

Making good use of resources

By Colleen Pilgrim

Colleen Pilgrim is Sector Manager at the Office of the Auditor-General.

Earlier this year the Auditor-General published a good-practice guide to enhance public entities' management of funding arrangements with non-government organisations (NGOs).¹

The guide underpins an integrated approach to the audit of public entities' management of funding to NGOs. The audit approach integrates good practice guidance, the annual audit and a rolling programme of performance audits.

What is the Auditor-General's interest?

The roles and responsibilities of public entities have changed, especially in the past 20 years. Public sector reform has led to a broadening of the base of service delivery, both in New Zealand and overseas. NGOs are now frequently involved in delivering public services, influencing policy design and implementation, or performing a facilitative role to ensure that government objectives are met.² Activities that were once carried out by public entities are increasingly carried out by NGOs for public entities.

When a public entity funds another organisation to deliver services on its behalf:

- it still has responsibilities and obligations for the public funds
- it still needs to ensure that:
 - the NGO puts the public funds it receives to good use
 - the management of the funding and of the relationship with the NGO is effective
- the public still expects that public resources, including those funds derived from taxes and rates, will return value for money – that is, that they will be managed lawfully, competently, and to good (public benefit) effect
- the public also expects that public resources will be managed with integrity.

The Auditor-General is not the auditor of NGOs that may receive grants or funds from public entities. However, the Auditor-General has an interest (as the auditor of public entities) in ensuring that public entities make good use of their resources. The Auditor-General is able to report to Parliament on how well public entities ensure that public funds devolved to NGOs are used lawfully, effectively, efficiently, and with integrity.

Integrated audit approach

Since 2000, when a range of issues were raised relating to the management of public funding to NGOs,³ we have been extensively involved in issues relating to contract and other funding arrangements between the Government and NGOs.

We have previously published good-practice guidelines for procurement of goods or services by a public entity,⁴ and have reported on several occasions our concerns about the management of contracts and other funding arrangements with NGOs. In 2003, for example, we reported on an inquiry into the management of funding arrangements with several NGOs connected with a member of Parliament.⁵

In our reports we outlined some of our expectations of how public entities contracting with NGOs, or providing funding to them, should ensure proper accountability, transparency and the best use of public money. In particular, we identified several risk areas, including:

- scrutiny of the governance and management capability of the potential provider
- monitoring of the arrangements with the provider
- review of whether the arrangements have the desired impact.

Based on our annual audit and inquiry work, we continued to have concerns about how well risks in this area were managed by public entities. We decided to adopt an audit approach that integrated several elements:

- a signal to public entities, not only in the course of the annual attest audit, but also in our inquiry reports⁶ and in presentations at various seminars and workshops;⁷ the risks and our concerns
- communicating our audit expectations through the development and promulgation of a good-practice guide
- specific research and development activity on our audit methodology and requirements in order to give wider assurance to public entities through the annual audit
- carrying out a rolling programme of performance audits of public entities which face high risks in this area.

A signal to public entities

Contracting with NGOs has been an area of audit emphasis in annual audits over the past three years. Any audit concerns are reported to the public entity in the management letter, and, where appropriate, to the minister and the relevant select committee as part of the financial review.

We have also presented, and continue to present, selectively at national seminars and conferences on our inquiry findings and reports, and on our expectations about management of funding arrangements with NGOs. ▶

A good- practice guide

We published a good-practice guide in June 2006 on our audit expectations of NGO contracting and funding arrangements. Our good-practice guide sets out the principles that we expect public entities to consider and comply with to manage funding arrangements with NGOs. It is directed at public entities in both the central and local government sectors. It is aimed primarily at arrangements with NGOs, but the principles are intended to be applied to all funding arrangements entered into by public entities.

The Auditor-General expects public entities to show that they have entered into and managed funding arrangements with NGOs according to the following principles.

- **Lawfulness:** have activities, resourcing and accountability requirements been undertaken within the authority granted by Parliament?
- **Accountability:** have public entities given full and accurate accounts of their activities? Are governance and management arrangements suitable for addressing any concerns?
- **Openness (transparency):** is the nature of the funding arrangement, and the way in which it was entered into, clear to all parties?
- **Value for money:** are resources used effectively and efficiently, without waste, and in a way that optimises the public benefit?
- **Fairness and integrity:** are the public entities and NGOs that are involved in funding arrangements together meeting Parliament's and the public's expectations of an appropriate standard of behaviour in the public sector?

The Auditor-General also expects public entities to take a risk-based approach to how they fund NGOs. No matter what type of funding arrangement is used, it is critical that a public entity identifies and considers the risks, and that it plans, negotiates, manages and monitors the funding arrangement in such a way that the public entity can be held to account for its effective and efficient use of those public funds.

We have advocated a risk-management approach in which:

- critical risks in the funding arrangements are identified
- policies and standard procedures are designed to mitigate risks that are systemic and common to this type of funding arrangement
- risk mitigation is done in ways that are most cost-effective for the funding entity, and most efficient in terms of transaction and compliance costs for the NGO.

Our good-practice guide uses four scenarios to illustrate how the principles might be taken into account in various funding arrangements, and the risks and the tensions between the principles managed.

The Auditor-General expects that public entities will be able to demonstrate clearly the rationale for their decisions and actions. This means that public entities need to record what they do and the reasons why. In an age of ever-increasing public

and political accountability, this requirement has never been more important.

The Auditor-General is promulgating the principles and the risk-based approach of the good-practice guide in the annual audit and in the national seminars and conferences that we engage in.

Extending our methodology and requirements

Research and development work in the coming year will establish the specific work we could usefully carry out in future annual audits to give wider assurance on the management of NGO funding arrangements. This work will link closely to our good-practice expectations.

Rolling programme of audits

We have in place a rolling programme of performance audits examining grant programmes in public entities where the risks are highest. These are reported on our website when completed.⁸

We will extend this to a rolling programme of performance audits examining management of funding arrangements with NGOs by public entities. We will identify those entities where risks are highest in this respect, and use our good practice expectations as audit criteria.

The principles- and risk-based approach that we have advocated underpins both the further work that we are undertaking on annual audit methodology and the performance audits of public entities' management of funding arrangements with NGOs.

Footnotes

- 1 *Principles to underpin management by public entities of funding to non-government organisations*, <http://www.oag.govt.nz/2006/funding-ngos/part1.htm>.
- 2 Robert Buchanan and Colleen Pilgrim, *Transparency and Accountability in Government Decision-Making: Devolved Service Delivery*, May 2004. Paper prepared for the Conferenz 6th Annual Public Law Forum – see our website: <http://www.oag.govt.nz>.
- 3 *Central Government: Results of the 1999-2000 Audits*, parliamentary paper B.29[00c], pages 52-55.
- 4 *Procurement: A statement of good practice*, 2001.
- 5 *Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP*, ISBN 0-478-18111-6, November 2003.
- 6 These are reported on our website: <http://www.oag.govt.nz/reports/default.htm>.
- 7 These are reported on our website: <http://www.oag.govt.nz/speeches-papers/speeches.htm>.
- 8 *New Zealand Trade and Enterprise: Administration of grant programmes*, ISBN 0-478-18124-8, December 2004; *New Zealand Trade and Enterprise: Administration of the Visiting Investor Programme*, ISBN 0-478-18125-6, December 2004; *Foundation for Research, Science and Technology: Administration of grant programmes*, ISBN 0-478-18156-6, May 2006. ■