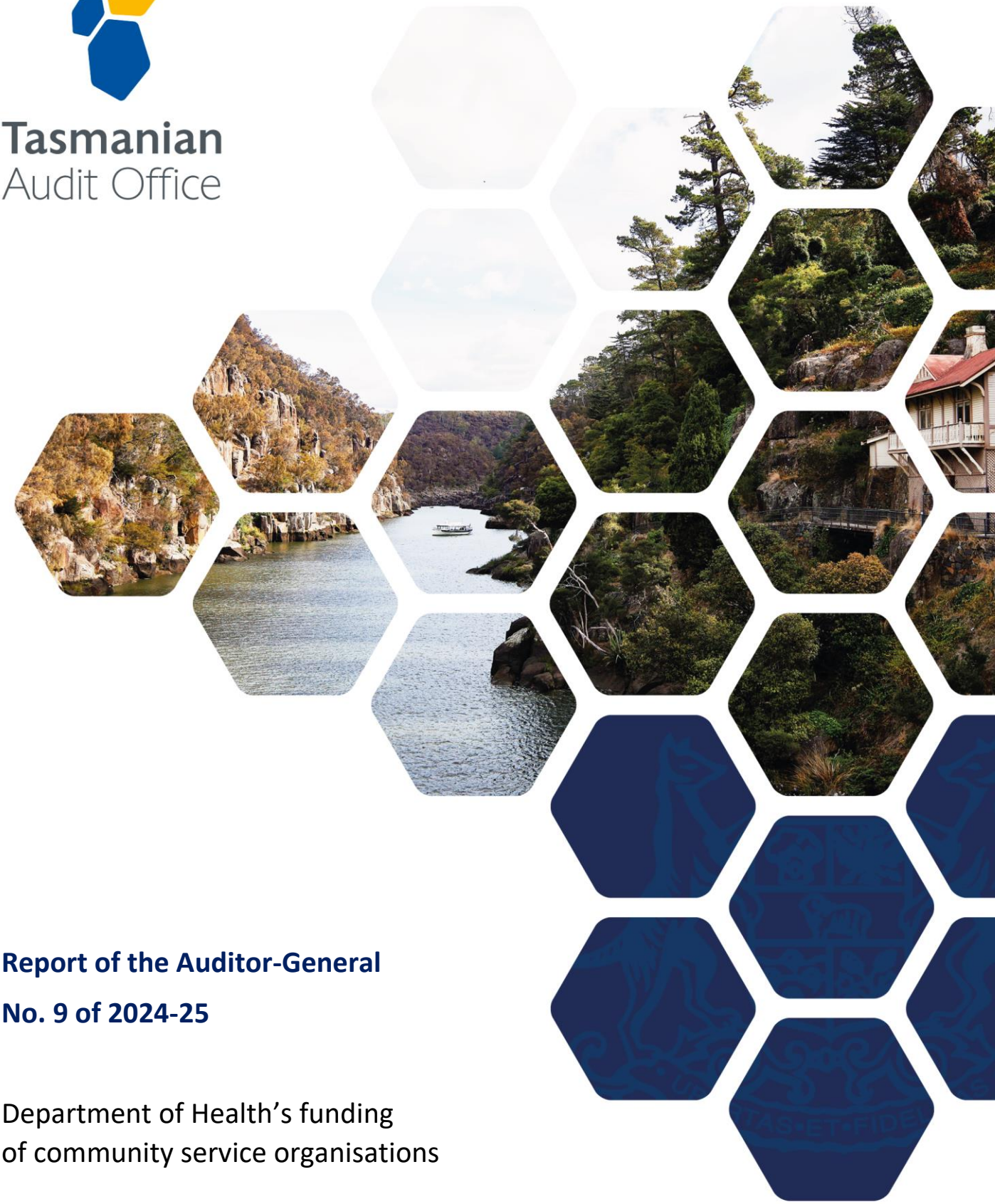
Tasmanian
Audit Office



Report of the Auditor-General

No. 9 of 2024-25

Department of Health's funding of community service organisations

26 May 2025

Page left blank intentionally

Foreword

'Key to achieving lasting positive change in any organisation, and certainly in government, is culture.' – Professor Peter Coaldrake

Community service organisations (CSOs) are critical to the Tasmanian health system. Agencies, including the Department of Health (Health), fund them through grants or procurements. Both options should be 'bread and butter' activities for government. While there are complexities in health service delivery, the management of grants and procurement is routine.

Despite this, Health's administration of funding to CSOs is fundamentally flawed. As detailed in this report, Health has known this for a long time (see Figures 7 and 10). Recommendations to fix CSO funding were made to either Health or the State Government in 2009, 2016, and 2021 (see Table 2). Health's failing approach to grants management and quality and safety was identified by management in 2019. Systemic issues with procurement and contract management were known since at least early 2024. Yet, these issues have not been fixed.

I recognise there are many dedicated and committed Health employees supporting CSO funding. However, the root cause of my findings is not particular team members, processes, systems, technology, or whole-of-government projects. It is about culture. Culture is key to lasting positive change in any government agency and influences how people recognise and engage with risk.[1] I observed that Health knew of the risks, but did not acknowledge them at the right levels, or manage them effectively.

The key recommendation of this report is for Health's executive team to identify and address whatever cultural issues prevent it from improving its administration. The other recommendation is for Health to implement existing recommendations from earlier reviews.

My intention in reporting these serious issues is to provide the basis for improvements in how community health services are commissioned for vulnerable Tasmanians. It is imperative that funding occurs within a robust system that ensures services are sustainable, safe and value-for-money.

I thank the relevant staff of Health, the Department of Premier and Cabinet, and the Department of Treasury and Finance for their involvement and cooperation in the audit.

Martin Thompson
Auditor-General

[1] Professor Peter Coaldrake (June 2022) Let the sunshine in: *review of culture and accountability in the Queensland public sector*, Professor Peter Coaldrake, p1, accessed 13 May 2025; New South Wales Audit Office (February 2024) *Effectiveness of SafeWork NSW in exercising its compliance functions*, New South Wales Audit Office, p56, accessed 14 April 2025.

Page left blank intentionally

2025 (No. 10)

2025
PARLIAMENT OF TASMANIA

Department of Health's funding of community service organisations

26 May 2025

Presented to both Houses of Parliament pursuant to
Section 30(1) of the *Audit Act 2008*

Acknowledgement of Country

In recognition of the deep history and culture of Tasmania, we acknowledge and pay respect to Tasmanian Aboriginal people, the past and present custodians of this island. We respect Tasmanian Aboriginal people, their culture and their rights as the first peoples of this land. We recognise and value Aboriginal histories, knowledge and lived experiences and commit to being culturally inclusive and respectful in our working relationships.

Auditor-General's reports and other reports published by the Office can be accessed via the Office's website. For further information please contact:

Tasmanian Audit Office

GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6173 0900
Email: admin@audit.tas.gov.au
Website: http://www.audit.tas.gov.au

ISBN: 978-1-7636906-4-6

Table of contents

Executive summary

What we concluded

We concluded that Health's management of funding arrangements with community service organisations was not effective. This is because they had not established effective frameworks, funding arrangements, or monitoring activities.

Our key findings

Ineffective funding frameworks

Health's frameworks for supporting CSO funding arrangements were not effective.

Key framework elements for procurement and contract management, grants management, and quality and safety were not functioning. Internal and external reviews communicated the risks associated with the ineffective frameworks to Health's senior management, but it has chosen not to act.[2] The lack of action to address known issues and the risks they created indicated cultural or structural issues at Health.

As a result, Health:

- had not achieved its objective of using a better practice approach to managing funding arrangements
- could not show it had met its legislative obligations relating to appropriate management and oversight of public funds.

There was also a lack of clarity in Health and at the whole-of-government level about when to use a procurement or grant process. Grants were used as the default funding method in Health, rather than being strategically selected as the right method.

Ineffective funding arrangements

Most funding arrangements with CSOs were grant agreements, and were the result of emergency funding, or budget and election commitments. For these, Health did not:

- always demonstrate that intended outcomes were linked to the government's priorities
- assess value-for-money
- assess and manage associated risks.

[2] Health advised in response to a draft of this report (after substantive auditing have been finalised) that it had now begun developing a new framework for procurement and contract management. It also advised it was investigating a procurement and contract IT system. These actions, while potentially beneficial, would not address all identified issues, and were not assessed for this audit.

Key staff advised they:

- were unsure how to inform the Tasmanian Government on value-for-money for pre-commitment funds
- did not consider it appropriate to undertake risk assessments, or that there was no appetite to assess risk, once a commitment had been made.

We also found the risk that CSO services did not meet minimum standards was high. This is because Health did not document accreditation requirements and relevant state, national or international standards in grant agreements.

Finally, program areas did not conduct post-implementation reviews of grant agreements to ensure the CSO's service delivery was satisfactory before they renewed them.

Together, these findings mean that:

- decisions to enter grant agreements did not comply with Treasury's and Health's procurement and grants frameworks
- grant agreements were in place without a plan on how to manage risk, leaving the Crown exposed to potential losses.

A government commitment does not negate the need to comply with Treasury and Health procurement and grants frameworks.

Ineffective monitoring and performance management

Health relied on CSO self-reporting through 6-monthly service delivery reports and annual grant financial acquittal reports. Self-reporting by CSOs did not provide sufficient oversight. Health did not conduct other required monitoring activities, such as risk-based site visits, mid-term reviews, independent audits, and post implementation reviews. The absence of sufficient monitoring led to reduced accountability and oversight, and unclear expectations for both Health and CSOs.

Risk was further increased by:

- the lack of a complaints management process for CSO-funded services and a reliable critical incident reporting framework
- inconsistent and sometimes poor relationship management.

Health was unable to demonstrate that it effectively identified and managed instances where CSOs failed to meet performance standards. This was because the gaps in performance monitoring limited Health's ability to detect underperformance.

Our recommendations

We made two recommendations to Health, which are noted in the table below. Health's full response to the recommendations and the report is at Appendix E.

Table 1: Recommendations and entity response

We recommend that…	Health's response
… the executive of Health identifies and addresses cultural and structural issues that have prevented it from responding to previous internal and external recommendations to improve its management of funding arrangements.	AGREED - Health will implement changes in the short term to improve timeliness and oversight of responses to audits and determine actions needed, where necessary, to address outstanding findings for relevant prior audits.
… Health develops and implements a strategic approach and framework for commissioning community service organisations, and associated controls to support its implementation.	AGREED – Health will develop and implement a new strategic DoH framework for commissioning of services with CSOs with associated controls. It is intended that full implementation will occur over a two-year period, with a range of actions occurring progressively to inform and support this approach.

Implementing the recommendations

Implementing the 2 recommendations would require a holistic review, redevelopment or reactivation of the existing internal frameworks, and implementation of earlier recommendations relevant to this audit (see Table 1 and Appendix A). These include but are not limited to:

- procurement internal audit recommendations (February 2024)
- contract management internal audit recommendations (February 2024)
- quality and safety internal audit recommendations (December 2023)
- the *Integrated Financial and Performance Framework Review* recommendations (2009)
- Health procurement and contract management frameworks
- Health grants framework
- Health quality and safety framework.

It would also require Health to:

- Continue its participation in the development of a whole-of-government outcomes-based purchasing framework in collaboration with the Department of Premier and Cabinet. This activity was recommended by the 2021 *Independent Review of the*

Tasmanian State Service[3] and the 2021 *Premier's Economic and Social Recovery Advisory Council*[4] review.

- Once developed, Health must embed the new framework into its processes with sufficient controls.
- Establish a process to track, assign responsibility for, and ensure accountability for the implementation of audit and other review recommendations.
- Allocate appropriate resources to manage both grants administration and quality and safety.

