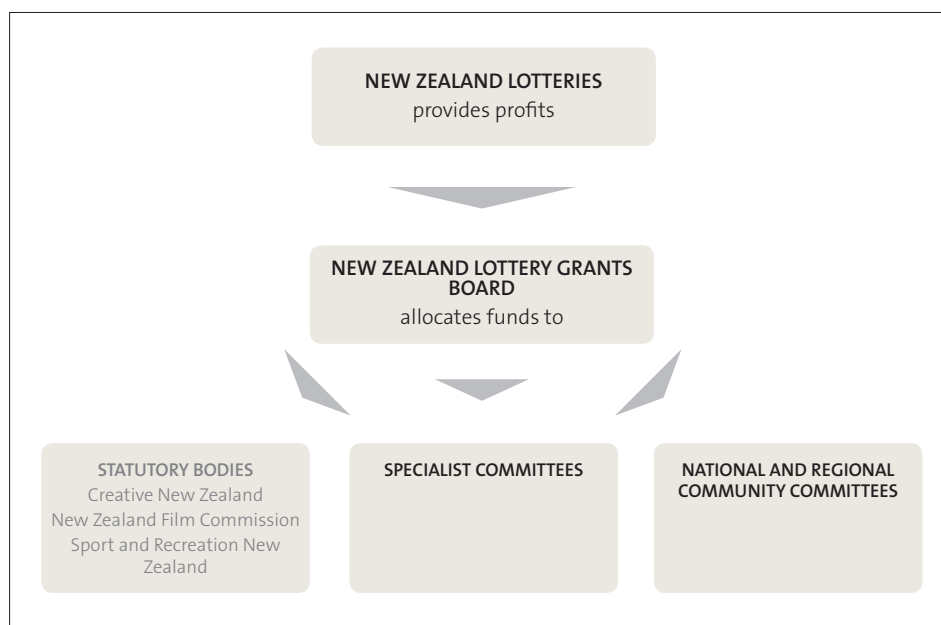
- 1.4 This is the fourth in our series of performance audits of public entities that are administering grants.¹
- 1.5 The Department aims to contribute to building strong, sustainable communities, hapū, and iwi. To help achieve this aim, the Department provides mainly limited conditional grants to organisations within communities. This is because, according to the Department’s website:
- Strong, sustainable communities, hapū and iwi have the potential to more effectively find solutions to local problems and achieve their own well-being.*
- 1.6 We carried out a performance audit to determine whether the Department’s administration of grants is consistent with the principles and expectations that we outlined in our 2008 good practice guide *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*.
- 1.7 We examined the Department’s administration of two grant schemes: the Lottery Grants scheme, funded from the profits of Lotto and Instant Kiwi, and the Community Organisation Grants Scheme (COGS), funded directly by the

¹ The reports about our previous audits of three grant funding bodies (Te Puni Kōkiri, Foundation for Research, Science and Technology, and New Zealand Trade and Enterprise) are available on our website, www.oag.govt.nz.

Government. Administration is carried out largely by the Department's advisory and support staff (about 100 people).

- 1.8 Funding for the Lottery Grants scheme is distributed through 19 funding streams, or Funds.² There are national, regional, and specialist committees appointed to consider applications to the different Funds (see Figure 1). The Minister of Internal Affairs appoints the members of these committees.

Figure 1
How funds in the Lottery Grants scheme are distributed through committees and statutory bodies



Note: The distribution of funds to statutory bodies is shown for completeness but was not part of our audit.

- 1.9 The committee structure for COGS is less complex. Local communities elect the members of their COGS committees (called Local Distribution Committees), which are governed by elected representatives on the National COGS Committee.
- 1.10 Decision-making committees for both schemes decide which applicants will receive a grant and allocate funding to grant recipients. These decision-making committees are known as “distribution committees”. In this report, we usually refer to Lottery Grants committees and COGS Local Distribution Committees as “the committees”.

² The 19 Funds do not include the Lottery Significant Projects Fund because this Fund is currently not operational.

- 1.11 The Department's administration of grants involves:
*Processing, assessment and monitoring of grant applications, provision of administration, training and support services to boards on grant distribution committees, advising Ministers on appointments to boards, committees and trusts.*³
- 1.12 Many community organisations, such as clubs, charities, cultural bodies, and small incorporated societies, depend heavily on these grants for operational funding or special projects.

Scale and cost of grant administration

- 1.13 The size and number of grants administered by the Department under these two grant schemes is significant (see Figure 2). During 2009/10, the Department processed 10,912 applications and processed payments for 7643 grants.
- 1.14 Appendix 1 includes more information about the two grant schemes.

Figure 2
Scale and costs of the Lottery Grants scheme and Community Organisation Grants Scheme in 2009/10

	Lottery Grants scheme	COGS
Total value of grants approved	\$102,637,000 ⁽¹⁾	\$13,873,000 ⁽³⁾
Administration costs	\$10,889,000 ⁽⁵⁾	\$1,428,000 ⁽⁴⁾
Number of applications	5800 ⁽¹⁾	5112 ⁽²⁾
Number of grants approved	3500 ⁽¹⁾	4143 ⁽²⁾
Average value of grant	\$29,325	\$3,350
Administration costs as a percentage of grants approved	10.6%	10.3%
Number of decision-making committees	19 (1 national, 11 regional, 7 Fund committees*)	37 (local**)

* The Lottery Significant Projects Fund is not currently operational.

** The National COGS Committee is not a distribution committee.

Sources:

- (1) Draft 2009/10 Lottery Grants Board Annual Report.
- (2) Department of Internal Affairs *Annual Report 2009-10*, page 42.
- (3) New Zealand Treasury (2009), *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2010*, page 47.
- (4) Department of Internal Affairs communication to the Office of the Auditor-General.
- (5) 2009/10 Lottery Grants Board Memorandum of Understanding.

3 New Zealand Treasury (2010), *Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011*, Wellington, page 50.

- 1.15 The Lottery Grants Board governs, and provides the funding that is distributed through, the Lottery Grants scheme. The Secretary for Internal Affairs is a trustee of this money. The Department recovers the costs of its administration of these grants from the Lottery Grants Board. In 2009/10, these administration costs were \$10,889 million, or 10.6% of the value of the grants that were distributed.
- 1.16 The Department receives funding for COGS directly from the Government. This includes funding for administering the scheme. The administration funding is part of a wider grants administration appropriation that the Department receives. The Department has estimated that in 2009/10 it spent about \$1.4 million of this wider appropriation on administering COGS. This estimate includes only direct costs, so the actual cost is higher.

