



**A REPORT ON THE 2003  
PERFORMANCE REVIEW AND AUDIT OF  
RURAL FINANCIAL COUNSELLING SERVICES**



**Rural Financial Counselling Service (RFCS) Program**

**A REPORT ON THE 2003 PERFORMANCE  
REVIEW AND AUDIT OF RURAL FINANCIAL  
COUNSELLING SERVICES**

**on behalf of the**

**DEPARTMENT OF AGRICULTURE, FISHERIES  
AND FORESTRY**

© Commonwealth of Australia 2006

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney General's Department, Robert Garran Office, National Circuit, Barton ACT 2600, or posted at <<http://www.ag.gov.au/cca>>.

# CONTENTS

<b>Preface</b>	<b>4</b>
<b>Background</b>	<b>5</b>
Introduction	5
About the Rural Financial Counselling Service Program	5
Performance review objectives	7
Review approach	9
Evaluation criteria	9
<b>Results of the review</b>	<b>11</b>
General findings	11
Specific findings and recommendations	14
<b>Improving RFCS operations and service delivery</b>	<b>24</b>
Introduction	24
Methodology employed	24
Improving accountability	25
Improving delivery of services to rural communities	31
Other issues	35
<b>Findings of a self-audit investigation</b>	<b>37</b>
Introduction	37
Methodology employed	37
Summary of findings and opportunities	38

## PREFACE

This is an abridged report of a performance review and audit by the Acumen Alliance consulting company on the Rural Financial Counselling Service Program currently administered by the Australian Government Department of Agriculture, Fisheries and Forestry. The program is the umbrella for 68 separate projects providing rural financial counselling services across the country.

The report has four parts.

- The first part gives the background to the program and details of the review.
- The second part gives the results of the review, which draw principally on hands-on audits of 24 of the projects in the program. A summary of the main findings and levels of compliance with specified audit criteria is followed by details of specific findings. Potential risks to management committees are identified and recommendations made for their avoidance.
- The third part further summarises the overall findings of the review and makes recommendations for improving the administration and performance of the program.
- The fourth part gives the results of a self-assessment audit of those projects (44) not included in the hands-on audit.

## BACKGROUND

### Introduction

The Rural Financial Counselling Service (RFCS) Program is an Australian Government funded program originally established within the former Department of Primary Industries and Energy, now the Department of Agriculture, Fisheries and Forestry (DAFF), hereinafter referred to as “the Department”.

This is a report of the performance review and audit of the program, made by the consulting firm Acumen Alliance during 2003. The review was conducted by auditing the operations of a representative sample of 24 of the 68 projects then making up the program.

The goal of the RFCS Program is:<sup>1</sup>

*To secure the profitability, sustainability and competitiveness of the farm sector.*

The intent of the program is to develop the capacity of regional and rural communities to take control of their own development.

The RFCS Program was formerly part of the Rural Communities Access Program (RCAP), established in 1994. RCAP was the result of the Australian Government’s decision to amalgamate previous programs known as the Rural Counselling Program, Business Advice for Rural Areas, Rural Access Program, Telecentres Program, Australian Country Information Service and Countrylink.

The RFCS Program is now part of the Agriculture Advancing Australia (AAA) package. The objectives of the AAA package are to:

- help farmers profit from change
- give farmers access to an effective welfare safety net
- provide incentives for ongoing farm adjustment
- encourage social and economic development in rural areas.

### About the Rural Financial Counselling Service Program

#### Eligibility and administration

Any not-for-profit, representative groups with strong community or regional involvement can apply for funds for a RFCS project, as long as they are incorporated or are sponsored by an incorporated body. Funding is generally no more than \$50,000, but some projects have received considerably larger sums. Funding applications frequently include budgets to employ project staff and/or consultants.

Applicants are expected to provide cash or in-kind contributions to the project. These must amount to at least 50% of the total cost (cash or in kind), part of which can be contributed by the State government and local communities. There are no formal agreements with State governments for matching or top-up funding, although on a project-by-project basis, State governments have contributed 20–25% of funding. State contributions are subject to approval by the State minister responsible.