Submissions and comments received

In accordance with section 30(2) of the *Audit Act 2008* (Audit Act), a summary of findings or report extract was provided to the Minister and other persons who, in our opinion had a special interest in the Report, with a request for submissions or comments. Submissions and comments we receive are not subject to the audit nor the evidentiary standards required in reaching an audit or review conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response. However, views expressed by the responders were considered in reaching review conclusions. Section 30(3) of the Act requires this report include any submissions or comments made under section 30(2) or a fair summary of them. Submissions were received from the following:

- Premier – who thanked us for the opportunity to comment and noted the Departments had provided responses.
- Department of Health – who agreed with recommendations but rejected the report's characterisations regarding a lack of action taken over recent years.
- Department of Treasury and Finance – who had concerns about how this report described its role in oversighting compliance with financial management frameworks.
- Department of Premier and Cabinet – who provided no further comment, after having responded to an earlier draft.

These submissions are included at Appendix E.

[3] Department of Premier and Cabinet (July 2021) *Independent Review of the Tasmanian State Service Final Report*, DPAC, accessed 17 March 2025.

[4] Treasury (Department of Treasury and Finance) (March 2021) *Premier's Economic and Social Recovery Advisory Council Final Report*, Treasury, accessed 17 March 2025, p71.

1. Introduction

About CSO funding, grants, and subsidies

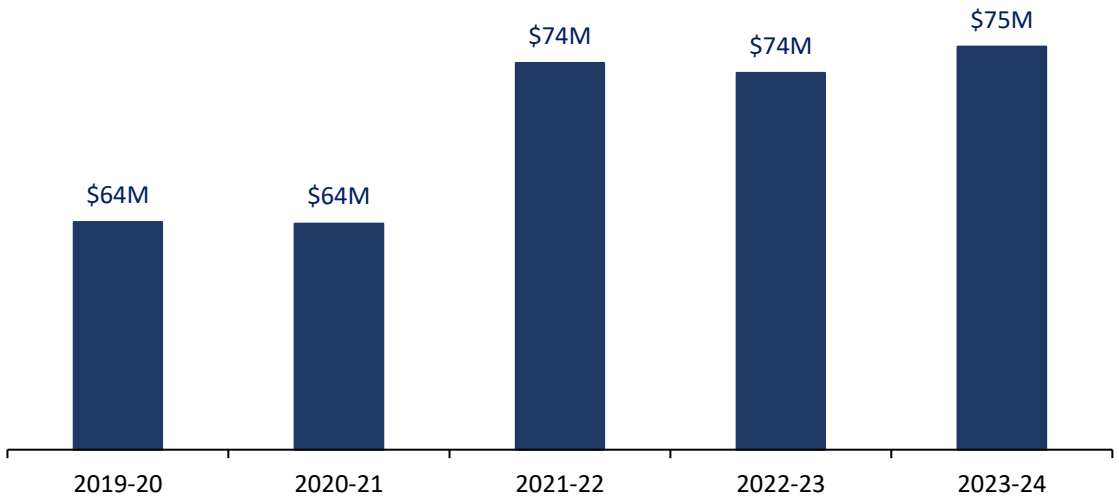
1.1 Health funds community service organisations (CSOs)[5] to provide services that improve Tasmanians' health and wellbeing. Some of these services relate to home and community care, alcohol tobacco and other drugs, and mental health.

1.2 Funding can be given to CSOs through a grant agreement or a contract following a procurement process. In this report:

- 'funding arrangement' is a generic term for either a grant agreement or contract
- 'grant agreement' refers to a formal grant agreement with an external party
- 'contract' refers to a contractual arrangement between Health and an external party following a procurement process
- variation from this is retained in direct quotes from other sources.

1.3 Most of Health's funding arrangements with CSOs were grant agreements. Figure 1 shows that these increased from $64 million in 2019-20 to $75 million in 2023-24. The 2023-24 grant funding was spread across approximately 115 CSOs.[6]

Figure 1: Grants provided to CSOs (millions), 2019-20 to 2023-24



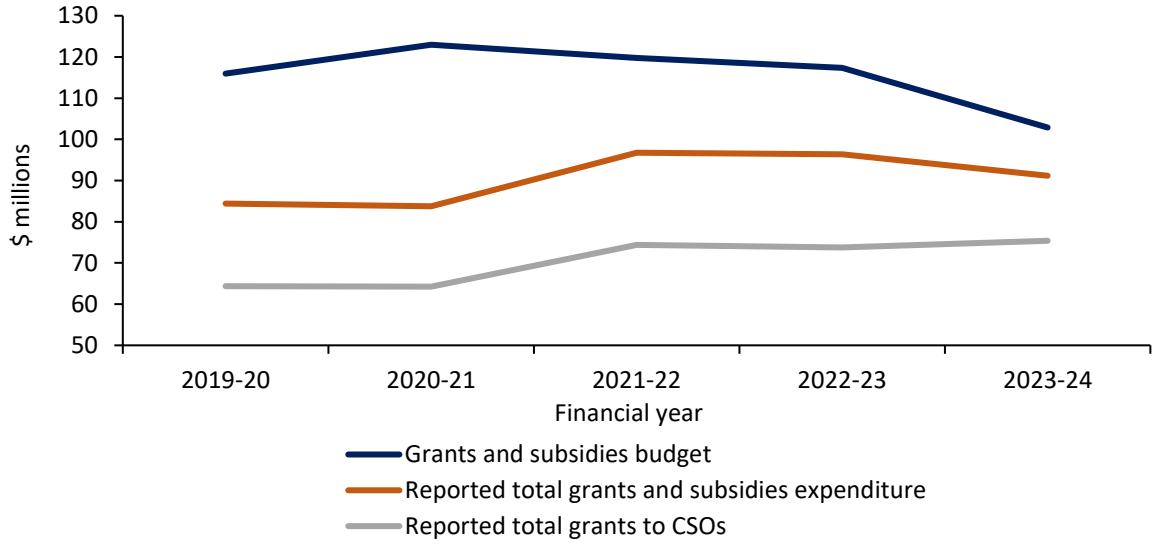
Source: Tasmanian Audit Office

[5] Community service organisations are not-for-profit entities established for a community service purpose. For a complete definition, see: Australian Taxation Office (31 May 2024) *Community Service Organisations*, accessed 26 June 2024.

[6] Department of Health (2024) *Annual Report 2023-24*, accessed 17 March 2025, p135.

1.4 Figure 2 shows that in the last 5 finanical years, most of Health's grants and subsidies went to CSOs. Actual expenditure on all grants and subsidies has been consistently below Health's budget.

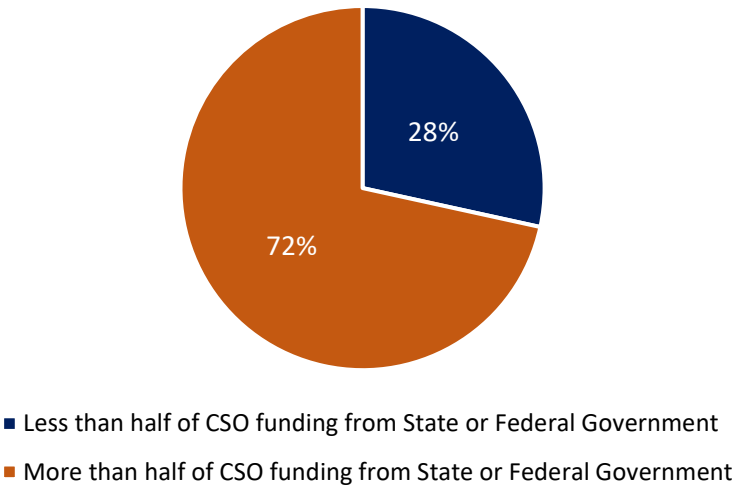
Figure 2: Comparison of Health's grants and subsidies budget, reported total grants expenditure, and reported grants to CSOs



Source: Tasmanian Audit Office, adapted from Health annual reporting.

1.5 Figure 3 shows that most CSOs funded by Health receive more than half their income from State and/or Federal Governments.[7] Their reliance on government funding means government must actively monitor how well CSOs manage risks associated with service delivery and maintaining service quality and quantity. Failure to manage these risks would result in service disruptions.

Figure 3: Tasmanian CSO reliance on State and Federal Government funding



Source: Tasmanian Audit Office

[7] Australian Charities and Not-for-Profits Commission (n.d) *Reports for Public*, accessed 17 March 2024.

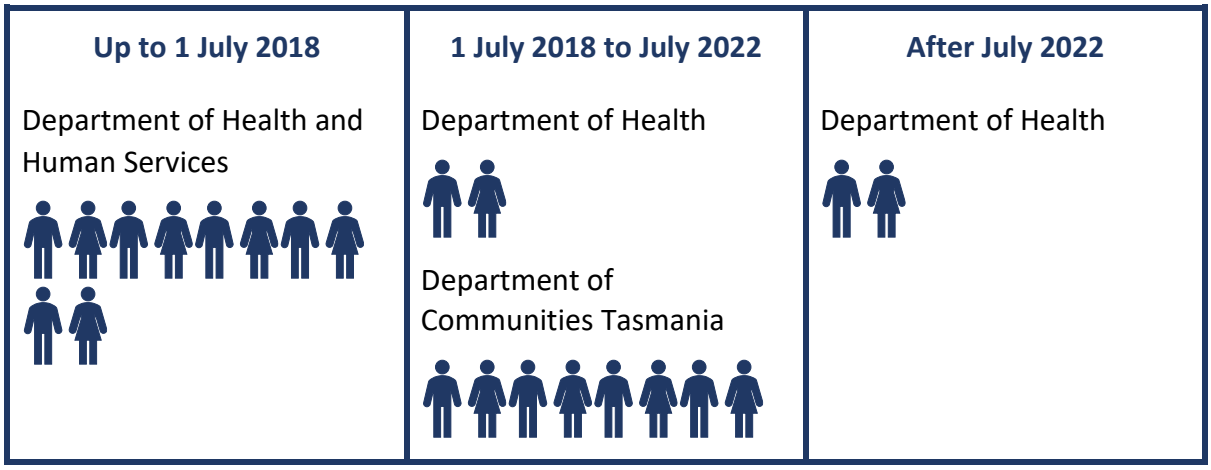
Machinery of government changes

1.6 Prior to 1 July 2018, there were 10 staff in the Department of Health and Human Services' Community Sector Relations Unit that:

- set the strategy for CSO grants
- managed CSO grants
- implemented the CSO quality and safety framework.

1.7 Figure 4 demonstrates what happened to the central grants team after 1 July 2018.

Figure 4: Staff allocated to Health's central grants administration team



Source: Tasmanian Audit Office

1.8 As Figure 4 highlights, in July 2022, when the Department of Communities Tasmania (Communities Tas) was abolished, the staff did not return to Health.

Health's funding teams

1.9 In Health, management of both grants and procurement was thus largely decentralised. Program areas across Health were responsible for key parts of funding administration, including:

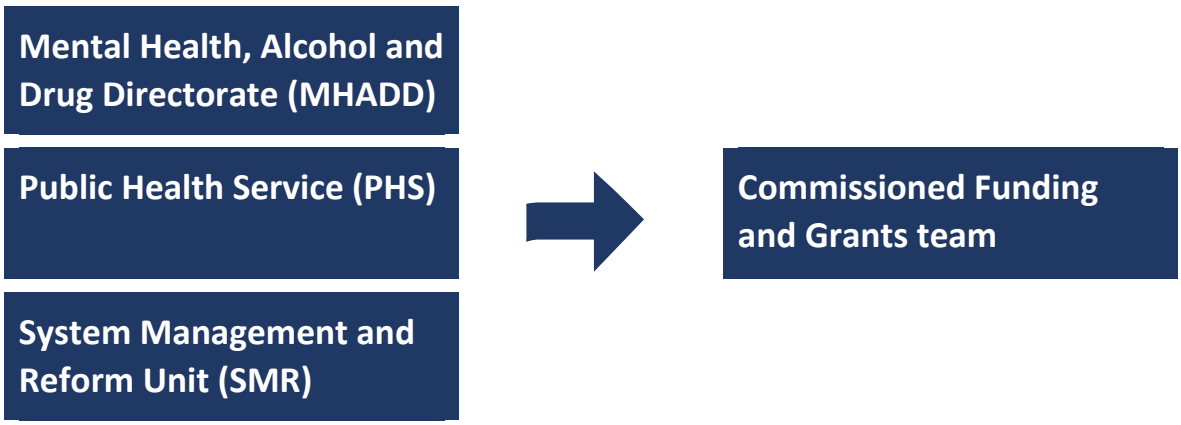
- defining activities to be delivered and the outcomes of those activities
- managing risk
- setting performance reporting requirements
- developing grant agreements.