Decision-making committees and the Department of Internal Affairs

- 1.17 The Department's Local Government and Community Branch administers the two grants schemes. Staff in this branch work in the national office in Wellington and in 16 regional offices. The Department's staff do not determine which applicants will receive a grant. Instead, they are responsible for the organisational policy and business planning for systems and criteria for considering applications.
- 1.18 The Department provides support and advice to the committees (see paragraph 1.11).
- 1.19 The Minister of Internal Affairs sets out the purpose of each Fund within the Lottery Grants scheme. The Lottery Grants Board sets out the overall funding objectives and policy for the scheme. Priorities specific to each Fund are set by the individual Fund committees. A Memorandum of Understanding between the Minister of Internal Affairs and the Department (as Secretariat to the Lottery Grants Board) sets out the relationship and responsibilities of the parties.
- 1.20 A separate Memorandum of Understanding between the Minister of the Community and Voluntary Sector and the National COGS Committee sets out:
- the governing principles of COGS;
 - the process COGS committees follow to give effect to these governing principles; and
 - the respective roles and responsibilities of the parties and the relationship and boundaries between them.
- 1.21 We visited four of the Department's regional offices and interviewed staff at the Department's national office. We also spoke with representatives of the committees for both schemes, with members of the National COGS Committee, and with the Lottery Grants Board.

Our expectations about balancing accountability, costs, and benefits

- 1.22 For effective and efficient administration of grants, a public entity needs to balance holding grant recipients accountable against the costs and benefits of doing so, for both the recipient and the administrator. This can be challenging, particularly when there are large numbers of grants involving relatively small amounts of funding made to a wide range of organisations. Some of the recipient organisations also have limited infrastructure. It is important to have accountability requirements that are reasonable given the size of the grant and the capability of the organisation.
- 1.23 Getting the balance right requires good processes and judgement, and an understanding of the environments in which the public entity and grant recipients operate.
- 1.24 We expected the Department's administration of grants to be consistent with the principles and expectations outlined in our 2008 good practice guide. Appendix 2 sets out those principles and grant-related expectations from our guide.
- 1.25 Our expectations relate to four stages in the process of making a grant. These are:
- planning – the design of the grant scheme and the alignment of the scheme's objectives with the relevant policy or legislation;
 - selection – the systematic process for considering grant applications and the conditions set to manage risk and ensure suitable accountability (in this case, supporting the committees in their decision-making);
 - monitoring – payment, reporting, and monitoring arrangements proportional to the risk, scale, and nature of the relationship, which enable the Department to assess the performance of the grant recipient; and
 - review – the reporting of achievements against the purpose of a grant and ongoing improvement to grant processes.

Scope of our audit

- 1.26 We did not examine the decision-making of the committees to assess whether decisions had been made correctly. However, we did review whether the Department provided the committee members with enough guidance and effective systems to help them follow due process when making their decisions.
- 1.27 We did not examine the Department's systems for administering the Minister's Discretionary Fund because it involves relatively small amounts of money and because the Minister uses his discretion when allocating the fund.

Part 2

Planning for the grant schemes

- 2.1 In this Part, we describe the aspects of planning that the Department has done well. It has:
- planned an approach to administer the two grant schemes that is consistent with its role and responsibilities;
 - adopted clear funding principles; and
 - applied useful procedures and guidance.
- 2.2 We also discuss the aspects of planning that we consider could be done better. These include:
- improving the existing electronic system for administering grants;
 - clarifying the rationale for the decision-making committees' structural arrangements; and
 - better co-ordinating the quality control framework.

Summary of our findings

- 2.3 The Department's approach to administering the grant schemes is consistent with its role and responsibilities. Its approach is also consistent with the principles we expect a public entity will give effect to when administering grants, including lawfulness and integrity. Its approach is also supported by clear and consistent processes and procedural guidance.
- 2.4 The Department is well aware of the limitations of its existing grant processing systems. It has prepared a business case with extensive specification of the improvements required to address these limitations.

Approach consistent with role and responsibilities

- 2.5 The Department's role is to act as administrator and secretariat to the committees. Its responsibilities include processing and assessing grant applications, providing administration, training, and support services to the committees, and advising Ministers on appointments to boards, committees, and trusts.
- 2.6 The Department's work in carrying out these functions was consistent with its role and responsibilities.

Clear funding principles

- 2.7 The Department adopted the six principles in our 2006 good practice guide, *Principles to underpin management by public entities of funding to non-government organisations*, as a basis for its overarching framework for administering grants. (Our 2008 good practice guide expresses these same principles in terms of grant funding.) The Department's expression of the principles and its expectations for grant recipients are consistent with our expectations.
- 2.8 The Department includes these principles and expectations for grant recipients in its guidance material for staff. The Department plans to make this available to grant recipients through its grant website when updated as part of its planned improvements (see paragraphs 5.7-5.11). We consider that this approach may be useful to other public entities involved in grant administration. We have reproduced the Department's expression of these principles in Appendix 3.

Useful process and procedural guidance

- 2.9 The Department's online *Better Funding Practice Business Process Manual* (the Business Process Manual) provides a logical and coherent framework for grant administration guidance and procedures. It brings together six closely related components:
- the Department's funding principles;
 - guidance for staff on day-to-day administrative tasks, including electronic links to standard forms;
 - the Department's generic business processes for grant administration tasks;
 - a detailed description of the administration processes to follow for each stage of making a grant;
 - a database of operational policy for all grant programmes, administered by the Department's Local Government and Community Branch; and
 - information about the Department's review of business processes and policy.
- 2.10 There is some flexibility in the Department's practices relative to the risks, nature, and size of the grants involved. In our view, this is appropriate.
- 2.11 We also consider the Business Process Manual to be useful and comprehensive.

Replacing the grant administration system

- 2.12 The Department's electronic business system, Grants Online, supports the Department's administration process for the two grant schemes. The purpose of Grants Online is primarily to support the processing and preparation of applications for decision-making about grants. However, it is also used for all other stages of the administration process, including tracking recipients of grants and processing payments of grants. Grants Online is adequate for regular grant administration tasks, and is relatively accessible for people making online applications.
- 2.13 However, Grants Online does not easily allow information to be retrieved for analysis, evaluation, or reporting purposes. Although some staff do retrieve useful information, this is time-consuming, and staff have to transfer information manually to a spreadsheet when they need to use the information for analytical purposes. It is also difficult and costly to add, amend, or upgrade features in Grants Online. Grants Online also lacks some features that would assist workflow, such as flags indicating outstanding accountability reports or risky applicants, or listing staff activity events in a logical order (such as date order).
- 2.14 The Department is well aware of the problems and gaps in Grants Online, and is procuring a new system (see paragraph 5.9). Many of the limitations that staff identified to us have been addressed in the business case for this new system. Appendix 4 sets out a summary of the limitations of the current system and the functionality required of its replacement.
- 2.15 Important features of the new system include provision for:
- easier extraction, reporting, analysis, and evaluation of information about grant applicants and applications, and the characteristics of their communities;
 - streamlined grant application processes, including greater ease of use and more accessible information for applicants and grant recipients, and more efficient workflow within the Department;
 - better quality control of grant administration; and
 - better risk rating of grant applicants.
- 2.16 The Department has identified potential costs savings of \$350,000 each year in its business case for a new grant administration system. The Department expects these savings to come from many grant schemes, including the Lottery Grants scheme and COGS. We consider it important that the Department monitor these savings as the new grant administration system is implemented.