---

<sup>1</sup> At the time of the performance review and audit in 2003.

## **The Department's role in the RFCS**

As the needs of each RFCS project vary, the Department relies on each project to determine the most appropriate operational structure. In addition, all decisions concerning the day-to-day operations of RFCS projects are determined by the grant recipients.

Information about the program is widely advertised in rural and regional newspapers and on the Department's website. The Department's staff assess applications against specific criteria set out in application guidelines, and pass these assessments and recommendations to members of the Rural Financial Counselling Advisory Committee. Advisory Committee members then make their own determinations and Committee recommendations are passed to the National Rural Advisory Council (NRAC) which reviews the recommendations and forwards them (with its comments) to the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry for final decision.

Successful applicants enter into a funding agreement with the Australian Government to deliver project outcomes. The funding agreements with RFCS projects provide details of the duties and responsibilities of management committees, rural financial counsellors and reporting requirements. The approved budget for the project is part of the funding agreement, and any significant changes to project budgets and expenditure require a variation to the agreement.

Projects may be administered by existing community management bodies or committees, or by new bodies established by the community. In either case, the community body administering the project must appoint a management committee with a chair and other officeholders.

### **ARC database**

The Department has developed an Access database known as ARC (formerly known as ATLAS), which allows rural financial counsellors to record key information on the activities of each RFCS, including the time spent by rural financial counsellors and administrative staff on RFCS project business, and client details such as name, contact details and current financial status.

The ARC database incorporates proforma screens and is used by staff employed by the projects. Rural financial counsellors can report directly to the Canberra-based administrative staff using this database loaded on their own computers and can send reports electronically, by email.

The Department can monitor the effectiveness of the scheme by way of aggregated data from ARC, as well as annual and informal data and feedback from surveys of clients (the last National Survey being completed in 2002).

### ***Resource Manual***

The Department provides a *Resource Manual* to each RFCS project. The manual, at the time of the audit, was in its second edition, and provides information on:

- management committee issues and responsibilities
- protocols for employment of a rural financial counsellor
- funding and finance
- reporting and record-keeping requirements.

## **Structure of RFCS projects**

There is no prescribed structure for organisations providing rural financial counselling services, but a typical RFCS project is structured as follows:

- In each project, a management committee is responsible for ensuring that the terms of the funding agreement are met. Management committees typically consist of 6–15 volunteers from local government councils, rural businesses, regional businesses or local citizens and meet 2–4 times a year. The management committee is responsible for employing a rural financial counsellor(s) to deliver financial counselling services. The management committee has complete discretion to set the terms of the financial counsellor(s) employment, salary and provisions, including any fringe benefits.
- Rural financial counsellors can come from a variety of backgrounds. Rural financial counselling positions are normally advertised in regional and national newspapers. A panel interviews appropriate applicants. The qualifications of rural financial counsellors vary, and people appointed have included ex-bank managers, qualified accountants and agricultural science graduates.
- The support offered to a counsellor depends on the size and financial position of the particular RFCS project. Most RFCS projects employ an assistant to provide administrative support. The administrative assistant is, in most cases, primarily responsible for entering information in the ARC database. Larger RFCS projects may also employ a separate individual to assist in the management of the project's finances.

## **Role of State rural counselling associations**

Each State has an association of management committees and rural financial counsellors, which acts as a central point for knowledge sharing, networking and training for rural financial counsellors within the State. The State associations currently have no role overseeing the operations of RFCS projects.

## **Performance review objectives**

The overall objectives of the review reported here were to determine whether current funding arrangements in place between individual RFCS projects and the Australian Government were being complied with by grantee organisations. The review also sought to determine whether appropriate financial management arrangements exist at each RFCS project to ensure accountability to the Department for Commonwealth funds. The overall objective also encompassed a need to determine if appropriate governance arrangements were in place to ensure the grantee organisations manage their responsibilities in relation to committee record keeping, decision-making, accounting practices and any other legal obligations.

The audits were completed in accordance with “General Auditing Points” agreed between Acumen and the Department. The review focused primarily on the delivery of program outcomes, and financial and record keeping mechanisms employed by each RFCS project. Each project was assessed in accordance with a standard audit program that was developed as part of the review.