1.10 In addition, the

- System Management and Reform (formerly Community Sector Relations Unit, part of the former Policy, Purchasing, Performance and Reform area) played a central role in managing grants arrangements
- Procurement Advisory Services unit had a similar role for procurements.

1.11 Health made a structural change while we drafted this report and before we issued recommendations. The change is shown in Figure 5.

Figure 5: Recent structural changes in Health



Source: Tasmanian Audit Office

1.12 This change and its impact was not assessed in this audit. The report refers to the now historic MHADD, PHS, and SMR.

2. Frameworks for supporting CSO funding arrangements

In this chapter we assessed if Health had effective frameworks and governance arrangements to support CSO funding.

We expected Health to:

- have strong frameworks for procurement and contract management, grants management, and quality and safety (Q&S) because of the number of historical reviews into CSO funding
- fund CSOs through a mix of grants and procurement contracts, and select the best approach depending on the circumstances and desired outcomes.

Chapter summary

Health's frameworks for supporting CSO funding arrangements were not effective.

Key framework elements for procurement and contract management, grants management, and Q&S were not functioning. Internal and external reviews communicated the risks associated with the ineffective frameworks to Health's senior management, but it has chosen not to act.[8] The lack of action to address known issues and the risks they create indicated cultural or structural issues at Health.

As a result, Health:

- had not achieved its objective of using a better practice approach to managing funding arrangements
- could not show it had met its legislative obligations relating to appropriate management and oversight of public funds.

There was also a lack of clarity in Health and at the whole-of-government level about when to use procurement or grants. Grants were used as the default funding method in Health, rather than being strategically selected as the right method.

[8] Health advised in response to a draft of this report (after substantive auditing have been finalised) that it had now begun developing a new framework for procurement and contract management. It also advised it was investigating a procurement and contract IT system. These actions, while potentially beneficial, would not address all identified issues, and were not assessed for this audit.

The process for selecting funding methods was inadequate

Health's processes for selecting the right funding mechanism were ineffective

2.1 When Health identifies there is a need for a CSO to deliver services, it must decide whether those services are delivered through a procurement contract or a grant agreement.

> A **procurement contract** is where an agency purchases goods or services for its own use, or a third party's use, to meet a policy objective. They must undertake procurement in accordance with the relevant Treasurer's instructions (Tis), which are supported by the Department of Treasury and Finance's (Treasury) better practice guidance.

> A **grant** is where an agency enters an agreement to provide financial assistance to another party, for that party to achieve its own goals. Those goals should align with government policy objectives. Agencies must also manage grants in accordance with the relevant TIs, supported by Treasury's better practice guidance.

2.2 In addition to the TI requirements, Health established internal frameworks for CSO funding. The grants framework required funding managers to decide whether a grant or procurement was best method to fund the required services prior to entering an agreement. But the framework:

- referred to old TIs as it had not been updated for 10 years
- did not support staff in deciding which funding method was best in the circumstances.

2.3 As a result, we found that Health staff used grants as the default funding method, or arbitrarily choose the instrument.

2.4 The chosen funding method determines which frameworks apply, and the extent of legal protections and controls. For example, there are tighter legal protections and controls in procurements than grants. This means that choosing the wrong funding method may expose Health to additional risks, such as:

- breaches of the *Financial Management Act 2016*
- issues related to liability, insurance and intellectual property.

Officers within Health expressed difficulty in interpreting Treasury's guidance and processes to support selection of the right funding method

2.5 The Treasurer issues instructions under Section 51 of the *Financial Management Act 2016*. They set out the principles, practices and procedures for financial management in all agencies. Treasury supports the Treasurer in the administration of the *Financial Management Act 2016*, but is not responsible for individual agency's compliance with

TIs. It does issue a range of guidance to assist accountable authorities and administrators in the Tasmanian public sector.[9] This guidance is also intended to support compliance with TIs.[10]

2.6 The TIs and associated guidance did not clearly explain the difference between a grant and a procurement, or the reasons for choosing one over the other. This is one of the reasons for confusion within Health. We have also noted similar confusion within other agencies. Health advised it sought clarity from Treasury, and stated that sufficient clarity was not given. Treasury responded that it did not have a record of this request for advice.

2.7 An example is that the TIs say that the agency providing the grant should not receive a 'direct economic benefit' in return. Health staff in different areas indicated they could not explain what was meant by 'direct economic benefit' in the context of grants versus procurements.

2.8 We met with Treasury to:

- discuss the distinction between grants and procurements
- clarify the intent of the TIs
- clarify Treasury's role.

They advised:

- they had moved to a principles-based approach and were unable to interpret the policies, but could provide general guidance
- it is individual agencies' responsibility to apply the frameworks
- other agencies had sought similar advice from them
- agencies can seek legal advice where their general advice and guidance was not sufficient
- they did not have a role in assessing compliance with the TIs.

2.9 Treasury nonetheless indicated it has commenced work on additional guidance. They advised new guidance would have practical examples of the difference between grant and procurement arrangements.

2.10 A December 2024 paper to the Secretaries Board noted relevant legal advice:

- was provided by the Crown Solicitor to another agency in February 2023
- suggested that a significant proportion of services obtained using grant agreements should have been obtained through procurement contracts.

---

[9] Department of Treasury and Finance (2023), *Procurement Treasurer's Instructions*, accessed 6 May 2025; Department of Treasury and Finance (2024), *Procurement Better Practice Guidelines*, p5, accessed 6 May 2025; Department of Treasury and Finance (2013), *Best Practice Guide for the Administration of Grants*, p4, accessed 6 May 2025.

[10] Department of Treasury and Finance (2023), *Procurement Treasurer's Instructions*, accessed 6 May 2025.

2.11 As a result of this paper, an existing project for a whole-of-government purchasing framework was expanded to include:

- guidance for selecting the right funding method
- consideration and provision of advice on changes to the relevant TIs.

2.12 The most appropriate method for funding of CSOs was, therefore, unclear within Health. It was also unclear at the whole-of-government level, particularly for funding arrangements for service delivery.

The procurement and contract management frameworks were not effective

2.13 Health recently undertook internal audits on its procurement and contract management practices, processes, and systems. The audits were completed in February 2024 and first given to Health's risk and audit committee in May 2024. We relied on these internal audits for findings related to procurement and contract management practices in Health.[11]

2.14 The findings of the internal audits are outlined in Figure 6.

Figure 6: Internal audit findings on procurement and contract management

	No whole of agency framework for procurement and contract management. This is required to implement the TIs.
	Systemic non-compliance with key policy requirements and the TIs for managing procurement.
	Non-compliance with financial delegations, including approval of procurement by non-delegates.
	No end-to-end system for procurement and contract management.
	Lack of understanding within business units of procurement and contract management fundamentals.

Source: Tasmanian Audit Office

2.15 The internal audits made a range of recommendations to address these issues (Appendix A). Importantly, the internal audit on procurement noted the following:

[11] Australian Auditing Standards Board (2021) *Auditing Standard ASA 610 Using the Work of Internal Auditors*, accessed 19 March 2025.

Due to the quantum, severity and systemic nature of the non-compliances, it would be prudent for [Health] to take immediate action to strengthen governance, increasing capability and capacity and minimise the instances of any non-compliance in the future.

…Whilst there are a number of quick fixes and recommendations in this report… our strong recommendation is that [Health] look to address these recommendations in a holistic manner. This will help maximise the uplift and support the enduring model going forward.

A complete list of CSO contracts could not be provided as there is no central register of contracts

2.16 As Health funds CSOs to deliver some services through procurement processes, we requested a list of CSO contracts to test the effectiveness of the procurement process. Health could not provide the information we requested due to inadequate procurement systems and processes.

2.17 Health does not have a central register of contracts. The sampled program areas also did not have contracts registers, but did provide some information through a manual review of records.

2.18 We sought to obtain a list of CSO contracts through other means. We found that Health reported more contracts over $50,000 in its annual report than it reported on the tenders.tas.gov.au website. This means it was not compliant with the requirement to report all contracts over $50,000 on the tenders website.[12] Health advised they had not put processes in place to ensure they complied with this requirement.

2.19 Health was, therefore, unable to establish the total volume of procurement arrangements with CSOs due to poor governance, systems and reporting in relation to procurement.

Known procurement and contract management issues left unaddressed

2.20 In August 2024, we advised Health that we would rely on its recent internal audit findings. We confirmed that the internal audit findings were still current and considered follow up action taken by Health.

2.21 At the end of this audit, Health had not started to address the issues identified in the internal audit. While Health was aware of issues being caused by the lack of effective governance and controls, it chose not to implement a plan to address them.[13] This lack of action suggests that Health's organisational culture or structure is a barrier to addressing known procurement and contract management issues.

---

[12] Department of Treasury and Finance (2021) *Treasurer's Instructions PF5 Accountability and Report*, clause 5.9, accessed 19 March 2025.

[13] Health advised in response to a draft of this report (after substantive auditing have been finalised) that it had now begun developing a new framework for procurement and contract management. It also advised it was investigating a procurement and contract IT system. These actions, while potentially beneficial, would not address all identified issues, and were not assessed for this audit.

Figure 7: Events related to known procurement and contract management issues

Source: Tasmanian Audit Office

2.22 The failure to address known issues in procurement and contract management has resulted in instances of mismanagement. Case Study 1 outlines some issues related to Health's contracts with consultants. The Secretary's response to the findings, provided in Case Study 1, is not extensive enough to address the 'quantum, severity and systemic nature of the non-compliances' identified in the internal audits.

Case Study 1: Review of specific consultancy service contracts at DoH

Background
Senior Health staff requested a review of the procurement processes and contracts associated with 2 specific providers. One related to a disclosure received by the Integrity Commission, who requested Health undertake a targeted internal review. The Secretary received the findings in September 2024, which added to the internal audit findings on broader procurement and contract management practices.

Findings

For both contractors, Health paid invoices in a way that was inconsistent with the agreed payment schedule and did not report contracts over $50,000 on tenders.tas.gov.au, as required by TI PF-5.

Findings specific to Contractor 1: Health did not undertake a competitive procurement process to award the contract. The intended outcomes and deliverables were not clear. It paid the contractor around $200,000 in additional costs without receipts. Health purchased additional ad hoc leadership services from the provider without varying the contract.

Findings specific to Contractor 2: There was no overarching contract despite Health paying an average of $2.5 million each year to the contractor over 5 years. Internal Audit advised that the provider had been engaged through a procurement panel arrangement established by Treasury. When the panel arrangement changed, Health continued to engage their services as if that panel arrangement was still in place. It also entered multiple individual contracts at less than $100,000 in value for the same project. This meant it avoided approaching the market to test value-for-money, which is required for contracts valued at over $100,000.

Response

In response, the Secretary agreed to:

- the Chief Risk Officer reviewing all contractor consultancy services
- Executives reviewing all consultancy arrangements and improving how they are managed
- establish a committee to assess all consultancies
- implement a process for conflict-of-interest registration.

Health did not, at this point, establish a plan to implement the broader internal audit recommendations to resolve the systemic procurement and contact management issues.

2.23 The findings in Case Study 1 demonstrate the impact of the unaddressed systemic issues in procurement and contract management.

The grant management frameworks were not effective

2.24 In 2023-24, Health gave around $75 million in grants to CSOs. Grants were:

- captured in a grants management system
- mostly managed by 5 program areas – MHADD, Clinical Quality, Regulation and Accreditation, Home and Community Care, SMR and PHS.

