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Funding arrangements with NGOs: How to put basic principles into practice

Presentation to the Health and Disability NGO Working Group
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The Auditor-General's interest in funding arrangements and procurement



Why is the Auditor-General interested?

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- Large sums of public money involved
- Reviewing procurement and funding systems is part of our core audit work
- Statutory mandate to look at effectiveness, efficiency, waste, probity and financial prudence, use of resources
- People regularly ask us to inquire into funding activities



What has our recent work shown?

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- Annual audit work on procurement (06/07)
 - Most entities have procurement policies, which reflect core principles
 - But more than half need some improvement
 - Procurement practice is variable
- Inquiry work shows regular problems, eg with conflicts of interest
- Performance audits show variable quality of systems and practice for managing funding, communication difficulties, difficulty tailoring to the circumstances
- Other assurance work encounters regular problems
- Recent high profile examples of problems and concern



What are we doing?

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- New and updated good practice guides
- An expanding programme of work in annual audits
- Specific audit work in the health/DHB sector, and support for the Ministry of Health's work on additional guidance
- An ongoing programme of performance audits (including of DHBs)



The new good practice guides

- Public sector purchases, grants and gifts: Managing funding arrangements with external parties (June 2008)
- Procurement guidance for public entities (June 2008)



Other relevant OAG guides

- Managing conflicts of interest: Guidance for public entities (June 2007)
- Controlling sensitive expenditure: Guidelines for public entities (February 2007)
- Principles to underpin management by public entities of funding to non-government organisations (June 2006)
- Achieving public sector outcomes with private sector partner (February 2006)



The overarching framework for thinking about funding arrangements



What do we expect of public entities?

- Think about the most effective way to use public funds to achieve your goals
- Have strategies, policies, and procedures for the types of funding arrangements that are important for your organisation
- Tailor policies and procedures to your context and the rules affecting you
- Have regard to basic public sector principles as you develop policies and procedures, and take individual decisions



Six basic principles

- Accountability
- Openness
- Value for money
- Lawfulness
- Fairness
- Integrity