It was envisaged that the results of the review would provide the Department with information enabling it to draw conclusions on whether or not grantee organisations were being operated and administered in an efficient and effective manner, and were meeting the agreed outcomes. It was



also expected that deficiencies in administration would be identified, and improvements suggested.

The objectives of the individual project audits were to assess whether:

- the rural financial counsellors were performing the tasks for which they had been employed
- management committees/rural financial counsellors had the capacity to ensure RFCS projects produced desired program outcomes
- broad governance and risk issues (including conflict of interest and competitive neutrality) were appropriately dealt with by each project
- services were being provided in a way that met current needs
- financial and record keeping mechanisms employed were appropriate, timely, accurate and consistent with the requirements of the program
- the projects were complying with their funding agreements.

As regards the last point, management committees agree to accept funding for the purposes and subject to the terms and conditions of the agreement. Management committees are obliged to:

- hold funds in an account in the name of their organisation — the account should be established solely for the purposes of accounting for and administering grant funding
- have a constitution that is not inconsistent with their funding agreement
- identify the receipt of funds and other contributions in an appropriate way in their accounting records
- keep adequate financial records to identify all income and expenditure related to the RFCS project's activities and ensure records are audited by a qualified auditor in accordance with the Australian auditing standards
- refund monies not expended in a funding period, and do so within 20 business days of the completion of the period
- expend funds in accordance with the budget set out in the schedule to the funding agreement — prior written approval must be sought to transfer funds between expenditure categories
- keep full and accurate records of activities conducted, and ensure confidentiality of material in accordance with the Commonwealth information privacy principles contained in Section 14 of the Privacy Act
- hold appropriate insurances
- ensure no conflicts of interest exists or are likely to arise
- comply with the provisions of all relevant statutes, regulations, by-laws and requirements of any Commonwealth, State, Territory or local authority (in particular the Association Incorporation Act in each State is of relevance).

The following specific issues were also investigated:

- financial interests
- other interests (of rural financial counsellors)
- client need/eligibility and competitive neutrality

- performance and ability
- service efficiency
- accuracy of information
- financial information integrity.

## Review approach

The review entailed:

- assessment of existing departmental guidelines and legislation, and the current funding agreement for each RFCS project audited
- gaining a detailed understanding of how each of the projects audited operates
- assessing compliance with the existing funding agreement, including undertaking detailed compliance testing of information provided by grantee organisations
- interviews with relevant departmental staff, grantee organisation staff, rural financial counsellors, committee members of RFCS projects and users of the RFCS.

In each of the RFCS projects audited the review commenced with a discussion with the counsellor to obtain background information on the service provided. The review then focused on the RFCS project's financial records, client files, its constitution and the minutes of management committee meetings.

The examination of client files compared paper files with the records maintained on ARC. Also, a sample of clients of each RFCS project was surveyed.

The assessment of financial records analysed the variance between spending within the current period and the budget provided to the Department. An explanation was sought from the project when the variance was greater than 10%.

Record keeping and accuracy of records were examined by sampling invoices.

## Evaluation criteria

The overall focuses of the review were compliance with funding agreements and the RFCS *Resource Manual*.

Since the RFCS *Resource Manual* does not provide any direct guidance on corporate governance (the system by which the grantee organisation sets objectives, monitors risk and directs and manages the counsellor), criteria were established to measure the current level of corporate governance within RFCS projects. The following criteria were assessed:

- Committee structure — was it appropriate and was there a balance of skills and experience to appropriately oversee the operations of the RFCS project?
- Frequency of committee meetings — did the committee meet often enough to ensure appropriate oversight of the project? If not, were there other mechanisms in place to ensure all issues were dealt with promptly and members remained informed and in control of project activities?