2.25 In addition, Health clearly defined roles and responsibilities in relation to the approval of grant agreements in its instrument of financial delegations.

2.26 However, Health had not ensured its grants framework was effective or that it measured client outcomes from services as opposed to inputs and activities (referred to as an outcomes-based framework).

Health's grants framework was not effective and was last updated in 2013

2.27 Health's grants framework is the *Managing Funding Agreements with the Community Sector Guide*. However, this framework has not been updated since 2013 even though several events occurred that should have triggered a review. Figure 8 outlines this and the consequences.

Figure 8: Impacts of Health not maintaining its grants framework

Health should have revised the grants framework when …	**The consequence of this was …**
there were updates to key legislation and legislative instruments, such as the repeal of TI-709.	• that the framework refers to legislation, policy and business units that no longer exist • that the framework assigns responsibilities to business units that no longer exist • that SMR provided limited informal training for new staff and had not developed formal training materials • program areas were not referring to the framework because it was out of date and was not possible to comply with and had begun developing their own framework in isolation.
business operations changed significantly, such as the central grants administration team responsible for strategic policy, Q&S, and grants management being effected by machinery of government changes in 2018.	
the central Grants Funding Review Committee that reviewed grants over $100,000 was disbanded and replaced by a procurement review committee that considered grants over $250,000.	that there was no committee review mechanism for grants greater than $100,000 but under $250,000.
3 governance bodies referred to in Health's grants framework were abolished.	there was no: • forum for engaging CSOs on government policy development and reform • body managing the CSO funding strategy or coordinating consistent approaches to policy, programs, performance management and service standards • body managing and monitoring service delivery. a program area had started its own similar groups in isolation.
teams responsible for communicating with CSOs were disbanded.	uncertainty about Health's practices related to CSO funding.

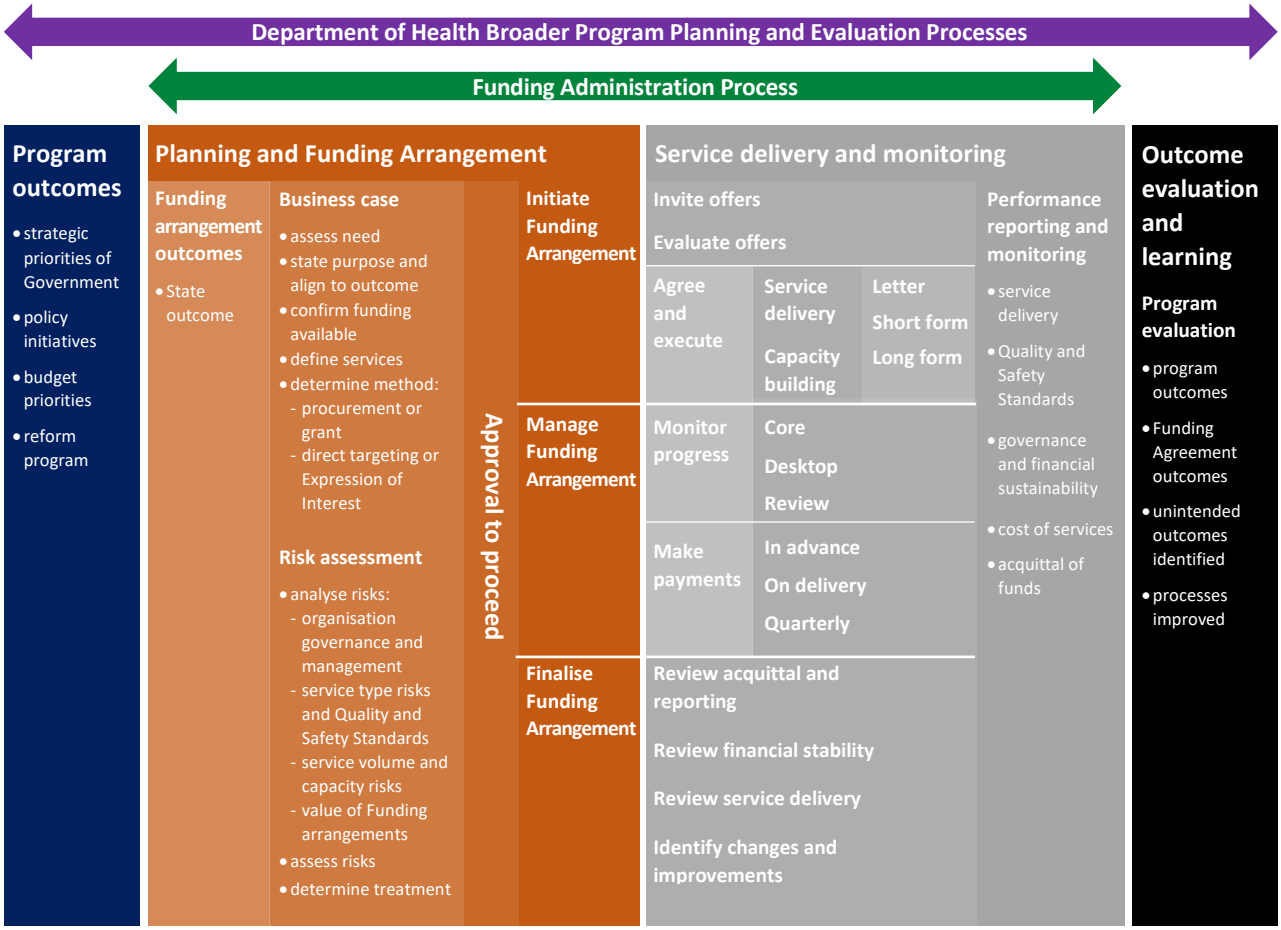
2.28 The broader consequence of these findings is that Health had not met its objective of having 'better practice approaches to funding agreement management'. This is demonstrated by the following comment from a CSO Focus Group Participant.

> *'One thing I have experienced is that the performance of Health has waxed and waned over time. A few years ago, things worked really well. Health had good people that worked well and met with us regularly. The KPIs were better. This was a golden age around 5 years ago. The quality of the communication was good and feedback loops were working well. Then, those people in Health moved on and things changed. Things are now not operating as well as they did then.'*
>
> **CSO Focus Group Participant**

Health's grants framework was not outcomes-based

2.29 An outcomes-based framework measures how well client outcomes are achieved instead of inputs or activities. Figure 9 shows how this could work in Health.

Figure 9: Outcomes based framework for the management of funding arrangements



Source: Tasmanian Audit Office, adapted from the IFPF.[14]

[14] Riley & Riley Strategy Advisors and the Department of Health and Human Services (February 2009) *Development of an Integrated Financial and Performance Framework*, p58, accessed 13 March 2025.

2.30 While Health's grants framework included elements of an outcomes-based framework, it did not function as one. This was due to factors such as:

- the implementation of the *Integrated Financial and Performance Framework Review* recommendations was incomplete
- there was a lack of strategic approach to selecting the appropriate funding method
- as mentioned in Figure 8, governance bodies were not functioning, and key responsibilities were assigned to teams that no longer existed
- it was not supported by:
  - value-for-money assessments and risk management plans (Chapter 3)
  - appropriate performance monitoring and outcome evaluations (Chapter 4).

2.31 Importantly, the frameworks used by the State Service and Health to administer arrangements with CSOs have been subject to repeated internal and external reviews. These reviews consistently identified a need for an outcomes-based framework for managing CSO funding arrangements, as shown in Table 2.

Table 2: Historic reviews recommending use of an outcomes-based framework

Name	Summary	Year
Integrated Financial and Performance Framework Review	Defined principles and processes to improve planning and management of funding decisions, including for determining whether grants or procurement processes are the appropriate funding method.	2009
	Health advised it did not finish implementing the review's recommendations.	
Review of the Purchasing Framework for Outsourced Service	Not publicly available but was mentioned in the 2022 *Independent Review of the Tasmanian State Service*. It identified a need to improve how the outcomes-based framework is implemented.	2016
	The former Department of Health and Human Services committed to, but did not finish, implementing recommendations.	
Premier's Economic and Social Recovery Advisory Council	Recommended the State Government review its CSO funding models and use long-term agreements, with clear deliverables and outcomes, that are flexible, and provide appropriate transparency and accountability.[15] Case Study 2 discusses the status of these recommendations.[16]	2021

[15] Department of Treasury and Finance (March 2021), *Premier's Economic and Social Recovery Advisory Council Final Report*, p71, accessed 20 March 2025.

[16] Department of Premier and Cabinet (2023) *Annual Report 2022-23*, p57, accessed 20 March 2025.

Name	Summary	Year
Independent Review of the Tasmanian State Service	Identified an ongoing need to implement an outcomes measurement framework and recommended a Tasmanian State Service-wide framework.	2021

Source: Tasmanian Audit Office

2.32 Case Study 2 provides detail on the status of the recommendations from the 2 most recent reviews.

Case Study 2: Status of the whole-of-government framework for CSO funding

Background

The Premier's Economic and Social Recovery Advisory Council recommended a review of the State Service's approach to funding CSOs. The Independent Review of the Tasmanian State Service identified the ongoing need to implement an outcomes-based framework.

Implementation of these recommendations was not in this audit's scope. However, we engaged with DPAC to understand the status, given the potential impact on Health's processes.

Status of recommendation

In October 2023, the Secretaries Board formed a Community Services Funding Review Working Group and Steering Committee to address 3 separate commitments made by the Tasmanian Government to support CSOs. These were indexation of funding levels, longer-term funding provision, and the delivery of an outcomes-based framework.

At the time of this report, DPAC was leading the work supported by representatives from other agencies, including Health.

At the time of this report:

- DPAC advised indexation of CSO funding was functionally complete with the Tasmanian Government having made a commitment in the 2024-25 State Budget to provide 12.5 per cent indexation over four years (3.5% in 2024-25 and 3% in 2025-26 to 2027-28).
- work was scheduled to start on the other 2 commitments, longer-term funding provision and an outcomes-based framework, in early 2025. Deadlines for their delivery had not been established.

> *'A framework has been on the wish list for more than 20 years, but, for whatever reason, has never happened'*
>
> **CSO Focus Group Participant**

The quality and safety frameworks were not effective

2.33 Health's frameworks for managing Q&S are the:

- *Quality and Safety Framework for Tasmania's Department of Health and Human Services Funded Community Sector* (Q&S framework)[17]
- *Child Safety and Wellbeing Framework*.[18]

2.34 The Q&S framework, which is most relevant to CSOs:

- sets out how staff will monitor and manage CSOs' Q&S performance, including frequency of contact with CSOs
- requires CSOs to have systems and processes to record, monitor, and report on their Q&S practices
- requires CSOs to report critical incidents to Health within 24 hours.

Known quality and safety framework issues left unaddressed

2.35 A 2023 internal audit of Q&S in CSO grant agreements found:

- the frameworks were not consistent with each other
- the frameworks were 'not capable of supporting effective management of the quality or safety of funded services,' because they were too high-level and general to be useful
- the Q&S framework, which was most relevant to CSOs, had not been revised for over 10 years
- controls had not been established to ensure the expectations in the Q&S framework were met
- program areas were establishing their own Q&S practices.

2.36 A reason for these issues is that Health has not reallocated Q&S responsibilities lost due to machinery of government changes. This was despite introducing a new departmental Child Safety and Wellbeing Framework. Responsibilities not reallocated included:

- Q&S policy development
- oversight and monitoring
- state and national level advice.

2.37 Health has failed to restore these functions despite the multiple attempts shown in Figure 10. The lack of action demonstrates there are cultural or structural issues related to addressing this issue within Health.

---

[17] Department of Health (n.d), *The Quality and Safety Framework for Tasmania's DHHS Funded Community Sector*, accessed 17 June 2024.

[18] Department of Health (February 2024), *The Child Safety and Wellbeing Framework*, accessed 17 June 2024.

Figure 10: Actions to address known issues with lost grants administration and Q&S functions

Source: Tasmanian Audit Office

2.38 We confirmed Q&S issues still exist by assessing a sample of grant agreements, with the results reported in Chapters 3 and 4.