- 2.17 The Department's envisaged savings are from changes to administrative processes, including reducing manual work. They are not from changes to the structure of the grant schemes, such as changing the number of committees, which would require a policy change. However, the structure of the schemes and costs of administering them are clearly related.
- 2.18 We commend the Department for its extensive work towards a much improved system and in determining specifications for designing the new system. The Department has identified many concerns about the existing system that staff told us about and that we had also identified.
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Recommendation 1

We recommend that the Department of Internal Affairs implement, in a timely manner, a new business system for grant administration that meets the identified requirements, and then monitor that system to ensure that it improves the effectiveness and efficiency of grant administration as intended.

Clarifying the rationale for the committees' structural arrangements

- 2.19 COGS was reviewed in 2003, and some changes were made to align its purpose and operations better – in particular, to target funding to support specifically identified and local community outcomes. The geographical boundaries of the Lottery Grants scheme committees were also aligned more closely with local authority boundaries. However, we were not able to judge the extent to which the committee structures for either scheme align with more general community outcomes or specific communities of interest. We accept that aspects of the committee structure are beyond the Department's direct control.
- 2.20 In our view, there would be merit in the Department examining the extent to which the committee structures align with the intent of supporting the building of strong, sustainable communities, hapū, and iwi, and with specific communities of interest. This would be as part of its responsibility to provide the Government with advice that supports the effective operation of grant schemes.
- 2.21 We encourage the Department to draw on the detailed knowledge of local communities, gathered through its community development activities, to support this work.

Better co-ordinating the quality control framework

- 2.22 The Department has some control mechanisms intended to ensure that staff follow its grant administration approach and the associated policies and procedures. Team leaders, regional managers, and regional administration advisors can produce reports on staff performance against service standards and office administration. The Grants Audit and Review team carries out audits and investigations – regular, random audits and investigations on request – to check that grant funds are used in ways that comply with the conditions placed on those grants. Grants Audit and Review auditors visit regions to raise awareness about the accountability obligations of grant recipients.
- 2.23 In our view, the Department’s quality control mechanisms could be more strategically aligned to ensure that they are ongoing and comprehensive. A more aligned approach could help improve compliance by ensuring that higher-risk clients are identified and helped to meet compliance requirements.
- 2.24 In 2008/09, a nationwide, risk-based audit of grants in all Funds of the Lottery Grants scheme found that about 76% of the recipients were complying with the conditions of their grants.⁴ Although this audit represented only a small sample (144 grants), the findings suggest that there is some scope for improving how well grant recipients comply with the conditions of their grants.
- 2.25 We also noted that the mechanism for peer reviewing the reports from advisors to the committees they support does not include a requirement to check financial information, the soundness of the judgements made, or what changes have been made as a result of peer review comments. The Department could review its peer review mechanism to ensure that it incorporates these requirements, where appropriate.

⁴ Some recipients (8.5%) were not complying with the conditions of their grants. The compliance of the others was not able to be determined (for example, because the grants were not fully spent, or there was not enough information available).

Part 3

Supporting the selection of grant recipients

- 3.1 In this Part, we discuss what the Department has done well in supporting the decision-making committees. It has provided:
- sound training, guidance, and tools for staff;
 - useful information to committee members about their roles and responsibilities; and
 - useful information for staff about supporting committee decision-making.
- 3.2 We also discuss what the Department could do better in supporting the committees' work:
- Funding priorities could be more focused.
 - Richer information could be available to support committee funding strategies.
 - Decisions about selecting grants could be better recorded.
 - Risk assessment of applications to the Lottery Grants scheme could be more consistent.

Summary of our findings

- 3.3 The Department's systems and processes for handling grant applications and supporting the selection decisions of the committees (through training, and providing information) are sound and relevant.
- 3.4 The Department's systems and processes generally help the Department and the committees to apply the principles we expect them to when selecting grant recipients. These include fairness, openness, and value for money.
- 3.5 The Department could improve the information and guidance provided to the committees to help them determine funding strategies and priorities. The Department could also improve the support that it provides to COGS committee members to help them better understand and comply with their obligations to complete a record of their assessment of grant applications.

Providing sound training, guidance, and tools for staff

- 3.6 In our view, the Business Process Manual provides clear guidance for the Department's staff, with clear steps to follow for processing applications and grants, and well-designed support tools. The staff we interviewed were familiar with the Business Process Manual, and some also reported the value of colleagues' experience and other training.
- 3.7 Staff handled the core business of funding administration reasonably well, as performance standards indicate (see Figure 3 in Part 4). Many of the regional staff

were involved in community development work, such as community funding forums, which gave them the opportunity to share information about funding with the public, and to meet and gather information about potential applicants and about the community.

- 3.8 The Department's grant administration work is carried out mainly by funding advisors and support officers. The Department's advisor role (Community Development and Funding Advisor) is non-specific, so staff can perform a range of tasks. In practice, a staff member usually acts as funding advisor or committee co-ordinator for a particular sector or COGS or Lottery Grants scheme committee, or as a community development advisor. The Department is recruiting staff with more generic skills, to manage changing workloads and varying tasks as needs arise.
- 3.9 Staff receive general induction and training in using the Business Process Manual and Grants Online. They refer to desk files, experienced colleagues, and the Business Process Manual for further guidance as needed. We saw staff working with the Business Process Manual and Grants Online, accessing these with ease through the Department's intranet.
- 3.10 Most tools (such as checklists) and methods we saw were fit for purpose and appeared to work well for staff. Although Grants Online has limitations, it is adequate for supporting the committees' selection decisions. Other tools included a new template for reports from the advisors to several committees in the Lottery Grants scheme, which was produced as a result of a business improvement project in 2009. Staff and committee members told us that this template works well for them.
- 3.11 Staff also use checklists to ensure that all necessary information is gathered to support the reports from advisors (for the Lottery Grants scheme), and checklists for risk assessment.

Providing useful information to committees about their roles and responsibilities

- 3.12 The Department provides training materials and handbooks to members of the committees. The training materials and handbooks cover legislative and regulatory requirements, governance processes, roles, responsibilities, principles, and policies about decision-making and accountability.
- 3.13 The Department has told us that it provides induction to all committee members and further training if there is any change in process. Some members we contacted in a short survey told us that they found the materials and initial

training useful but also noted aspects that could be improved, such as drawing on the experience of longer-serving members for guidance. Some members of a committee for the Lottery Grants scheme did not recall receiving any initial training.