- Did the committee promote good ethical values? Was there a code of conduct, a policy on complaint handling and a policy on conflicts of interest? Were conflicts of interest an agenda point discussed early at each management committee meeting?
- Information integrity — were appropriate mechanisms in place to ensure integrity in financial and other information provided to the Department? Did the management committee actively review financial information provided to it, and review all material before it is provided to the Department?
- Does the committee have a sound system in place to identify, assess, monitor and manage risk?
- Does the committee have a sound system in place to review the performance of the counsellor and to ensure the level and composition of remuneration is sufficient and reasonable? Does the committee have a remuneration policy in place that motivates the counsellor in an appropriate way?

## RESULTS OF THE REVIEW

### General findings

The key finding of the review was that a significant number of services were acting outside the terms of their funding agreements, in one or more of the following ways:

- the level of corporate governance applied within the RFCS projects was below that expected of their funding agreements
- in-kind contributions were not appropriately recorded for the purpose of monitoring and accountability
- management committee minutes did not provide sufficient detail about decisions made in committee meetings
- committees lacked an understanding of what constituted conflict of interest
- some rural financial counsellors were providing services outside the boundaries of the funding agreement
- auditing statements provided by external auditors of RFCS projects did not comply with Australian auditing standards
- required budgets were overstated
- budgeting failed to accurately reflect running costs
- clients records were incomplete, both in client files and in records maintained in the ARC database
- statements of client numbers were inconsistent
- services were provided inefficiently
- levels of counsellor qualifications were inconsistent.

In addition, a number of general issues in relation to the delivery of the RFCS program and options for change were raised during the review. These are considered in the next section of this report, which also outlines options for improvements to the program.

The following general conclusions can be drawn on each of the auditing points.

Audit point	Conclusion
<ul style="list-style-type: none"> <li>• Counsellor is performing the tasks for which they have been employed</li> </ul>	<ul style="list-style-type: none"> <li>• Rural financial counsellors were found to be providing clients with a range of options that would assist them in resolving the financial difficulties they were facing as a result of drought, personal circumstances or the withdrawal of other financial services such as banks, accountants and solicitors from their area. In remote areas, the financial counsellor acted as an information point on other government services.</li> </ul>

Audit point	Conclusion
<ul style="list-style-type: none"> <li>Counsellor is performing the tasks for which they have been employed (cont'd)</li> </ul>	<ul style="list-style-type: none"> <li>The services provided by rural financial counsellors varied significantly depending on the other services available in the area. For instance, rural financial counsellors were more likely to provide personal counselling services and assistance preparing Centrelink forms in rural towns where mental health services and Centrelink were absent.</li> <li>Queries were raised in relation to the methods employed by some rural financial counsellors in achieving results for their clients, and in some instances the services performed went beyond the boundaries identified in the funding agreements for rural financial counselling services.</li> </ul>
<ul style="list-style-type: none"> <li>Management committees/rural financial counsellors have the capacity to ensure RFCS projects produce desired program outcomes</li> </ul>	<ul style="list-style-type: none"> <li>The capacity of management committees to ensure RFCS projects produce desired program outcomes was found to be a product of how active the committee was, and the backgrounds of members. In general, where committee members were located a long distance from the RFCS project office (meaning members were unable to be involved in the day to day work of the project) and did not involve local business people or professionals, the committee was less likely to be accountable for the RFCS project activities.</li> <li>Additionally, where the committee was less active, the counsellor was more likely to be running the service.</li> </ul>
<ul style="list-style-type: none"> <li>Broad governance and risk issues (including conflict of interest and competitive neutrality) are appropriately dealt with by each RFCS project</li> </ul>	<ul style="list-style-type: none"> <li>Many of the issues that emerged during the review related to this auditing point. No committee was found to have appropriately met all governance and risk issues. Most RFCS projects did not have a fully developed business plan, and did not undertake performance reviews of the counsellor and other staff. No project had undertaken a risk assessment. Improvements to the RFCS <i>Resource Manual</i> would help committees to deal with these issues.</li> </ul>
<ul style="list-style-type: none"> <li>Services are being provided in a way that meets current needs and targets areas of need appropriately</li> </ul>	<ul style="list-style-type: none"> <li>In many cases, it was not possible to gauge the effectiveness of the services provided, as more than 50% of projects had incomplete client records. While many rural financial counsellors appeared to be tailoring their services to meet the needs of the community, few RFCS projects had performance review or client feedback mechanisms. Without these mechanisms, services cannot measure current needs within the community and whether clients believe these are being met.</li> </ul>
<ul style="list-style-type: none"> <li>Financial and record keeping mechanisms being employed are appropriate, timely, accurate and consistent with the requirements of the program</li> </ul>	<ul style="list-style-type: none"> <li>Overall, financial and record keeping mechanisms were considered appropriate for the size of the operations undertaken. In general, most RFCS projects could improve their operations by tracking expenditure to the grant budget.</li> <li>Record keeping could also be strengthened by all rural financial counsellors maintaining a diary that recorded, as a minimum, all meetings held, the participants, location and major topics of discussion. These entries could then be used to verify entries in the ARC database.</li> <li>Improvements could also be made in budgeting arrangements and in the recording of in-kind contributions.</li> </ul>