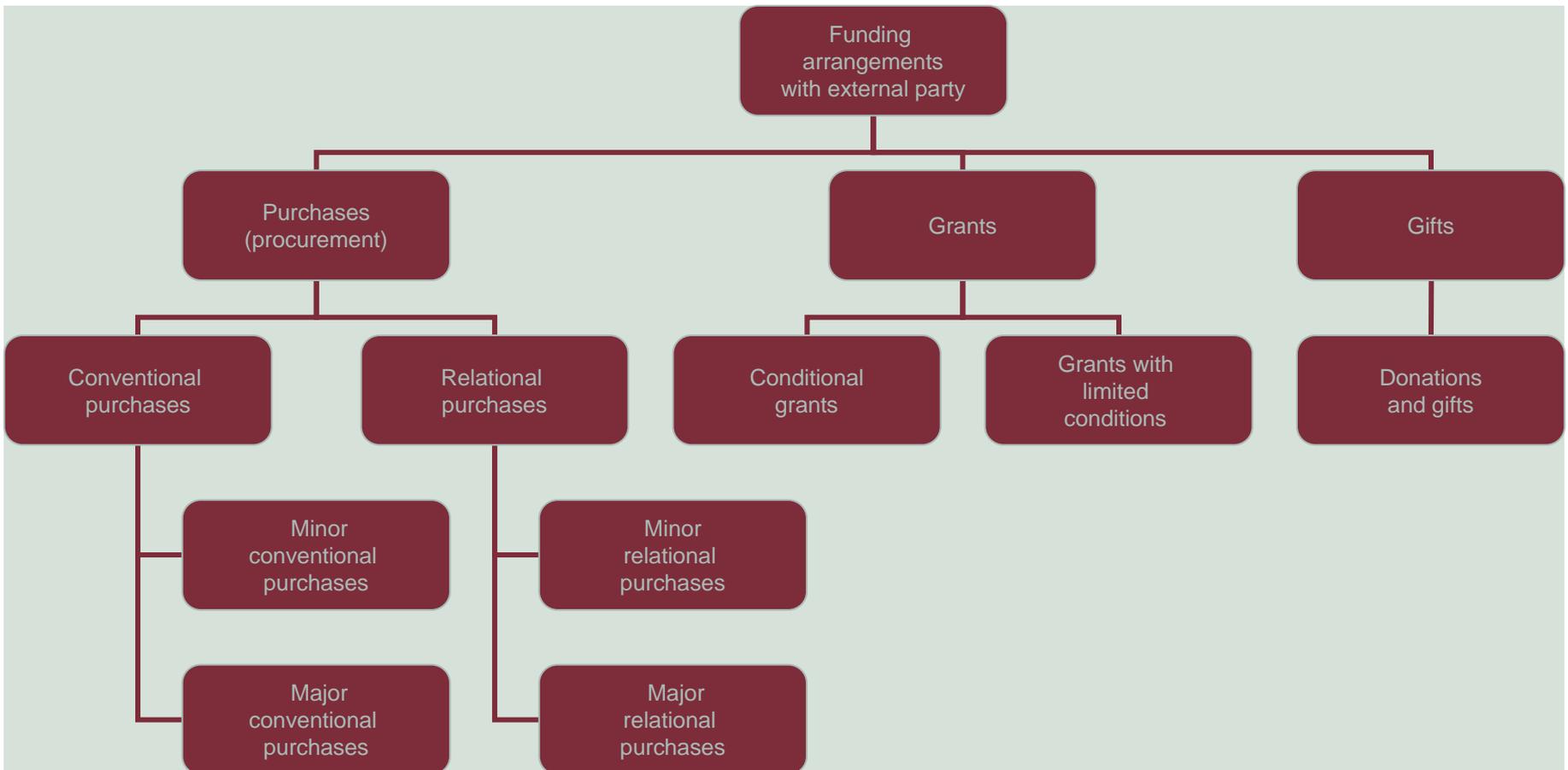


Two basic questions

- Can you demonstrate that public money is being well spent?
- Can you demonstrate that the process for spending it is properly managed?



Types of funding arrangements (1)





Types of funding arrangements (2)

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- Conventional purchases (major and minor)
- Relational purchases (major and minor)
- Conditional grants
- Grants with limited conditions
- Gifts





Choosing an approach and a type of funding arrangement

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- What is the goal?
(buying, investing, giving)
- What is the relationship context?
(sectoral or strategic context, type of organisation, length of relationship, presence of a market, end users)
- Think about risk
(control, performance and consequences, tolerance of risk, sustainability)
- Value



Some practical considerations

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- The goal – process should not dominate at the expense of the outcome
- Simplicity and proportionality – think about compliance costs and what is practical
- The context – does the organisation have a general or ongoing relationship with the external party? Does the government as a whole?
- Strike a conscious and sensible balance between risk and expected benefit
- Understand the differing nature and needs of the two parties



Some generic expectations (1)

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- Proposed funding should fit with the public purpose or goals of the entity
- Funding arrangements must be within the scope of the relevant appropriation
- Individual funding decisions must fit within the budget of the entity and the cost should be justified in some way
- Spending decisions must be in accordance with delegated authority



Some generic expectations (2)

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- Funding should be managed in keeping with relevant policies and procedures, unless there is a documented decision, at the right level, to do something differently
- People must act in keeping with the state sector code of conduct or other relevant ethical standards
- There should be systems in place to identify, manage and record conflicts of interest
- Record keeping systems should support effective decision-making, monitoring and management, and accountability



How we developed a matrix of practical expectations

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- The types of funding arrangements (top axis)
- The life cycle of funding arrangements (side axis)
 - Planning
 - Selection
 - Monitoring
 - Review

Apply the basic principles to produce the content



Examples of what it means in practice



Minor conventional purchase

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- Examples: office consumables, one-off professional or consultancy services
- Planning: planning, decisions and approvals follow normal office policies and procedures for minor/moderate spending
- Selection: Process may vary, but will involve periodic reference to the market; may be standard form contracts
- Monitoring: Periodic payments dependent on performance; normal office systems for processing invoices and receipts
- Review: periodic review of satisfaction with suppliers



Major conventional purchase

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- Examples: capital assets, major consultancy services, IT systems
- Planning: Formal planning and project management, legal advice, skilled staff
- Selection: Competitive selection process, formal, with procedural safeguards, full formal contract negotiation and documentation
- Monitoring: systematic oversight and comprehensive reporting; payments dependent on performance
- Review: Programmed and systematic review before contract expires



Minor relational purchase

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- Examples: policy advice or peer review services from an advocacy group; research; minor health services
- Planning: Decisions and approvals follow normal office policies and procedures; key person assigned to manage relationship
- Selection: May be limited process if no effective market or if urgent or specialised
- Monitoring: Payments dependent on performance
- Review: Periodic reviews to check arrangement still fit for purpose



Major relational purchase

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- Examples: Residential care services, major research programme
- Planning: Decisions and approvals at a level appropriate to the scale of the contract, skilled staff, early liaison with all relevant people, legal advice, risk assessment
- Selection: More likely to involve direct negotiation than competitive systems; non-market mechanisms for checking value for money, clear documentation of agreement
- Monitoring: systematic oversight, tailored reporting, periodic payments
- Review: Programmed or regular review to check arrangement is still fit for purpose



Grants

- **Examples:** Support for a development project, community organisation or activity; research grant
- **Planning:** Process to check that purpose fits with the entity's goals; systems and criteria for considering applications or request
- **Selection:** systematic process for evaluation against criteria; assessment of basis for requested amount, documentation of terms of the grant and what is being funded, conditions to manage risk and ensure suitable accountability
- **Monitoring:** regular reporting or other checks to assess progress and future release of funds
- **Review:** Reporting of achievements against the purpose



Gifts

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- Examples: koha, business gifts, marketing giveaways
- Planning: authorised in accordance with business policies
- Selection: no application process, voluntary
- Monitoring: no reporting
- Review: recording through normal office systems for minor expenditure





Conclusion

- Simple aims: assurance that money is well spent, and process is well managed
- Emphasis is on principle, and fitting it to the practical circumstances
- We expect entities to think, and have reasons for what they are doing
- Lots of detailed advice and guidance in the publications (all on www.oag.govt.nz)
- We will use this framework and the good practice guides as a starting point when auditing or inquiring