- 3.14 The handbooks clearly set out the risks of, and requirements for managing conflicts of interests. Many committee members may be directly involved in the communities or organisations that they are making decisions about. The Department has sound and transparent systems and controls for identifying and managing such risks,⁵ and the Department's committee co-ordinators were consistent – with one exception – in ensuring that committee members followed due process as a part of their standard meeting practice.⁶
- 3.15 The Department's advisors keep committee members up to date, as necessary, with committee funding policies to ensure that decisions are consistent and appropriate, and also with changes to, for example, the outcomes framework for allocating Lottery Grants scheme funding.
- 3.16 In our view, it is important to continue to remind committees of the risks associated with possible conflicts of interest. We encourage the Department to review its training process for new and sitting committee members to make sure that they all receive consistent, ongoing, and relevant training when serving on a distribution committee.

Providing useful information to support committee decision-making

- 3.17 In our view, the guidance material for staff and the committees clearly lays out the Department's role as administrator and secretariat to the committees, exclusive of decision-making about grant recipients. Committee members and staff we spoke with understood their respective roles well.
- 3.18 The Department's staff provide the committees with synopses of applications (for COGS), and reports from advisors with a range of supporting material and recommendations (for the Lottery Grants scheme). For most Lottery Grants scheme committees, the reports from the advisors reflect clearly the investigation and analysis carried out to reach the recommendations made to the committees.
- 3.19 Most committee members we spoke with told us that they appreciated the support and preparation the Department's staff provide, including clear layout of process, timely receipt of papers, and useful information about applicants. Most

5 More general guidance is contained in our good practice guide, *Managing conflicts of interest: Guidance for public entities*, which we published in June 2007.

6 The exception is ensuring that COGS Local Distribution Committee members complete their Assessment Tool – see paragraph 3.35.

members we spoke with also commented positively on the service and on the quality of the advice received from the Department's staff in general.

- 3.20 We expected that staff would share information about applicant community groups and sector knowledge, within and between regions, and between regional and national committees.
- 3.21 The Lottery Marae Heritage and Facilities Fund within the Lottery Grants scheme is set up to support and encourage national-regional collaboration, with specialist advisors in each region. We noted some good examples of information sharing, such as the work of the advisors to the Lottery Environment and Heritage Fund Committee, who send out information to regions and also seek information from the regions where applications originate. This kind of collaboration can enhance the quality of information provided in reports and synopses of applications for the committees.
- 3.22 In our view, there are more opportunities for closer collaboration between national and regional staff. We encourage the Department to explore the benefits from such collaboration, while acknowledging that such knowledge sharing requires time and resources. Options include:
- providing a repository of information on the Department's intranet that all staff could contribute to and draw on for information about grant recipients or experiences in the regions and the different grants schemes; and
 - greater collaboration and sharing of information between regional staff (providing local knowledge) and staff working with national or specialist Funds for the Lottery Grants scheme (providing an overall viewpoint).

Funding priorities could be more focused

- 3.23 The Department has an important role in providing comprehensive, high-quality information about the community and context of grants for the committees, to support those committees in setting their priorities. The high-level priorities for targeting funding and to guide decision-making are clearly defined through the Lottery Grants Board's Statement of Intent and the committee members' handbooks for each of the schemes.
- 3.24 The priorities for each of the national and specialist committees in the Lottery Grants scheme are defined by Fund criteria. Lottery Regional Community committees and COGS Local Distribution Committees define their own priorities, the latter through public meetings. The priorities for both schemes, which are used to allocate grant funding, are then published.

- 3.25 Lottery Regional Community committees in the Lottery Grants scheme and COGS Local Distribution Committees articulate their funding priorities in a broad range of ways. For example, some committees name their priorities in specifically outcome-oriented terms⁷ such as “Applicants who can demonstrate that people are benefited by the service”, or in terms of specific programmes or purposes such as “Cooking”, “Education for men”, and “Volunteer costs”. Others name their priorities in global terms such as “Men”, “Aged People”, “Emergency”, or “Community Resilience”, which could encompass a very wide range of applications.
- 3.26 In our view, although these published priorities reflect the general focus for both schemes, they do not always provide a sound basis for the transparent and outcome-focused allocation of scarce funds.
- 3.27 We encourage the Department to provide:
- suitable information to the committees, including information gathered from community development work about particular needs, so committees can form appropriate judgements about where funding should be targeted; and
 - guidance to the committees so they express priorities in terms that clarify proposed benefits to the community, and so help to identify target groups for funding.
- 3.28 Such information and guidance would better enable the open and fair assessment of need and the allocation of public money to where it would be most useful, based on robust information.

Richer information could be available to support committee funding strategies

- 3.29 Committees had different funding strategies and allocation approaches, such as full or part-funding, ceilings for salary funding, moderating grants at the end of the allocation process, or keeping tally along the way. In the Lottery Grants scheme, for example, the Lottery National Community committee and the Lottery Regional Community committees have to decide how to ration the year’s funding allocation over three funding rounds, such as rationing by the pattern of application numbers in previous years.
- 3.30 Some committee members we spoke with would welcome regular reporting and more information about funding patterns to inform their committee’s funding strategy. They would also like greater depth of information on demographics and communities of interest in regions, and guidance in matching priorities with community profiles.

⁷ “Outcome” is defined by the Lottery Grants Board as the difference applicants intend to make or the change they aim to bring about, for those who will benefit from their project or service.

- 3.31 The Department has a rich stock of information in Grants Online about community groups, which could provide in-depth information for the committees. Although the Department's staff and committee members carry out some useful analysis, the difficulty of extracting such information from Grants Online means that it is time-consuming and not cost-effective.
- 3.32 Enhanced reporting is a planned function of the Department's new grant administration and management system. If there is a delay in implementing the new system, it might be useful for the Department to consider, within the resources available:
- collating the work that has been done by staff already;
 - conducting targeted analysis of existing data; and
 - reporting regularly on this to distribution committees.

Decisions about grant selection could be recorded better

- 3.33 The Department's role includes ensuring that committee decision-making adheres to the principles of transparency and accountability. The decision-making needs to be fair and capable of withstanding external scrutiny (such as requests under the Official Information Act 1982 or judicial reviews). The importance of maintaining these principles is made clear in the committee members' handbooks and in the training that committee members should receive when they are appointed.
- 3.34 We noted instances where the Department's role in providing guidance to support good decision-making could be better explained, for the benefit of committee members and the Department. Committee members and staff we talked to varied in their understanding of how much authority Department staff had to insist that committee members carry out procedures properly or fully.
- 3.35 In particular, for COGS, the Department needs to clarify the purpose of the Local Distribution Committee Members' Assessment Tool, a form that committee members are required to fill out while assessing applications. Our analysis of a selection of instances where this tool should have been used showed that more than half of the forms were not completed.⁸ Reasons given to us by staff and committee members for non-completion included that some members:
- felt they were experienced in assessment and did not need to; and/or
 - were reluctant to commit their comments to paper, especially as their assessment might not represent the final decision.