Audit point	Conclusion
<ul style="list-style-type: none"> <li>RFCS projects are complying with their funding agreements</li> </ul>	<ul style="list-style-type: none"> <li>Some projects are complying with the spirit of their funding agreements, but many services are engaged in activities that may compromise the intent of the program including:               <ul style="list-style-type: none"> <li>– projects were not employing formal mechanisms to record in-kind contributions</li> <li>– management committee minutes did not provide sufficient detail about decisions made by the committee</li> <li>– some RFCS projects (committees and/or rural financial counsellors) had conflicts of interest that may compromise the outcome of counsellor activities</li> <li>– some rural financial counsellors were placing themselves in a position where they may be taking fee-paying clients over needy clients</li> <li>– some counsellors were providing services outside the scope of the agreement</li> <li>– management committees had not employed appropriate corporate governance mechanisms.</li> </ul> </li> </ul>

The following table gives a summary of the degree of compliance with the individual audit points across the 24 RFCS projects in the review.

Audit point	Number of projects (from 24) fully complying	Percentage of projects <u>not</u> fully complying
<p><b>Counsellor performing appropriate tasks</b></p> <ul style="list-style-type: none"> <li>Management committee/rural financial counsellors have capacity to produce desired outcomes</li> <li>Broad governance and risk issues are appropriately dealt with</li> <li>Services are provided in a way that meets current needs and targets areas of need appropriately</li> <li>Financial and record keeping mechanisms are appropriate, timely, accurate and consistent with the requirements of the program</li> </ul>	<p>17</p> <p>13</p> <p>5</p> <p>21</p> <p>13</p>	<p>29</p> <p>46</p> <p>79</p> <p>13</p> <p>46</p>
<p><b>Requirements of funding agreements</b></p> <ul style="list-style-type: none"> <li>Hold funds in an account in the name of their organisation. The account should be established solely for the purposes of accounting for and administering grant funding</li> <li>Have a constitution which is not inconsistent with the funding agreement</li> <li>Identify the receipt of funds and other contributions in an appropriate way in their accounting records</li> <li>Keep adequate financial records to identify all income and expenditure related to the RFCS project's activities and ensure records are audited by a qualified auditor in accordance with the Australian auditing standards</li> <li>Refund monies not expended in a funding period, and do so within 20 business days of the completion of the period</li> <li>Expend funds in accordance with the budget set out in the schedule to the funding agreement. Prior written approval must be sought to transfer funds between expenditure categories</li> <li>Keep full and accurate records of activities conducted and ensure confidentiality of material in accordance with the Commonwealth information privacy principles contained in Section 14 of the Privacy Act</li> <li>Hold appropriate insurances</li> <li>Ensure no conflict of interests exist or are likely to arise</li> <li>Comply with the provisions of all relevant statutes, regulations, by-laws and requirements of any Commonwealth, State, Territory or local authority (in particular the Association Incorporation Act in each State is of relevance)</li> </ul>	<p>18</p> <p>22</p> <p>5</p> <p>9</p> <p>15</p> <p>12</p> <p>7</p> <p>24</p> <p>16</p> <p>12</p>	<p>25</p> <p>8</p> <p>79</p> <p>62</p> <p>38</p> <p>50</p> <p>71</p> <p>0</p> <p>33</p> <p>50</p>