3. Establishing funding arrangements with CSOs

In this chapter, we assessed if Health established effective funding arrangements with CSOs.

We did this by examining 16 funding arrangements (1 contract and 15 grant agreements) established or renewed in 2022-23 and administered by MHADD, PHS, or SMR.

We expected Health to establish effective arrangements in compliance with the requirements of the relevant frameworks and guidance.

Chapter summary

Most funding arrangements with CSOs were grant agreements, and were the result of emergency funding, or budget and election commitments. For these, Health did not:

- always demonstrate that intended outcomes were linked to the government's priorities
- assess value-for-money
- assess and manage associated risks.

Key staff advised:

- they did not consider it appropriate to undertake risk assessments, or that there was no appetite to assess risk, once a commitment had been made
- they were unsure how to inform the Tasmanian Government on value-for-money for pre-commitment funds.

We also found the risk that CSO services did not meet minimum standards was high. This is because Health did not document accreditation requirements and relevant state, national or international standards in grant agreements.

Finally, program areas did not conduct post-implementation reviews of grant agreements to ensure the CSO's service delivery was satisfactory before they renewed them.

Together, these findings mean that:

- decisions to enter grant agreements did not comply with Treasury's and Health's procurement and grants frameworks
- grant agreements were in place without a plan on how to manage risk, leaving the Crown exposed to potential losses.

A government commitment does not negate the need to comply with Treasury and Health procurement and grants frameworks.

It was unclear how some CSO funding aligned with the government's objectives

3.1 Section 34 of the *Financial Management Act 2016* requires accountable authorities to ensure 'the effective and efficient use of resources in achieving the [Tasmanian] Government's objectives'.[19]

3.2 The Grants Best Practice Guide states 'grant schemes should operate under clearly defined and documented operational objectives which set out the principal aims and objectives the grant scheme is designed to achieve and be clearly linked to the relevant [Tasmanian] Government policy objective(s) and agency output(s)'.[20]

3.3 While individual grant agreements included a defined purpose and clear key performance indicators (KPIs), the intended outcomes were not always explicitly linked to the government's objectives. For example:

- PHS grant agreements consistently linked intended outcomes to Tasmanian Government strategic plans.
- MHADD listed over 20 state and federal government policies in each agreement and stated that services could not contradict these policies. However, the agreements did not state the link between the funded services and specific objectives.
- SMR grant agreements did not link intended outcomes to specific objectives (except in one instance).

3.4 The absence of this information limited evaluation of funding arrangement effectiveness in achieving policy objectives and might lead to inefficiencies in resource allocation.

3.5 Case Studies 3 and 4 provide examples of where the link between intended outcomes and the government's objectives were unclear.

Case Study 3: Residential Rehab and Recovery Funding

Example of unclear linkage to a government objective
MHADD provided emergency funding to Curraghmore Residential Rehab and Recovery in 2022. The purpose was clearly specified – full occupancy of 12 clients with psychiatric disabilities. Consumer outcomes were also documented, based on overarching outcomes developed internally by MHADD. However, the strategic objectives section only noted various state and national policies. It stated that 'the services to be delivered under this agreement must be consistent with and not contravene' them. Therefore, it did not specify how the grant agreement would support a particular government policy and strategic objective.

[19] Tasmanian Government (2022) *Financial Management Act 2016*, accessed 14 February 2025.

[20] Department of Treasury and Finance (2013), *Best Practice Guide for the Administration of Grants*, accessed 13 February 2025.

Case Study 4: Cancer Information and Support for Teenagers

Example of unclear linkage to a government objective

In 2022, SMR provided rollover funding to CanTeen, an Australian organisation for young people living with cancer. The funding was provided to support, develop and empower young people, aged 12-24, living with cancer in Tasmania through support programs, resources and services.

This grant agreement was not tied to a government purpose, and the strategic objective section of the grant agreement stated, 'not applicable'. Therefore, the linkage to a government objective, and the strategic objectives were unclear.

3.6 Case Study 5 demonstrates a clear link between intended outcomes and the government's objectives.

Case Study 5: Hepatitis Prevention

Example of clear linkage to a government policy

In 2022, PHS provided rollover funding to Anglicare Tasmania Inc. to reduce stigma in the community associated with blood borne viruses by providing resources, information, and education to frontline staff and people at risk.

This grant agreement clearly linked the intended outcomes to the *Healthy Tasmania 5-Year Strategic Plan 2022-2026*. It was therefore clear how this funded service was intended to support a particular government policy objective.

3.7 CSOs in focus groups said the broader government strategies and policies were not always visible to them. They also indicated this impacted on their ability, and Health's ability, to evaluate effectiveness.

> *'There are zero links between the [relevant strategy] and individual reporting for our agreements. I can't see the links about how our work fits within government strategy'*
>
> **CSO Focus Group Participant**
>
> *'[Our agreements] link to the [relevant strategy] quite well down through to KPIs.'*
>
> **CSO Focus Group Participant**

Key requirements related to funding decisions and agreements were not met

3.8 Health consistently met some requirements:

- business cases and grant agreements specified the funding purpose
- grant agreements were signed by all parties

- grant agreements were supported by due diligence documentation, including annual grant financial acquittal reports, unaudited financial statements, and certifications
- KPIs were established
- the Agency's monitoring requirements, including the content and timing of reports to be provided by the grantees, were set out
- grant agreements specified circumstances for reclaiming grant funds, detailing conditions for repayment of unspent or misused funds.

3.9 However, Health did not support funding decisions and grant agreements with value-for-money assessments, risk assessment management plans, or post-implementation reviews.

Value-for-money assessments did not support funding decisions

3.10 The *Financial Management Act 2016* includes a broad requirement for agency heads to ensure the efficient and effective use of public resources.[21] This means that, regardless of how CSOs are funded to deliver services, it is essential the arrangement represents value-for-money. TI's and Treasury guidance provide more specific requirements outlined in Figure 11.

Figure 11: Summary of requirements to ensure value for money in funded services

For …	the …	states …
grants	Grants Best Practice Guide	that all scheme administrators are publicly accountable to Parliament for ensuring that value-for-money is achieved.[22]
procurements	TI PF-1	that procurements are required to be consistent with value-for-money principles.[23]
	Procurement Better Practice Guide	the meaning of 'value-for-money' and the factors relevant to assessing value-for-money.[24]

3.11 Health advised most CSO grants administered by Health were the result of emergency funding, or budget and election commitments. They were not informed by value-for-

[21] Tasmanian Government (2022), *Financial Management Act 2016*, accessed 14 February 2025.

[22] Department of Treasury and Finance (2013), *Best Practice Guide for the Administration of Grants*, accessed 13 February 2025.

[23] Department of Treasury and Finance (2021), *PF-1 Procurement Principles*, accessed 13 February 2025.

[24] Department of Treasury and Finance (2022), *Procurement Better Practice Guidelines (Principles and Policies)*, accessed 13 February 2025.

money assessments undertaken by Health.[25] Health staff at various levels and in different positions advised:

- they did not have visibility as to whether these commitments had been informed by value-for-money assessments prior to being committed
- they were unsure how to inform the Tasmanian Government on whether already committed funding was value-for-money
- that time given for Health to assess value-for-money was not sufficient.

3.12 However, staff also acknowledged that value-for-money assessment should occur regardless of whether the funding was already committed.

3.13 For the 4 competitive grants reviewed, merit-based selection was applied, but documentation gaps in eligibility assessment reduced transparency.

Risk assessment and management plans did not support funding decisions and agreements

3.14 Health's grant agreement managers are required to:

- document potential risks and risk management strategies in their business case and risk management plans
- regularly update the risk management plan as new risks are identified over the life of the grant agreement.

3.15 While some business cases documented potential risks:

- risks assessments did not meet the requirements set out in the Department's Enterprise Risk Management Handbook or adequately consider child safety or Q&S risks
- risk management plans were not established.

Child Safety and Wellbeing

Health's Child Safety and Wellbeing Framework[26] requires:

- risk management plans to incorporate and mitigate child safety and wellbeing risks
- child safety and wellbeing to be considered for 'all third-party services, including where contact with children and young people is incidental or not standard to the funded activity.'[27]

[25] Health's grants management system did not track the origin of funding arrangements, so the exact split between competitive and pre-committed grants funding could not be quantified.

[26] Department of Health (2024), *The Child Safety and Wellbeing Framework*, accessed 17 June 2024.

[27] Department of Health (2022), Child Safety and Wellbeing, accessed 13 February 2025.

3.16 Health staff advised their focus was on fulfilling budget and election commitments. Staff in various positions advised they did not consider it appropriate to undertake risk assessments when funding was already committed. They advised there was no appetite to assess risk once a commitment had been made, even where these commitments might not have been informed by any risk analysis. This indicates cultural issues in relation to Health's understanding of its responsibility to manage funding risks.

3.17 If risks related to funding services remain uncontrolled, then Health is not:

- proactively managing funds spent on services by CSOs
- ensuring CSOs deliver services that meet minimum service standards.

3.18 Case Studies 6 and 7 provide examples of where no risk assessment or management plan was in place.

Case Study 6: Peer Workforce Grant Program

Example of providing funding without establishing risk management plans

Through the 2022-23 State Budget, the Tasmanian Government provided $600,000 in funding over 2 years for a peer workforce program. Its aim was to involve people with lived experience of drug and alcohol misuse to design rehabilitation program.

For Round One (2022-23):

- A Health assessment panel ran a competitive process and recommended funding 3 CSOs at $75,000 each. The minute to the Minister did not explicitly mention any risks associated with the funding.
- Separately, the assessment panel noted the need for funding conditions, such as clarification of supervision arrangements, statements of duties, etc. This was not translated into a risk assessment or risk management plan.
- Health had no non-financial controls to manage risks associated with involving people with lived experience of drug and alcohol misuse into designing rehabilitation programs.

Health advised in response to a draft of this report that it did have other risk management strategies. These included:

- requirements for grant applicants to demonstrate readiness, capacity, appropriate supports, and appropriate policies prior to taking on a peer worker
- assessment by a panel against the above criteria, including identification of any areas of risk
- a requirement in grant agreements to support peer workers
- ongoing management oversight, participation in clinical supervision, participation in forums and workshops, and supervision by external bodies.

Health acknowledged this was not documented.

Source: Tasmanian Audit Office

Case Study 7: Emergency funding support

Example of renewing grant agreement without establishing risk management strategies

In 2022-23, Health provided $192,000 in one-off emergency funding to a CSO to deliver residential rehabilitation and recovery services. The CSO requested funding through the Premier because there were significant risks relating to service continuity.

Despite the reason for funding being to address significant risks, a risk assessment was not done to support the funding decision. The minute to the delegate stated that the program area had 'not identified any significant issues that would prevent the execution of the new Funding Agreement.'

Source: Tasmanian Audit Office

3.19 The absence of risk assessment meant that procedures were implemented inconsistently. This is demonstrated in:

- Case Study 8, which highlights instances of non-compliance with the Health's procedures related to payments
- Case Study 9, which is an example of Health identifying a high-risk agreement and established appropriate monitoring arrangements. Case Study 9 is an exception to normal practice.

Case Study 8: Operating effectiveness of payment controls

Example of non-compliance with payment controls

Procurement Review Committee endorsement

Program areas generally adhered to approval and endorsement requirements, obtaining necessary approvals from the accountable authority or an appropriate delegate.

However, in 31% of instances tested, mostly in the PHS program area, documented approval or procurement review committee endorsement was not recorded.

Payment options

Health's grants framework provided 3 options payment options: in advance, on delivery of service, or quarterly. The option used should depend on the type of grant agreement, funding level, risk or complexity associated with that Agreement. This was largely not possible to comply with, as grant agreements were not informed by appropriate risk assessments. However, the guide recommended equal quarterly payments for agreements over $100,000 where delivery-based payments are impractical.