⁸ Our sample size was 127, drawn from 10 Local Distribution Committees in the regions that we visited.

- 3.36 In our view, it is important that committee members fill out the form for the Assessment Tool. It is the only record showing that applications have been assessed appropriately. It is also the only record of contact with the grant recipient. Without this record, the committees risk questions about whether they have followed due process. Further guidance from the Department and streamlining the Assessment Tool form could alleviate any compliance burden on the members of the committees.
- 3.37 In our view, there should be better recording of assessments and selection decisions by the committees, to include the reasons why applications are approved, declined, or approved for lesser amounts than the applicants requested. At present, there is not enough detail provided to defend decisions if that were required. A range of generic reasons for decisions could be provided for use during the committee meetings where grants are allocated.

Recommendation 2

We recommend that the Department of Internal Affairs improve the recordkeeping about decisions made by Lottery Grants and Community Organisation Grants Scheme committees by:

- working with the committees to ensure proper recording of reasons why applications are approved or declined or a lesser amount than requested is granted; and
- ensuring that members of the Community Organisation Grants Scheme committees properly and consistently complete the information required by the Local Distribution Committee Members' Assessment Tool.

-
- 3.38 We have discussed our findings about the Local Distribution Committee Members' Assessment Tool with the Department. We note that the Department has brought this matter to the attention of the COGS evaluation team (see paragraphs 5.15-5.16).

Risk assessment of Lottery Grants applications could be more consistent

- 3.39 Advisors to the committees in the Lottery Grants scheme do not consistently take all relevant factors into account when assigning risk, and the necessary responses to the assessment of risk are not well defined. Although the advisors generally collect enough information about applicants and projects to evaluate risk for applications to the Lottery Grants scheme, they may assign risk on only one or two criteria, such as the applicant's history or the size of the grant. Advisors will often visit the recipients of grants in person to verify the project.

- 3.40 Determining that a grant recipient is high risk often happens too late, and often only when the grant recipient should be reporting on the use of the grant (during the accountability stage), or during a random audit of grant recipients.
- 3.41 The Department, through its Funding Issues Discussion Group, is creating a risk assessment tool to ensure that risks are identified and mitigated early. In our view, such a risk assessment tool is necessary to ensure that risky grant recipients or projects are identified before grants are made. Identifying an applicant's risk profile would enable committees to make better risk-based decisions. We encourage the Department to continue its work on a risk assessment tool.
- 3.42 All applications must have supporting financial information in more or less detail appropriate to the size of the grant or the project.⁹ Advisors often need to make informed judgements about the legal and financial viability of an applicant organisation, to estimate risk and also when requested by committee members during grant allocation meetings. We encourage the Department to focus more, when recruiting and training, on improving advisors' skills in judging financial viability. The Department has told us that it has scheduled training in financial analysis skills for its managers.

⁹ This ranges from detailed audited financial accounts and project management plans (for major projects or large organisations) to bank statements (for smaller grants).

Part 4

Managing and monitoring grants and their administration

4.1 In this Part, we discuss those aspects of managing and monitoring that the Department has done well:

- Monitoring of grant recipients is appropriate.
- Monitoring of the Department's own performance is a good start.
- Monitoring of grant outcomes is beginning.

4.2 We also discuss what the Department could do better:

- Arrangements for holding grant recipients to account could be improved.
- Monitoring and management of workloads could be improved.

Summary of our findings

4.3 The Department's monitoring arrangements are largely adequate for holding grant recipients and the Department to account for their use of public money. The efforts to obtain more information about the effects of grants need to continue.

4.4 The accountability requirements for certain recipients of relatively large grants could be strengthened. The Department could improve the accuracy of its information about staff workloads.

Monitoring of grant recipients is appropriate

4.5 We expected the Department to have monitoring arrangements in place to ensure that grant recipients are held accountable for using grant funds for the agreed purpose.

4.6 The Department's main mechanism for monitoring grants is through accountability reports and, for larger grants, by milestone reports. The accountability report form is three pages long and expandable, which makes it flexible enough for grant recipients to provide an amount of detail appropriate to the size of the grant or project. In our view, the three-page report form is appropriate to the size and nature of COGS grants, which are not usually large.¹⁰

4.7 Our review of reports from advisors to committees (about applications to the Lottery Grants scheme) showed that grants conditions were relevant to the purposes of the Fund and the eligibility criteria. Payment schedules reflected the purpose of the grant. For longer-term construction or research projects, payments were made when milestones were reached, subject to the recipient supplying satisfactory progress reports.

¹⁰ Grant values range from a few hundred dollars to around \$10,000, with an average value of \$3,350.

Monitoring of the Department's performance is a good start

4.8 The Department has four performance measures in its Statement of Service Performance for the Lottery Grants scheme and COGS.¹¹ These rely on satisfaction surveys of committee members and grant applicants, and statistical information on the timeliness with which applications are processed and grant payments made. Figure 3 shows the measures and performance against them. In our view, the measures are sensible.

Figure 3
Grant-related performance measures

Performance measures*	Performance standard 2009/10**	Performance standard 2010/11***	Actual performance 2009/10†	Actual performance after first quarter 2010/11††
Lottery Grants [scheme]				
Percentage of respondents to a survey of Lottery grant applicants who rate their satisfaction with the overall quality of service delivery at 3 or above on a scale of 1 to 5 is no less than:	90%	90%	98%	Not available at time of printing
Percentage of respondents to a survey of Lottery committee members who rate their satisfaction with the overall quality of service delivery to the committee at 4 or above on a scale of 1 to 5 is no less than: [Note: In 2009/10, the measure was "3 or above".]	90%	90%	100%	Not available at time of printing
Percentage of complete and eligible applications received before the advertised closing date that are presented to the next decision-making meeting is no less than:	95%	98%	100%	100%
Percentage of payments made to grant recipients within 20 working days of the Department's receipt of committee approval is no less than:	95%	95%	97.4%	99%

11 New Zealand Treasury (2010), *Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011*, Wellington, pages 51-52.

Performance measures*	Performance standard 2009/10**	Performance standard 2010/11***	Actual performance 2009/10†	Actual performance after first quarter 2010/11††
Community Organisation Grants Scheme				
Percentage of respondents to a survey of Community Organisation Grants Scheme grant applicants who rate their satisfaction with the overall quality of services delivery at 3 or above on a scale of 1 to 5 is no less than:	90%	90%	98%	Not available at time of printing
Percentage of respondents to a survey of [Community Organisation Grants Scheme] committee members who rate their satisfaction with the quality of service delivery to the committee at 4 or above on a scale of 1 to 5 is no less than: [Note: In 2009/10, the measure was “3 or above”.]	90%	90%	100%	Not available at time of printing
Percentage of complete and eligible applications received before the advertised closing date that are presented to the next decision-making meeting is no less than:	95%	98%	100%	100%
Percentage of payments made to grant recipients within 20 working days of the Department’s receipt of committee approval and correctly completed client documentation is no less than:	95%	95%	99.9%	Not available at time of printing

* Source: New Zealand Treasury (2010), “Māori, Other Populations and Cultural Sector” in *Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011*, pages 51-52.