## Specific findings and recommendations

### Finding 1 Capacity of management committee and rural financial counsellors to produce desired program outcomes

<b>Finding:</b>	<b>Overall, management committees are primarily constituted from community volunteers and do not have the capacity or knowledge to ensure their service produces desired program outcomes.</b>
-----------------	--

#### Discussion

There was significant variance in the skill sets of each counsellor and each management committee reviewed, with no two committees or two rural financial counsellors being directly comparable. Some rural financial counsellors held formal qualifications, as did some committee members. Overall, it was found that the backgrounds and skill sets of rural financial counsellors were appropriate for the role they were undertaking. However, the same was not the case for management committees.

Most management committees did not have a detailed understanding of their role as the employer of the counsellor and the obligations imposed upon them by their funding agreement with the Department. The supervision provided by most of the committees failed to include a detailed review of the methods employed by the counsellor to assist clients, and in particular did not include any review of the client files to ensure the counsellor was keeping appropriate records. Without undertaking a review of the rural financial counsellor's methods and record keeping, the committee is not in a position to guide the counsellor, and will not be able to ensure the desired project outcomes.

It was also observed that, where committees were constituted from local council representatives, these committees were less active than those constituted from interested community volunteers. The more active committees had a better understanding of their rural financial counsellors' activities and the outcomes the service was achieving.

#### Risk exposure

Management committees may be in breach of their funding agreements if they fail to ensure the service is producing desired program outcomes.

Members of management committees may be exposed to legal action if the rural financial counsellors' activities go beyond the desired program outcomes and result in losses to a client.

#### Recommendation 1 (high priority)

Management committees should be encouraged to take a more active role in supervising and supporting the counsellor. Such activities could include regular review of the counsellor's activities, and providing guidance and assistance.

The Department should consider the consolidation of management committees and the employment of a regional executive officer, who would report directly to management committees on the performance of rural financial counsellors and ensure that program objectives are being targeted by the activities undertaken.

## Finding 2 Broad governance and risk issues are not appropriately dealt with

<b>Finding:</b>	<b>The corporate governance practices exercised by management committees are rudimentary and inadequate to assure RFCS projects meet their requirements under funding agreements and State legislation.</b>
-----------------	---

### Discussion

Each management committee is responsible for ensuring that broad governance and risk issues are appropriately addressed. In particular, it was anticipated that, at a minimum, the following corporate governance strategies should be in place to ensure that RFCS project outcomes are achieved:

- development and promulgation of a business plan
- establishment of clearly defined roles and responsibilities
- completion of a risk assessment
- completion of appropriate quality assurance reviews (particularly of record keeping in client files and options provided to clients)
- implementing a performance review system
- training and development of rural financial counsellors and committee members.

Implementation of an effective corporate governance strategy would enable a service to establish and assess the effectiveness of the control structure. Several benefits can be gained from such an approach including:

- staff being able to apply more initiative and ingenuity to everyday tasks
- increased opportunities to analyse an operation more broadly, thereby improving strategic planning
- identification of more effective and efficient ways to provide services
- making the decision process more open and transparent.

The review found that most services lacked an appropriate corporate governance framework. Reasons provided for the absence of corporate governance strategies included the uncertainty of future funding. Committees found that there was no benefit to be gained from spending time and money planning when funding periods were no more than 12 months.

Management committees should be more aware that the absence of strategies may suggest that they are not exercising reasonable care in their role—particularly if their project overspends their grant funds and trades in an insolvent position. While incorporation of RFCS projects provides some protection to committee members, they remain personally liable if they fail to exercise reasonable care in their role—or if an employee fails to carry out their role, causing injury (primarily through economic loss) to a client.



Absence of appropriate corporate governance strategies may also result in conflicts of interest arising between rural financial counsellors and/or committee members and the service.

**Risk exposure**

Management committees may be in breach of both their funding agreement and State Acts covering incorporated associations.

Members of management committees may be in breach of their duties to the organisation and be found personally liable for any resulting losses.

Conflicts of interest may arise that affect the ability of the service to produce desired program outcomes.