Payment methods were largely in accordance with this requirement. However, 25% of agreements tested which exceeded $100,000, used one-off or 2 instalments inconsistent with the framework requirements. Deviations from the recommended payment methods increases financial risks.

Source: Tasmanian Audit Office

Case Study 9: Risk-informed monitoring

Example of careful risk-informed monitoring

The MHADD administered high-risk, urgent funding to a CSO to support a service in northern Tasmania.

The resulting agreement included additional financial reporting requirements based on identified risks. Rather than relying on 6-monthly reporting, the agreement required the CSO to establish a budget for the expenditure and provide financial statements every 2 months detailing the use and expenditure of the grant funds. This more frequent reporting was also to include service delivery information.

In practice, the grant agreement was approved in December 2022, and formally reviewed by Health in February 2023 and March 2023. Financial statements were obtained in April 2023, standard service delivery reports were obtained in July 2023, and a final formal review of client status was conducted in July 2023, which finalised the arrangement with the CSO.

Although no formal risk assessment was conducted, MHADD identified sufficient risks to warrant the inclusion of additional monitoring requirements, which it then implemented. This is an example of grant administrators making appropriate adjustments to monitoring requirements based on identified risks.

Source: Tasmanian Audit Office

Grant agreements did not specify quality and safety standards

3.20 We found that the selected grant agreements did not:

- specify state, national, or international standards
- define accreditation requirements for service providers.

Grant agreements did not require CSOs to comply with relevant standards

3.21 Health's Q&S framework states that:

- standards are the foundation of measuring performance, continuous improvement, and maximising consumer safety
- they set requirements, expectations, and a common language for defining Q&S.[28]

3.22 Most grant agreements did not include explicit requirements for CSOs to comply with specific state, national, or international standards. Some listed standards without specifying which standards apply to individual CSOs. While PHS referenced specific

[28] Department of Health and Human Services (2014), *The Quality and Safety Framework for Tasmania's DHHS Funded Community Sector*, p8, accessed 14 February 2025.

standards in business cases or annual Q&S checklists, it did not identify these standards as enforceable requirements in grant agreements.

3.23 Health's inconsistent approach to establishing required standards meant that the foundation was not established, and CSOs service delivery may not align with best practice.

Accreditations were not effectively incorporated into grant agreements

3.24 Health's Q&S framework states that where CSOs are accredited, or undergoing accreditation, 'the framework will generally recognise this work so long as evidence is available'.[29] It states that a quality team will '…work with accredited CSOs on an individual basis to determine how their accreditation can be recognised by the Framework'.

3.25 Relevant accreditations held by CSOs were documented in some business cases. However, this could not have been compliant with Health's Q&S framework, as the quality team responsible for assessing accreditations had been disbanded several years earlier. No other business unit had taken over this function.

3.26 While some CSOs indicated accreditations requirements were very explicit, others did not. Some CSOs self-declared accreditations without verification by Health, as requirements were not included in grant agreements. Others voluntarily provided accreditation certificates without clarity on the minimum requirements, highlighting inconsistent monitoring and recognition of accreditations by Health.

> *'We have accreditation but there is no requirement for this in our… agreement. We just say we are compliant, and we have never been asked for more information'.*
>
> **CSO Focus Group Participant**

3.27 The lack of oversight creates a risk that non-compliance with accreditation requirements goes undetected. This would undermine Health's ability to ensure clients received services that are safe and of the required quality.

[29] Department of Health and Human Services (2014), *The Quality and Safety Framework for Tasmania's DHHS Funded Community Sector*, accessed 14 February 2025.

Post-implementation reviews did not inform future funding decisions

3.28 Health's grants framework outlines the importance of post-implementation reviews for grant agreements renewals. It states:

- the importance of evaluating individual grant agreements before they are renewed or ended – this ensures that services continue to meet the needs of consumers and the program areas that are commissioning those services.
- that grant agreements should not be extended without considering if it is the most appropriate option.

3.29 MHADD, PHS and SMR did not conduct the required post-implementation reviews before renewing agreements. This meant grant agreements were renewed without assessing if the agreements:

- achieved policy objectives
- provided clear and fit for purpose service descriptions
- were an efficient allocation of funding
- had any unresolved performance issues.

4. Managing CSO performance

In this chapter we assessed if Health had:

- established and complied with appropriate processes for monitoring CSOs performance
- appropriately managed instances where performance standards were not met.

We did this by examining 16 funding arrangements (1 procurement and 15 grant agreements) established or renewed in 2022-23 and administered by MHADD, PHS, or SMR.

We expected:

- Health to comply with the requirements in relevant frameworks and guidance
- individual funding arrangements to be supported by structured processes to ensure services were delivered safely and effectively.

Chapter summary

Health relied on CSO self-reporting through 6-monthly service delivery reports and annual grant financial acquittal reports. Self-reporting by CSOs did not provide sufficient oversight. Health did not conduct other required monitoring activities, such as risk-based site visits, mid-term reviews, independent audits, and post implementation reviews. The absence of sufficient monitoring led to reduced accountability and oversight and unclear expectations for both Health and CSOs.

Risk was further increased by:

- the lack of a complaints management process for CSO-funded services and a reliable critical incident reporting framework
- inconsistent and sometimes poor relationship management.

Health was unable to demonstrate that it effectively identified and managed instances where CSOs failed to meet performance standards. This was because the gaps in performance monitoring limited Health's ability to detect underperformance.

Performance monitoring was not adequate

4.1 Health's grants framework recommended a broad range of monitoring activities. In practice, Health relied solely on annual financial acquittals and service delivery reports self-reported by CSOs every 6 months.

4.2 However, service delivery reports were not effective:

- Report formats were inconsistent across business units. For example, grant agreements in MHADD required comprehensive performance data, while PHS and SMR only tracked key performance indicator outcomes.
- Some CSOs reported submitting reports to Health that contained no meaningful data, but that Health did not follow this up.

'Does [Health] even look at these 6-monthly reports? What purpose do they serve? Is it necessary to do this every 6 months?'

CSO Focus Group Participant

'We sent in a 6-monthly report showing we had under delivered, under performed. But there was no follow up from [Health].'

CSO Focus Group Participant

'One time we sent a report to [Health] and put a zero in every field of that report to see if anyone would check it and nobody from [Health] actually picked it up.'

CSO Focus Group Participant

'…after the 6-month report is due, I typically wait 2 months, if not longer, for the report meeting, which means we're nearly halfway through the next 6 monthly reporting period.'

CSO Focus Group Participant

4.3 Health did not monitor CSO performance in line with requirements of its grant framework, outlined in Figure 12.

Figure 12: Summary of Health's inactive performance monitoring requirements

These included …	Which were was supposed to be done…
site visit meeting	at least 12 monthly or 3 monthly for high-risk agreements
mid-term reviews	18 monthly (for 3-year grant agreements)
post implementation or end of agreement reviews	3 yearly (for 3-year grant agreements)
scheduled Q&S audits	at least 3 yearly
ad hoc Q&S audits	as required on risk base

MHADD advised it conducted some site visits, but these were usually at the CSO's request and not based on risk, as required by Health's grants framework.

4.4 The Grants Best Practice Guide also required budgetary targets to be monitored regularly.[30] This occurred for MHADD and PHS grant agreements through structured reporting and meetings, but it did not happen for SMR grant agreements.

4.5 As detailed in Chapter 2, Health had not reassigned responsibility for monitoring and oversight in its grants framework following the loss of the resources. This has:

- resulted in inconsistent monitoring practices across business units, which limits Health's ability to:
  - compare performance of agreements managed by different business units over time
  - assess whether funded activities met intended outcomes
- increased the risk of not detecting non-compliance.

There was no process for critical incident reporting

4.6 Health's Q&S framework requires CSOs to report serious consumer-related incidents to their grant agreement manager within 24 hours or by next business day.[31]

4.7 Health had not put a process or system in place for CSOs to report and track critical incidents. Instead, it relied on CSOs to report critical incidents, without independent verification or follow-up.

4.8 CSOs advised that Health had not:

- provided clear guidance on reporting, leaving them unsure of what is a 'critical incident' or 'reportable incident'
- taken substantive action when they reported an incident.

4.9 Health's approach to incident reports:

- increases the risk of that incidents are not reported or underreported
- compromises the identification and tracking of critical safety issues, which may include harm to consumers.

> *'When things go… wrong, we send an email. We document what happened and what we have done. We do all the work. We then just inform [Health] in an email.'*
>
> **CSO Focus Group Participant**

[30] Department of Treasury and Finance (2013) *Best Practice Guide for the Administration of Grants*, accessed 4 February 2025.

[31] Department of Health (2014) *Quality and Safety Standards Framework*, accessed 4 February 2025.

'[Health] didn't seem to want to know about any incidents. Some of our services shifted from [Health] to [the Commonwealth Government agency Primary Health Tasmania] and [they] wanted to know much more detail about incidents. [They] seemed shocked that [Health] wasn't asking for the same level of detail.'

CSO Focus Group Participant

'I want to see that serious incidents are recorded by [Health] so they can use that information to inform changes, [or] to improve things.'

CSO Focus Group Participant

We have had a couple reportable incidents over the years and, usually… [we] send off a copy of our incident report and maybe get a… one or 2 line response… it feels like a very process driven response.'

CSO Focus Group Participant

Relationship management with CSOs was inconsistent

4.10 Health's grants framework stated the importance of good relationship management. The Q&S framework also required all interactions with CSOs to be recorded in the grants management system.

4.11 Despite these requirements, Health staff said that relationship management was decentralised and inconsistent. Engagement was also not documented in the grants management system as required.

4.12 CSOs provided feedback on relationship management during focus group sessions:

- some CSOs reported regular contact and constructive feedback
- other CSOs described poor communication, lack of feedback, and difficulty reaching their grant agreement managers
- some CSOs did not know who their funding manager was
- CSOs also noted that there was no feedback mechanism for them to provide feedback on the Health's management of grant agreements.

'In our organisation we probably talk to [them] maybe weekly.'

CSO Focus Group Participant

'Our relationship with our [Health] contacts is poor. I do not even know who our contacts are at the moment. There is so much turnover of staff within [Health] and we have not been kept up to date about the change.'

CSO Focus Group Participant

> *'My organisation has several funding agreements managed by 2 different areas within [Health]. For the agreements with one of those areas, we don't have a contact, I have no idea who it is. I have received no feedback from them that they have even received the reports we sent to them, let alone read them. Agreements with the other area of [Health] work really well.'*
>
> **CSO Focus Group Participant**
>
> *'When [Health] have staff turnover, the handover is poor. I feel like I have to start all over again when the [Health] contact person changes.'*
>
> **CSO Focus Group Participant**

There was no process to receive feedback or complaints from consumers

4.13 A structured and effective complaints management process:

- allows service consumers to report complaints and compliments regarding CSO services
- is another way that Health can monitor and improve CSO service delivery.

4.14 Health's grants framework referred to old complaints management policies, some over 12 years old which could not be accessed.

4.15 Health staff advised that consumers could submit complaints on services funded by Health though the Department's complaints process, the Minister's office, or the CSO. However, staff also advised that:

- consumers were unlikely to know when a service was funded by Health so they may not know how where to make a complaint
- there was no register of complaints to inform service delivery improvement.

4.16 This gap in oversight could lead to undetected issues and inadequate responses to complaints related to the Q&S of CSOs' services.