** Source: New Zealand Treasury (2009), “Māori, Other Populations and Cultural Sector” in *Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2010*, pages 52-54.

*** Source: New Zealand Treasury (2010), “Māori, Other Populations and Cultural Sector”, *Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011*, pages 51-52.

† Source: Department of Internal Affairs, *Annual Report 2010-11*.

†† Source: Department of Internal Affairs, communication to the Office of the Auditor-General.

- 4.9 In our view, the Department has followed a sensible process to prepare these measures and to set targets for them informed by its previous performance.
- 4.10 The feedback we received from committee members confirmed strong satisfaction with the Department's role as administrator for both schemes, consistent with the Department's reported performance.
- 4.11 The Department monitors team activity at a national level through regular monthly reports. It monitors grant application processing on a weekly basis during funding rounds using Grants Online submission data, and reports are sent back to the regions. Team leaders monitor staff activity through weekly meetings, because capacity is limited in Grants Online for tracking staff activity or for recording completion checks of quality control processes. Some staff activity (mainly community development work) can be tracked through the Department's Community and Advisory Services intranet portal. Managers we spoke with felt they had a fair estimation of workload, and were mostly able to allocate resources accordingly.
- 4.12 There was effective oversight of the tasks and timelines for the administration of funding rounds. However, staff in regional offices came under pressure at times, particularly when COGS applications were due and when COGS funding was allocated. Allocating COGS funding coincided with the arrival of applications for the Lottery Grants scheme. In some instances, this meant that applications were not processed until well after they were submitted because staff were busy with the previous funding round.

Monitoring of grant outcomes is beginning

- 4.13 The Lottery Grants Board is not required to include a Statement of Service Performance in its annual report, and has not identified specific performance targets. However, the Lottery Grants Board and the Department are in the first stages of implementing a new outcomes framework to allow the Lottery Grants Board to measure and report on the success and impact of its grants and the difference the Lottery Grants scheme is making to the community.
- 4.14 We expect the Department to ensure that Lottery Grants scheme committees comply with the framework and report regularly on outcomes to the Lottery Grants Board.

- 4.15 The Department's annual report does not report on community outcomes from COGS grants. However, the Department's statement of intent for 2010-13 does include a new performance measure:

Percentage of grant recipients receiving over \$10,000 who have achieved the funding objective in their accountability report.¹²

- 4.16 We acknowledge that the Department has included a more outcome-focused performance measure to assess the effectiveness of grant funding in building strong, sustainable communities, hapū, and iwi. However, we note that this measure does not cover most COGS grants because they are under \$10,000 in value.
- 4.17 We encourage the Department to consider how to include smaller-value grants in its assessment of, and reporting on the achievement of funding objectives by grant recipients.

Arrangements for holding grant recipients to account could be improved

- 4.18 We are satisfied that the Department's accountability requirements are adequate and appropriate for the different Lottery Grants scheme Funds, except for certain grants made through the Lottery Outdoor Safety Committee. The nature of the regular, large (more than several hundred thousand dollars a year) annual grants to five national water and outdoor safety organisations closely resembles a contract arrangement, because the expectation is that these organisations will receive annual funding, and they rely on this funding. Payment is made in three stages, but accountability reporting is not required until the third payment.
- 4.19 In our view, the accountability level is too low for these large annual grants. If one of the organisations were to encounter problems and not deliver the expected services, the Department risks losing a large amount of money before identifying such problems. The Department needs to ensure that these grant recipients meet performance measures and receive payments only after providing appropriate progress reports.

Recommendation 3

We recommend that the Department of Internal Affairs revise its agreement with the Lottery Outdoor Safety Committee to ensure that accountability requirements for recipients of large grants are adequate and appropriate for the size and nature of those grants.

¹² Department of Internal Affairs (2010), *Statement of Intent 2010-13*, Wellington, page 18.

Monitoring and management of workload could be improved

- 4.20 In our view, the Department's pragmatic response to varying workloads and deadlines generally works well, and is benefited by the generic skills and work variety of advisory staff. However, better allocation of workload, and therefore smoother workflow, could be achieved by more accurately monitoring and managing those workloads. Also, the Department could consider other ways to improve workflow. For example, in regional offices, staff could process applications as applications arrive instead of waiting until all are received.
- 4.21 We note that the Department has work under way to obtain more accurate workload information. We encourage the Department to continue with this.

Part 5

Reviewing and evaluating grant administration

5.1 In this Part, we discuss those aspects of reviewing and evaluating that the Department has done well. It has:

- completed a comprehensive Business Transformation Project; and
- carried out an evaluation of COGS.

Summary of our findings

5.2 The Department has performed or commissioned many reviews of its grant administration processes and systems. They include its Business Transformation Project and an evaluation of COGS. The interdependence of the various improvement initiatives has been recognised, and the work has been well aligned and logically planned.

Business Transformation Project

5.3 The Business Transformation Project includes:

- a project to phase in an outcomes framework for the Lottery Grants scheme;
- Project Pai Ake (to find a grant administration database and business system to replace Grants Online); and
- the Business Process Review and contingent projects, including:
 - work on value for money;
 - website access for applicants;
 - risk assessment; and
 - a review of forms and documentation.

Outcomes framework for the Lottery Grants scheme

5.4 The Department has been phasing in the Lottery Grants Board’s outcomes framework, with Lottery committees adopting “outcomes-focused decision-making” in line with implementing the new grant management system (see paragraph 5.9).¹³ This requires the committees to base their funding decisions on changes or improvements applicants seek to make that are most likely to benefit the community.

5.5 The Department has noted the need to provide support and training to help applicants to articulate outcomes clearly, in measurable terms that will enable the Department to analyse and evaluate outcomes data in due course.

¹³ Beginning with the Lottery National Community Committee, most Lottery committees will be aligned with the framework. Exceptions are Lottery Individuals with Disabilities (to be partly aligned), Lottery Pacific Provider Development Fund (disestablished in 2010), the Significant Projects Fund (not holding a funding round in 2010 or 2011), and the Minister’s Discretionary Fund (which is not bound by Lottery Grants Board policy).

- 5.6 We are pleased that the Department is implementing a framework to drive decision-making to achieve specific outcomes, and to measure the benefits of its funding. It is important for the Department and the Lottery Grants Board to track the effectiveness of its funding, for accountability purposes and to target funding wisely in the future. We encourage the Department to consider implementing a similar framework for COGS.