**Recommendation 2 (high priority)**

The RFCS *Resource Manual* should be updated to highlight the aforementioned issues and to ensure management committees understand their risk exposures. State associations should be encouraged to provide corporate governance frameworks and templates for services to use as a starting point.

**Finding 3** Inappropriate services provided by rural financial counsellors

<b>Finding:</b>	<b>Services provided by rural financial counsellors are outside the parameters of their projects’ funding agreements.</b>
-----------------	---

**Discussion**

The role of the counsellor is to provide free, objective and confidential financial analysis to primary producers, rural businesses and individuals who have no other source of financial assistance. Three primary issues of concern were identified during the review:

- rural financial counsellors were not applying eligibility criteria to clients
- rural financial counsellors were providing advice they were not qualified to provide
- rural financial counsellors were using inappropriate methods to achieve outcomes for their clients.

The review found that there was an overall need for rural financial counsellors to establish eligibility criteria for acceptance of clients.

**Risk exposure**

Management committees may be in breach of their funding agreements.

Members of management committees may be in breach of their duties to the organisation and personally liable for any resulting losses.

**Recommendation 3 (high priority)**

The *Resource Manual* should be updated to highlight these issues and to ensure management committees understand the risks to which they are exposed. Management committees should be

encouraged to review the work undertaken by the counsellor and to make an assessment of the appropriateness of the assistance provided.

#### **Finding 4** In-kind contributions

<b>Finding:</b>	<b>RFCS projects are not adequately documenting in-kind contributions.</b>
-----------------	--

#### **Discussion**

When preparing an application for funding, each RFCS project must show that it can match the Australian Government's contribution with State and community funding. This funding may be in the form of in-kind contributions such as volunteers' time for office assistance and provision of premises rent free (subject to upper limits on some items).

Each RFCS reviewed was in receipt of one form or other of in-kind contributions. They included:

- reduced office rent and associated costs
- financial management services where services had been co-located with other community organisations
- personal services for cleaning, administration etc.
- accommodation for committee members
- free use of local council facilities.

It was noted that there was also an inconsistent approach to costing in-kind contributions provided in the form of personal services. In the majority of cases, an estimate was given of the value of the services provided, but no indication of how this was calculated. It would help if a standard hourly rate were set for all personal services provided as in-kind contributions.

The documentation maintained to support the in-kind contributions claimed by RFCS projects was generally inadequate.

#### **Risk exposure**

Under or overstatement of contributions may occur.

RFCS projects may be in breach of their funding agreements if contributions are not received.

#### **Recommendation 4 (medium priority)**

Each RFCS project should:

- record in-kind contributions during the period on either a spreadsheet or in a receipt book
- ask providers of in-kind contributions to provide, in writing, an annual statement of the assistance provided to the service
- ask their external auditor to certify compliance with the in-kind contributions, stated in their funding agreement, during the annual financial statement audit process.

The Department should develop an hourly rate to be applied for personal services.

## Finding 5 Overstatement of required budget

<b>Finding:</b>	<b>RFCS projects have overstated their required budgets for the period under review resulting in surplus funds accruing to them.</b>
-----------------	--

### Discussion

A quarter of the RFCS projects reviewed had overstated their requirements for operating funds for the period. In each instance, this resulted in the project having surplus funds in its bank account. All projects with surplus funds had bank balances above \$40,000, with some having surplus funds of over \$100,000. In one instance, additional emergency funding was sought and provided to the RFCS on the basis of its case of demonstrated need. However, the audit found that the project had surplus funds of more than \$100,000 that were not disclosed in its application for emergency funding.

On average, the funds on hand and available to each RFCS project under review were over \$66,000. Extrapolated across the 68 RFCS projects funded by the Department this equates to approximately \$4.5 million in funds held by projects at 30 June 2003. The bulk of these funds is most likely Australian Government monies which have accumulated as surpluses over the years of operation of the Rural Financial Counselling Service. However, it would be almost impossible to identify the exact amount attributable to Australian Government funding as the funds are intermingled with community and State government contributions to the projects.