> *'[Health] don't collect any data from our clients directly at all.'*
>
> **CSO Focus Group Participant**
>
> *'We're not specifically asked to report on participants… We have… patient related experiences that we always put in. We always put in a case study.'*
>
> **CSO Focus Group Participant**

> *'I think it should be a requirement of those that are dealing with consumers [to report consumer feedback]… because I think they are some of the most powerful stories.'*
>
> **CSO Focus Group Participant**

Health could not demonstrate it appropriately managed CSO performance issues

4.17 TIs require agencies to 'ensure that any breaches in grant terms and conditions are promptly dealt with in accordance with the funding agreement'.[32]

4.18 Health's child safety and wellbeing framework states 'where non-compliance with funding agreements and [Health's] policies and procedures is identified (including a risk to a child or young person's safety and wellbeing…), [Health] has the capacity to suspend or terminate funding arrangements… or refuse to engage personnel or require them to be replaced'.[33]

4.19 We requested evidence from Health on how it managed CSO underperformance, including breaches of terms and conditions and non-compliance with accreditation requirements. Health advised that, for the arrangements in the sample, CSOs had not reported any breaches. This does not mean there were breaches that had not been reported. However, as outlined in Figure 12, most of the required performance monitoring activity was not occurring and was not based on an assessment of risk. Therefore, Health could not demonstrate that it would have identified performance issues if they were occurring.

4.20 Outside the sampled arrangements, Health staff acknowledged issues with CSO performance management, including:

- inadequate reporting
- failure to meet key performance indicators
- challenges in delivering activities under the grant agreements.

4.21 There was also variation in managing underperformance by individual arrangement and business unit. For example:

- PHS and SMR staff advised that, when significant changes in a CSO's circumstances affected intended outcomes, they responded by:
  - altering key performance indicators

[32] Department of Treasury and Finance (2019) *Treasurer's Instructions, FC-12 Grant Management*, accessed 11 February 2025.

[33] Department of Health (2022) *Child Safety and Wellbeing*, accessed 13 February 2025.

    - extending the funding period to allow time to deliver against key performance indicators.

- MHADD staff advised that there were some cases where underperformance was understood and managed through proactive communication with stakeholders.

Appendix A – List of internal audit recommendations

Below are the recommendations that were made to Health in recent internal audits. The recommendations relate to the management of Q&S, procurement, and contract management.

Department of Health Internal Audit Project: Quality and safety of funded services (December 2023)

- Clarify integration between the Risk Management Framework and Child Safety and Wellbeing Framework, and responsibility for implementing these in the context of funded services.
- Identify key quality, safety and legal risks relating to funded services and perform a gap analysis to identify gaps / weaknesses in existing controls.
- Consider whether to retain the Quality and Standards Framework.

Procurement Internal Audit Report (May 2024)

- Establish a procurement framework to supplement the guidance currently provided on the intranet to streamline and guide the end-to-end procurement process. The procurement framework should consider the following:
    - The alignment with [Health's]strategic objectives and procurement practices.
    - The alignment of procurement to operational and strategic plans.
    - The desired service model for procurement, and the key characteristics/expectations of this model.
    - The roles and responsibilities of management, the [procurement advisory services unit], and business units in the delivery of procurement.
    - A review and approval process of the procurement plan prior to engaging market vendors in contracts where threshold or risk levels are met.
    - Procurement template documentation, including a procurement planning checklist outlining the key requirements, scope, background, business need, expected expenditure and risk assessment for the procurement.
    - The roles and responsibilities around how to manage, monitor and actively track conflict of interests, including escalation channels in the event of a conflict.
    - Legal obligation to maintain records and correspondence to establish a clear and comprehensive audit trail over all decisions made in the procurement process.

    - Reporting requirements by the business units including how to report and escalate breaches and non-compliance activities. The framework should also state any agreed key metrics to allow for improved internal reporting and contract spend analysis.
    - Enhance existing templates and develop additional procurement templates to support a contemporary and compliant procurement process.
- Communicate the framework and associated policy updates to all relevant stakeholders and provide relevant targeted training to ensure a clear understanding of the policy's guidelines and expectations.
- Perform an exercise to review all instances of non-compliance for all active procurement activities. Review the instances of non-compliance identified and complete investigations documenting the lessons learned, action items, action owners and due dates. Consider whether any disciplinary action is required in instances of non-compliance.
- Establish a central register of all procurement activities which meet agreed criteria.
- For all on-going procurement activities, perform a compliance check on procurement activities based on materiality and take corrective actions promptly when non-compliance is established.
- Clearly define and articulate within the existing Delegations of Authority which instances of procurement activity require approval from a Financial Delegate or from an administrative authority throughout the procurement.
- Communicate to all relevant employees the requirements of the Delegations of Authority and how to report and escalate non-compliance instances.
- For the identified missing documents, trace and update procurements records where possible to ensure auditable trail is available.
- Develop and document a record keeping procedure to standardise and centralise storage of procurement records for critical documents such as contracts, business case, request for quotation, procurement review committee approval etc.
- Assign ownership of documents to specific individuals or roles (such as a ‘Procurement Owner’) who is responsible for maintaining an auditable trail.
- Update procurement policies and procedures so this acts as a guide to staff.
- Develop training for key staff involved with procurement that outlines Management’s expectations, requirements, procurement approach, where to find information and how to perform procurement activities. Awareness and training could be undertaken in various forums such as staff induction, using online platform for training or e-learning courses, and internal REACH article updates.
- There is a significant opportunity to introduce an e-procurement platform. Such a platform would allow the capture of the end-to-end procurement activities and ensure the secure centralisation of all related documentation and communications.

This initiative would greatly contribute to enhancing the efficiency, transparency, and effectiveness of [Health's] procurement operations. As an initial step:

- explore the introduction of an e-procurement platform to capture sufficient data that will allow identification of procurement opportunities and support effective and efficient procurement activities across the business units. This may include investigating capabilities of existing systems used within [Health]…
- establish appropriate procurement reporting to support increased analysis and oversight on procurement activities.

Contract Management and Monitoring Internal Audit Report (May 2024)

- Develop and implement a Contract Management Framework, which includes a Contract Management Policy and procedure manual. The framework should be tied to good practice contract management to support [Health].
- For existing contracts, assign owners and managers to ensure there are consistent practices in place for tracking and monitoring. [Health]should consider a contract management solution as identified in Finding 4 and maintaining a centralised contract register.
- Communicate the framework and associated policy updates to all relevant stakeholders and provide relevant and targeted training to ensure clear understanding of the policy's guidelines and expectations. The policy and procedure should be easily accessible by all staff.
- Update contract management policies and procedures so this acts as a guide to staff.
- Consider whether the resources have been appropriately allocated for contract management activity based on the volume and complexity of contracts. This should ensure the roles and responsibilities for this activity are appropriately supported to reduce dependency on a single person.
- Develop training for key staff involved with contract management that outlines Management's expectations, requirements, contract management approach, where to find information and how to perform contract management activities. Awareness and training could be undertaken in various forums such as staff induction, using online platform for training or e-learning courses, and internal REACH article updates.
- Develop a policy that governs the contract variation process. The policy should apply a risk-based approach to contract variations, including:
    - circumstances that trigger variations

    - roles and responsibilities for reviewing and approving variations in line with Delegations of Authority
    - consideration of impact to whole of contract value
    - consideration for value for money before contract renewal/extension.
- Implement systematic process for monitoring and control over contract variation to investigate significant total variations, corresponding justifications and approval.
- Internal Audit observed systems and technology used by Infrastructure services and Digital Health ICT for reporting and monitoring. It is recommended [Health]consider the use of a standardised system to allow for operational efficiency, improve compliance and consistency in reporting across the [Health].
- Explore capabilities of existing contract management systems used within [Health]… Implement one of the systems to support business units for consistent recording, monitoring and reporting of contract management activities throughout [Health].
- Develop a record keeping procedure to standardise storage of contract management records throughout the contract management lifecycle.
- Assign ownership of documents to specific individuals or roles (such as a 'Contract Owner' or 'Contract Manager') who is responsible for maintaining capture of decision making to [Health's] Records and Information Management Policy standard.

Appendix B – Transmittal letter

Tasmanian Audit Office

Level 2, 144 Macquarie Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6173 0900
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

26 May 2025

President, Legislative Council
Speaker, House of Assembly
Parliament House
HOBART TAS 7000

Dear President, Speaker

Report of the Auditor-General No. 9 of 2024-25 – Department of Health's funding of Community Service Organisations

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The objective of the audit was to express an opinion on whether the Health was effectively administering funding arrangements with CSOs.

As the House of Assembly and Legislative Council are not sitting on this day, 26 May 2025, under section 30(5) of the *Audit Act 2008*, this report is taken to have been laid before both houses and to have been ordered to be published by both houses upon it being received by you. In accordance with section 30(7) of the *Audit Act 2008*, would you kindly cause the report to be laid before the House of Assembly or Legislative Council on the next sitting-day of the House or Council.

Yours sincerely

Martin Thompson
Auditor-General

Appendix C – Independent assurance report

This independent assurance report is addressed to the President of the Legislative Council and the Speaker of the House of Assembly. It relates to my audit of the effectiveness of Health') administration of funding arrangements with CSOs.

Audit objective

The objective of the audit was to assess the effectiveness of Health's administration of funding arrangements with CSOs.

Audit scope

The audit examined Health's administration of funding arrangements with CSOs. It included an analysis of the relevant frameworks, governance arrangements and policies. The audit team specifically reviewed the practices of the following areas of Health:

- MHADD
- PHS
- SMR.

We examined a risk-based selected sample of funding arrangements established or renewed by the above business areas during the 2022-23 financial year. This included examination of controls effectiveness, business cases and supporting documentation to establish agreements, and performance management activities.

The audit did not examine:

- whether the right provider was competitively selected
- the performance of CSOs, instead focussing on the effectiveness of Health's monitoring and management of CSO performance and outcomes
- the implementation of the related *Independent Review of the Tasmanian State Service* [34] recommendations 29, 30, 31, 73 and 74, as the government committed to undertaking this work between late 2023 and mid-2026
- implementation of recommendation F-43 in the *Premier's Economic and Social Recovery Advisory Council Final Report* (2021),[35] as this was being delivered by the Department of Premier and Cabinet
- whether individual services should be delivered by government or by CSOs

[34] Department of Premier and Cabinet (July 2021) *Independent Review of the Tasmanian State Service Final Report*, July 2021, Department of Premier and Cabinet, accessed 20 March 2024.

[35] Treasury (Department of Treasury and Finance) (March 2021) *Premier's Economic and Social Recovery Advisory Council Final Report*, March 2021, Treasury, accessed 20 March 2024.

- the level of funding the government committed to programs involving CSOs
- any clinical or individual care decisions or decision-making processes.

CSO engagement

To provide a more comprehensive overview of the effectiveness of funding management, we ran focus groups with a range of Tasmanian CSOs. These were facilitated with the support of the relevant peak bodies, namely:

- Alcohol, Tobacco and Other Drugs Council Tasmania
- Mental Health Council of Tasmania
- Tasmanian Council of Social Service.

The participating CSOs and the above peak bodies were in receipt of funding from Health. Unattributed quotations and summaries of CSO feedback are included throughout.

Audit approach

The audit was conducted in accordance with the Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements* issued by the Australian Auditing and Assurance Standards Board, for the purpose of expressing a reasonable assurance opinion.

The audit evaluated the following criteria:

1. Does Health have effective frameworks supporting CSO funding arrangements?
    - Has Health established, maintained and embedded an appropriate procurement framework?
    - Has Health established, maintained and embedded an appropriate grants management framework?
    - Has Health established, maintained and embedded an appropriate quality and safety framework?
2. Has Health established effective funding arrangements with CSOs?
    - Are selected funding arrangements supported by appropriate documentation?
    - Do selected funding arrangements clearly establish intended outcomes and standards?
3. Does Health appropriately manage CSO performance?
    - Are appropriate processes used for monitoring whether CSOs are meeting the standards established in the funding arrangement?
    - Are instances where performance standards are not met appropriately managed?

Responsibility of management

The management of funding arrangements is governed by the *Financial Management Act 2016* and associated TIs. The *Financial Management Act 2016* requires accountable authorities to ensure the effective and efficient use of resources in achieving the government's objectives.[36] TI *FC-12 Grant Management* further requires the accountable authority to establish and maintain policies, procedures, controls and systems for the management of grants and grant programs. Finally, TI *PF-1 Procurement Framework – Procurement Principles* requires the accountably authority to oversee and manage procurement activity in a manner consistent with the procurement principles. The principles include value-for-money, open, impartial, and competitive procurement.