Project Pai Ake – establishing the new grant administration system

- 5.7 Project Pai Ake is a business initiative to develop and implement the capability to support the Department's grant administration process and management business (as outlined in the Business Process Manual), and community advisory and development activity.
- 5.8 The associated business case noted that replacing the Department's current electronic grant administration systems, including Grants Online, was needed to avoid continued inefficiency and high costs (because of the inflexibility of the system and its inability to comply with legal and best practice requirements). The benefits of replacing the system include reducing administration costs over time, promoting best practice in the processes used, and compliance with the appropriate financial, audit, and internal control standards.
- 5.9 The business case for Project Pai Ake was approved in February 2010. It called for \$1.5 million of capital expenditure and \$283,000 of operating expenditure, for a commercial product that could be tailored to the Department's needs.¹⁴ The Department selected a preferred vendor in July 2010, and expects to complete contract negotiations by the end of 2010. The Department's original aim of full implementation by April 2011 will be confirmed or otherwise when these negotiations are completed.
- 5.10 If the new grant administration system is effectively implemented, it should result in the availability of much better and more readily available information about who has previously received grants, for what purpose, and what the result (or outcome) of those grants has been.
- 5.11 Appendix 4 sets out more detailed information about the proposed functionality of the Department's new grant administration system.

The Business Process Review

- 5.12 The Department conducted a comprehensive review of its business processes from 2007 to 2009. The first part of the process was a Better Funding Practice project, which established the Business Process Manual. It also provided the framework for reviewing all of the steps in the grant administration process, and

¹⁴ Department of Internal Affairs (2010), *Statement of Intent 2010-13*, Wellington, page 3.

aligning that process with operational policy. The work also informed the design of the new business system, to ensure that it would include the capability and functions to support the Business Process Manual.

5.13 The Department has continued to work on improving the grant administration process, and on related projects, to be incorporated into the new business system. These include the risk assessment tool (see paragraph 3.41) and a “forms and applications project”. The “forms and applications project” aims to review, analyse, and standardise all forms and documentation for grant recipients, enable information to be retrieved for monitoring, reporting, and analysis, and ensure that the forms and documents are easy to use.

5.14 In our view, the proposed forms are clear, provide good guidance to applicants, and are well designed to capture data useful for reporting. However, we encourage the Department to test thoroughly how understandable the forms are to smaller community groups, particularly immigrant groups who may struggle with English that is not as plainly written as it could be.

Evaluation of COGS is under way

5.15 An “impact evaluation” of COGS was completed in June 2010. The objectives of the evaluation included assessing the effectiveness of changes from a review in 2003/04 and evaluating how well COGS is achieving the desired outcomes in the community. The Department expects that the results of the evaluation will be made public in December 2010, after consultation with the National COGS Committee. We were told that the Minister for the Community and Voluntary Sector will present a report of the findings to Cabinet.

5.16 Results of the surveys of Local Distribution Committee members and of staff conducted as part of the evaluation reflected some of the matters we noted during our audit.

Appendix 1

The two grant schemes

The Community Organisation Grants Scheme

A brochure produced by the Department of Internal Affairs describes the Community Organisation Grants Scheme:

The Community Organisation Grants Scheme (COGS) is government-funded and community-driven – an example of the community and government working together to build strong communities with effective social services.

Thirty-seven Local Distribution Committees (LDC), served by volunteers, make decisions on grant applications from organisations within their communities.

COGS funds services or projects that:

- are initiated by community organisations
- respond to locally identified priorities established through community consultation at COGS public meetings held in April each year
- will benefit one or more of the COGS priority sectors (i.e. Māori, women, Pacific and other ethnic communities, older people, the rurally isolated, people with disabilities, families, youth and children, and unemployed people)
- have limited access to other government funding.

COGS makes a contribution to

- the running costs of community organisations that provide community based social services or projects, for example personnel, operating or programme costs
- services or projects that encourage participation in the community, promote community leadership, and promote social, economic and cultural equity.

The Lottery Grants scheme

The Department of Internal Affairs' website describes the Lottery Grants scheme:

The New Zealand Lottery Grants Board was set up by Parliament to distribute the proceeds of state lotteries to the New Zealand community. It does this through Lottery Grants and direct payments to three statutory bodies [Creative New Zealand, the New Zealand Film Commission, and Sport and Recreation New Zealand (SPARC)].

Lottery Grants are available for different types of projects and services. Each stream of funding is managed by a separate committee made up of individuals from the community with specialist skills and knowledge ...

Lottery Committees

[Each of the following Funds has a committee that is responsible for deciding which applicants will receive a grant.]

Lottery Community [Fund]

There is one Lottery National Community Committee and 11 Lottery Regional Community Committees. These make grants for projects that enable or encourage community self-reliance, capacity building and stability, opportunities for social, civil or cultural participation and reducing or removing barriers to such participation.

Lottery Community priorities include projects that have a community or social service focus, such as developmental or preventative projects, welfare and support services, and projects that help improve the well-being of people in the community.

Other national committees ...

Lottery Community Facilities Fund

Makes grants to not-for-profit organisations for building projects to construct or improve community facilities. Funding is provided for community facilities that support participation in community activities and social interaction.

Lottery Community Sector Research Fund

Provides grants to enable community organisations to carry out research or evaluation projects that foster the development and application of knowledge in and for New Zealand communities.

Lottery Environment and Heritage [Fund]

Provides grants for projects that promote, protect and conserve New Zealand's natural, physical and cultural heritage.

Lottery Individuals with Disabilities [Fund]

Makes grants to people with mobility and communications-related disabilities for the purchase and adaptation of vehicles, scooters and other mobility and communication equipment.

Lottery Marae Heritage and Facilities [Fund]

Funds capital works costs for the conservation, restoration and development of marae facilities, particularly wharenui, wharekai and wharepaku facilities.

Lottery Health Research [Fund]

Funds research that promotes the health of New Zealanders.

Lottery Outdoor Safety [Fund]

Funds water safety and outdoor safety projects.

Lottery Significant Projects Fund [At present, this Fund is not operational]

Provides grants large enough to enable the completion of community projects with a total value of at least \$1 million.

Appendix 2

Our principles and expectations for administering grants

Our 2008 good practice guide, *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*, sets out the principles that we expect public entities to apply when spending public money.