Responsibility of the Auditor-General

My responsibility was to express a reasonable assurance conclusion on the effectiveness of Health's administration of funding arrangements with CSOs.

Independence and quality control

I have complied with the independence and relevant ethical requirements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The Tasmanian Audit Office applies Australian Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* which requires the Office to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

[36] Tasmanian Government (2022), *Financial Management Act 2016*, Tasmanian Government, section 34(b), accessed 14 February 2025.

Appendix D – Our role, audit mandate and standards applied

Our role

The Auditor-General and Tasmanian Audit Office are established under the Audit Act and *State Service Act 2000*, respectively. Our role is to provide assurance to Parliament and the Tasmanian community about the performance of public sector entities. We achieve this by auditing financial statements of public sector entities and by conducting audits, examinations and investigations on:

- how effective, efficient, and economical public sector entity activities, programs and services are
- how public sector entities manage resources
- how public sector entities can improve their management practices and systems
- whether public sector entities comply with legislation and other requirements.

Through our audit work, we make recommendations that promote accountability and transparency in government and improve public sector entity performance.

We publish our audit findings in reports, which are tabled in Parliament and made publicly available online. To view our past audit reports, visit our reports page on our website.

Mandate

Section 23 of the Audit Act states that:

(1) The Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes:

(a) examining the accounting and financial management information systems of the Treasurer, a State entity or a subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results;

(b) investigating any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity;

(c) investigating any matter relating to public money or other money, or to public property or other property;

(d) examining the compliance of a State entity or a subsidiary of a State entity with written laws or its own internal policies;

(e) examining the efficiency, effectiveness and economy of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity;

(f) examining the efficiency, effectiveness and economy with which a related entity of a State entity performs functions –

(i) on behalf of the State entity; or

(ii) in partnership or jointly with the State entity; or

(iii) as the delegate or agent of the State entity;

(g) examining the performance and exercise of the Employer's functions and powers under the *State Service Act 2000*.

(2) Any examination or investigation carried out by the Auditor-General under subsection (1) is to be carried out in accordance with the powers of this Act

Standards applied

Section 31 specifies that:

'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to -

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Appendix E – Submissions and comments received

In accordance with section 30(2) of the Audit Act, a copy of this report was provided to Health, and other persons who in our opinion had a special interest in the report, with a request for submissions or comments. Submissions received are included below.

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response.

Response from the Premier

Thank you for the invitation to comment on the Performance audit of the Department of Health's funding of Community Service Organisations.

I am advised that both the Department of Health, and the Department of Premier and Cabinet have provided formal responses, the latter in relation to the ongoing work of the Department in establishing a whole of government framework for commissioning community service organisations.

I appreciate you keeping me informed.

Hon Jeremy Rockliff MP
Premier of Tasmania

Response from the Secretary of the Department of Health

The Department acknowledges the report and agrees with its recommendations to improve the management of Community Service Organisation (CSO) funding arrangements.

I note the report found that individual grant agreements included a defined purpose and clear KPIs, but intended outcomes were not explicitly linked to the government's objectives.

While there is a clear community benefit evident in CSO arrangements administered by the Department, such as supporting young Tasmanians living with cancer, providing emergency drug and alcohol rehabilitation services and reducing stigma around blood borne viruses, we will work to improve documented linkages to government objectives.

Whilst I accept the recommendations of the report, I reject broad characterisations regarding lack of action taken over recent years. This was a period of time where staff and leadership across the Department were necessarily diverted to address the challenges of the COVID-19 pandemic, as well focused on child safety following the Commission of Inquiry into the Tasmanian Government's responses to child sexual abuse in institutional settings.

Despite these priorities, the Department has worked to make improvements.

This includes establishment of a commissioning function in mental health services, followed by a decision in 2024 to commence establishment of a central grants team.

This new team, comprising 9.5 full-time equivalent positions, commenced operation in March 2025. This followed necessary organisational planning and industrial agreement processes.

Other work underway includes:

- Participation in whole-of-government work to improve CSO funding arrangements, in collaboration with the Department of Premier and Cabinet.
- Development of a Whole of Agency Procurement Framework and a Whole of Agency Contract Management Framework has commenced.
- Changes to improve planning, oversight and governance of internal audits, working to address historical issues in this space, as part of broader work on enhanced risk management led by the Department's Chief Risk Officer.
- A strengthened ongoing focus on audit and risk at the Health Board, which is chaired by the Secretary and comprises senior Departmental executives.

In regard to recommendation one, the Department will implement additional changes in the short term to improve timeliness and oversight of responses to audits and determine actions needed, where necessary, to address outstanding findings for relevant prior audits.

To address recommendation two, the Department will develop and implement a new strategic DoH framework for commissioning of services with CSOs with associated controls. It is intended that full implementation will occur over a two-year period, with a range of actions occurring progressively to inform and support this approach.

These will include:

- A review and initial update of the Department's grants management guidance, to ensure consistency with current policy and legislative requirements, with a more extensive update to form part of the Department's longer-term response.
- A review of current CSO funding arrangements and existing internal frameworks, including consideration of earlier audit and review findings, with update and reactivation as necessary, including training and support for staff.
- Improved quality and safety assessment, monitoring and management processes, prioritised on a risk basis.
- Completion of whole of Agency procurement and contract management frameworks.
- Continued active participation in whole-of-government work, including work to develop an outcomes-based framework for CSO funding.

The Department is committed to continuous improvement to ensure frameworks and processes for management of services from CSOs are clear, consistent, and effective.

I would also like to acknowledge the work of the dedicated staff, both in my Department and the non-government sector, who are deeply committed to the delivery of safe high-quality services and supports to the Tasmanian community.

Thank you for the opportunity to comment on the final report.

Dale Webster
Secretary, Department of Health

Response from the Secretary of the Department of Treasury and Finance

The Department of Treasury and Finance remains concerned about references in the Report that would appear to be inaccurate and infer a more significant role for Treasury in oversighting compliance with financial management frameworks than that which Treasury is given authority under relevant legislation.

In particular, Treasury has concerns with the assertions in Paragraphs 2.6, 2.7, 2.8 and 2.12 of the Report suggesting that it does not provide sufficient clarity on funding methods.

Regarding Paragraph 2.6

- The Financial Management Framework imposes requirements on Accountable Authorities regarding agency spending, financial activities and other related matters. Given the very broad scope of activities which are undertaken by agencies, the Frameworks must be generalist with respect to these requirements.
- Treasury provides a clear pathway for Accountable authorities to obtain clarity within the Financial Management Framework if there is confusion regarding requirements. In the context of Community Service Grants, this includes:
    - consideration of both the Grant and Procurement frameworks;
    - use of judgment in the context of the Agency service delivery needs and other legislative requirements (if applicable);
    - seeking guidance from Treasury (if required); and
    - seeking legal advice from Crown Law (if required).
- Agency requirements relating to Grants and Procurements are reflected within the Financial Management Treasurer's Instructions, Procurement Treasurer's Instructions and associated Best Practice Guidelines. When considered as a whole, these Frameworks provide Accountable Authorities with sufficient information to determine whether a program is a Grant or a Procurement.
- It is incumbent upon the relevant Accountable Authority to ensure that they adequately consider the nature of their agency's activities and ensure that treatment of those activities is compliant with the Financial Management Framework in the context of their specific service delivery requirements and any other interacting legislative arrangements.
- Treasury regularly assists agencies in understanding the financial management framework and Treasurer's Instructions. The provision of advice to agencies in interpreting Treasurer's Instruction requirements is considered to be part of the process that an agency should explore in the event that it needs additional guidance or clarification in the context of a particular issue. On this basis, Treasury is

concerned that there is limited evidence offered to support the assertion that guidance was sought from Treasury, and Treasury did not provide the clarity requested. Treasury maintains comprehensive records of advice requests. Treasury does not have a record of a request from the Department of Health regarding this matter.

Regarding Paragraph 2.7

Consistent with our comments in Paragraph 2.6: Treasury provides a clear pathway for Accountable authorities to obtain clarity within the Financial Management Framework.

Treasury welcomes and regularly provides policy interpretation and assistance to agencies.

Regarding Paragraph 2.8

Whilst Treasury has moved to a principles-based approach, it does provide policy interpretation in respect to the distinction between Grants and Procurement in circumstances where specific facts and/or details relating to the intended purpose of spending are available to inform policy interpretation.

Regarding Paragraph 2.12

The Financial Management Framework imposes requirements on individual agency Accountable Authorities, and does not establish, nor require, a whole-of-government position or interpretation.

As noted above, there is both sufficient information and a process to obtain clarity regarding an appropriate funding method for CSOs in circumstances where there may be agency uncertainty.

I further note that, as part of its continuous improvement program in relation to procurement guidance documentation and templates, Treasury is in the process of drafting more specific information regarding the differences between grants and procurement activities. It is envisaged that this information will further complement the range of documentation, processes and guidance already available to agencies to support interpretation of Financial Management Framework requirements if required.

Thank you for the opportunity to comment on this audit report.

Gary Swain
Secretary, Department of Treasury and Finance

Response from the Secretary of the Department of Premier and Cabinet

Thank you for providing an opportunity to give final comment on the performance audit report on the Department of Health's funding of Community Service Organisations.

As you have noted, the Department of Premier and Cabinet (DPAC) responded to the Tasmanian Audit Office's original request from 26 March 2025 to provide commentary on and review the accuracy of an extract of the draft audit report.

DPAC's response focused on the work that the Agency is leading across Government to transition Community Service Organisations to longer term funding arrangements.

It is noted from your correspondence on 17 April 2025 that DPAC's response has been reviewed and noted by the Tasmanian Audit Office in completing the final audit report. DPAC does not have any further comment on the audit report, and I note the intention to table the document in Parliament on Monday, 26 May 2025.

Kathrine Morgan-Wicks
Secretary, Department of Premier and Cabinet

Acronyms and abbreviations

Audit Act	*Audit Act 2008*
CSO	Community Service Organisation, which are not-for-profit entities established for a community service purpose. For a complete definition, see Australian Taxation Office (31 May 2024) *Community Service Organisations*
Contract…	… refers to a contractual arrangement between Health and an external party following a procurement process
Communities Tas	The former Department of Communities Tasmania
DPAC	Department of Premier and Cabinet
Funding arrangement…	… is a generic term for either a grant agreement or contract
Grant agreement…	… refers to a formal grant agreement
Grants Best Practice Guide	The Department of Treasury and Finance Best Practice Guide for Grants Administration
Health	Tasmanian Department of Health
KPI	key performance indicators
Procurement Better Practice Guide	The Department of Treasury and Finance Procurement Better Practice Guidelines (Principles and Policies)
Health's grants framework	Department of Health's Managing Funding Agreements with the Community Sector Guide
Health's quality and safety framework	The Quality and Safety Framework for Tasmania's DHHS Funded Community Sector
Health's child safety and wellbeing framework	Department of Health's Child Safety and Wellbeing Framework
MHADD	Mental Health, Alcohol and Drugs Directorate, Department of Health
PHS	Public Health Service team, Department of Health
Q&S	quality and safety

Q&S framework	*Quality and Safety Framework for Tasmania's Department of Health and Human Services Funded Community Sector*
SMR	System Management and Reform team, Department of Health
TI	Treasurer's Instruction
TI FC-12	Treasurer's Instruction FC-12 Grant Management
TI PF-1	Treasurer's Instruction PF-1 Procurement Principles
Treasury	Tasmanian Department of Treasury and Finance

Tasmanian Audit Office

Front cover image: Tamar River Cruises

Photography: Tourism Tasmania and Samuel Shelley

Hobart Office

Phone (03) 6173 0900

Email admin@audit.tas.gov.au

Web www.audit.tas.gov.au

Address Level 2, 144 Macquarie Street
Hobart, 7000

Postal GPO Box 851, Hobart 7001

Launceston Office

Phone (03) 6173 0971

Address 4th Floor, Henty House
1 Civic Square, Launceston