Those principles are:

- **Accountability** – Public entities should be accountable for their performance and be able to give complete and accurate accounts of how they have used public funds, including funds passed on to others for particular purposes. They should also have suitable governance and management arrangements to oversee funding arrangements.
- **Openness** – Public entities should be transparent in their administration of funds, both to support accountability and to promote clarity and shared understanding of respective roles and obligations between entities and any external parties entering into funding arrangements.
- **Value for money** – Public entities should use resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve. Where practical, this may involve considering the costs of alternative supply arrangements.
- **Lawfulness** – Public entities must act within the law, and meet their legal obligations.
- **Fairness** – Public entities have a general public law obligation to act fairly and reasonably. Public entities must be, and must be seen to be, impartial in their decision-making. Public entities may also at times need to consider the imbalance of power in some funding arrangements, and whether it is significant enough to require a different approach to the way they conduct the relationship.
- **Integrity** – Anyone who is managing public resources must do so with the utmost integrity. The standards applying to public servants and other public employees are clear, and public entities need to make clear when funding other organisations that they expect similar standards from them.

Page 34 of our 2008 good practice guide also set out our expectations for administering grants. Those expectations are set out in the table below.

	Conditional grant	Grant with limited conditions
Planning stage	<p>Process to check that purpose aligns with entity's business or functions.</p> <p>Organisational policy and business planning to develop systems and criteria for considering applications or requests.</p>	<p>Process to check that purpose aligns with entity's business or functions.</p> <p>Organisational policy and business planning to develop systems and criteria for considering applications or requests.</p>
Selection stage	<p>Systematic process for considering applications or requests against criteria.</p> <p>Specific assessment of the basis for the amount of the grant sought.</p> <p>Clear documentation of terms of the grant and what is being funded.</p> <p>Clear and appropriate conditions set to manage risk and ensure suitable accountability.</p>	<p>Systematic process for considering applications or requests against criteria.</p> <p>Specific assessment of the basis for the amount of the grant sought.</p> <p>Clear documentation of terms of the grant and what is being funded.</p> <p>Some clear and appropriate conditions set to manage risk and ensure suitable accountability.</p>
Monitoring stage	<p>Regular reporting or other checks (at an appropriate level) to assess progress and whether further funds should be released, to enable funder to assess success.</p> <p>Payment may be in advance of delivery/performance but could be in stages to manage risk.</p>	<p>Payment may be in advance of delivery/performance but could be in stages to manage risk.</p> <p>Possibly some ongoing reporting or monitoring arrangements, depending on risk, scale, and nature of the relationship, to enable funder to assess success.</p>
Review stage	<p>Full reporting of achievements against the purpose of the grant.</p>	<p>Some reporting of achievements against the purpose of the grant.</p>

Appendix 3

Department of Internal Affairs' funding principles for administering grants

The Department of Internal Affairs has set out principles for administering grants within its *Better Funding Practice Business Process Manual*. Those principles, and the Department's expectations of administrators and grant recipients, are reproduced in the table below.

Expectations of grant administrators	Principle	Expectations of grant recipients
act within the law, and meeting all obligations as a government department	Lawfulness	act within the law, and meet legal obligations as a grant recipient
be accountable to the Crown and the Department for their performance and be able to give full and accurate evidence of their activities	Accountability	have governance and management arrangements in place, be accountable for the performance of the funded project and be able to give evidence of the outcomes achieved
be transparent in their dealings with funding recipients, the Crown and the public	Openness	be transparent in their dealings with the Department
use resources effectively and economically to achieve value for money outcomes	Value for money	provide evidence of effective use of resources and sound financial practices
act fairly and reasonably with open and impartial policies and procedures	Fairness	act fairly and responsibly in their dealings with the Department
have policies and processes that ensure the highest standards of integrity in the use of public funds and as defined by the New Zealand Public Service Code of Conduct	Integrity	manage grant funds as public money with the highest degree of integrity and honesty

Appendix 4

Extract from the business case for Project Pai Ake

The table below shows the high-level requirements that the Department of Internal Affairs has identified as part of its business case for a new grant administration system. The Department expects the new system to be implemented by April 2011.

Limitations and inflexibility of the existing tool (Grants Online)	
Affects	<ul style="list-style-type: none"> Administration and management of grants Ability to manage information about the history of, and relationships between organisations and individuals applying for grants Ability of [the Department] to see current and historic[al] activities undertaken by all [Local Government and Community] staff in relation to a particular individual/organisation Ability of [the Department] to create new funding schemes or make modifications to existing schemes Integrity of data Quality of report on [Local Government and Community] activities
The impact of which is	<ul style="list-style-type: none"> Non-compliance with legislation or best practice in areas such as taxation, accounting and internal control standards Inability to implement new requirement related to the Outcomes Framework and Better Funding Practice Increased risk of double dipping and other undesirable behaviour by organisations or individuals applying for grants It is difficult to see patterns of grant distribution over time It is difficult, slow and expensive to add new funding schemes or make changes to existing ones Ability to respond to Official Information/Ministerials Lack of data to support evidence-based decision making
A successful solution would	<ul style="list-style-type: none"> Improve support for staff to deliver better services to clients Support the implementation of the Outcomes Framework and outcomes based reporting Support the implementation of new grants administration processes to ensure alignment with best practice Reduce cost of ownership as a result of reduced reliance on an external vendor to undertake basic administration and configuration tasks Enable consolidation of grants management activities into a single system allowing other systems to be decommissioned thereby reducing cost Reduce operational cost by automating manual processes Lower costs to both the business and clients by making better use of technology to reduce the need for hard-copy documentation to be printed, transported and stored

Limitations and inflexibility of the existing tool (Grants Online)	
	<p>Ensure compliance with appropriate financial, audit and internal control standards and reduce risks</p> <p>Facilitate planning and targeting of grants funding as a result of more accurate and timely management reporting</p> <p>Ensure accurate and timely responses to Ministerials and Parliamentary Questions</p> <p>Provide better quality advice and policy guidance to Ministers and other interested groups</p> <p>Enhance the ability to link grants funding activities with other initiatives undertaken within [Local Government and Community] such as the delivery of community advisory services and community development projects</p> <p>Enable the ability to adapt to future changes in the funding model(s) that need to be supported by [the Department]</p> <p>Enable [the Department's] staff to add and configure the business rules and processes for new and existing funding schemes</p> <p>Enable evidence based decision-making.</p>

Source: Department of Internal Affairs, information supporting the business case for Project Pai Ake.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968
- Annual Report 2009/10
- Effectiveness of the Get Checked diabetes programme
- Spending on supplies and services by district health boards: Learning from examples
- New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network
- District health boards: Availability and accessibility of after-hours services
- Matters arising from the 2009-19 long-term council community plans
- Inquiry into the Plumbers, Gasfitters, and Drainlayers Board
- Inland Revenue Department: Managing child support debt
- Inquiry into New Zealand Defence Force payments to officers seconded to the United Nations
- The Civil Aviation Authority's progress with improving certification and surveillance
- Annual Plan 2010/11
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report
- Local government: Examples of better practice in setting local authorities' performance measures
- Local government: Results of the 2008/09 audits
- Statement of Intent 2010–13
- Performance audits from 2008: Follow-up report
- Effectiveness of arrangements for co-ordinating civilian maritime patrols

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