A number of RFCS projects indicated that the accumulation of surplus funds had been deliberately planned to allow the service to continue to operate in the event that the Department ceased to provide funding. It is inappropriate for RFCS projects to overstate expenditure requirements to accumulate funds in this way.

### Risk exposure

If RFCS projects are allowed to continue to accumulate surplus funds there is a risk that funds provided for rural financial counselling may be used at a future time for provision of other services, or to fund commercial operations. That is, if the Rural Financial Counselling Service program ceases, RFCS projects will no longer be under any obligation to expend accumulated surplus funds in accordance with their funding agreements.

### Recommendation 5 (high priority)

The Department should establish a policy for the treatment of RFCS projects with accumulated surplus funds. In instances where the agreed budget has been significantly underspent in any one period, alterations to future funding payments should be made.

The existence of accumulated surplus funds should be taken into consideration when RFCS projects apply for emergency funding. Where projects have accumulated funds, it is appropriate for these funds to be used to provide rural financial counselling services to the community before emergency funding is provided.

## Finding 6 Failure of budgets to accurately reflect running costs

<b>Finding:</b>	<b>RFCS projects are not generating budgets for funding purposes that accurately reflect the costs of operating the project.</b>
-----------------	--

### Discussion

The finding that budgets did not reflect the actual running costs of the RFCS projects is related to the previous finding. Two types of circumstances were found during the review:

- the budgeted amount was significantly more than the actual expenditure
- OR
- the actual expenditure was significantly more than the budgeted amount. It was found, for example, in a number of projects that no allowance had been made for the cost of utilities in the budget, yet significant expenditure was incurred on electricity, water and telephones.

In most cases, the failure of the budget to reflect actual expenditure resulted from general ledger accounts in prior periods not aligning to budget categories. A number of RFCS projects indicated that they had randomly assigned costs to budget categories and did not use the agreed budget from their funding agreements to monitor performance.

Running costs appeared, in some cases, to be significantly outside the average costs incurred by other projects under review. These running costs had not been identified as anomalous in the past due to a lack of comparative evidence and failure to establish standard acceptable costs.

Acumen has conducted an analysis of standard costs incurred on major expenditure items such as accommodation, salaries and utilities.

### Risk exposure

Where actual expenditure is recorded in financial categories that do not align to budget categories there is increased risk to the Department that funds will be spent on non-approved activities or for non-approved purposes.

Where budgets do not accurately reflect the running costs of the RFCS project there is an increased risk that either:

- Australian Government funds provided for RFCS activities but will be spent on other activities at a later date
- OR
- the RFCS will not have adequate funds to perform its activities and will risk trading in an insolvent position.

### Recommendation 6 (medium priority)

The Department should encourage all RFCS projects to establish their financial records in accordance with a proforma chart of accounts that reflects budget categories. When funding applications are received, the Department should compare past expenditure in each category against the amount applied for and query any significant differences.

The Department should establish standard cost ranges for key running costs such as accommodation (rental) expenditure, rural financial counsellors' salaries, utility costs and vehicle running costs. These standard costs should be used as benchmarks to measure current and planned expenditure. Any anomalies identified should be queried with the RFCS project.

## Finding 7 Incomplete client records

<b>Finding:</b>	<b>Client records maintained in both physical client files and on the ARC database were incomplete.</b>
-----------------	---

### Discussion

Client files were reviewed at most of the sites visited. The review entailed observing procedures for client management, including at what point an enquiry became a client, initiation procedures and time recording. A sample of clients (5–10% of total client numbers at each project) was obtained and records in the ARC database were compared with the client files held by the projects.

In 50% of the projects reviewed it was found that client records were incomplete, and lacked evidence to support the time entries recorded in ARC.

In addition, the records of client meetings were often found to contain insufficient detail on the time and location of the meeting and of the matters discussed. This may lead to difficulty for another counsellor in helping the client in the event that the current counsellor fell ill or left the project. Furthermore, should a client commence legal action against the RFCS, adequate client meeting notes would serve as useful evidence about the actual interaction and options provided to the client by the counsellor.

At a number of RFCS projects, ARC records were not up to date at the time of the review, with the entry of client information being three months behind in some cases. Failure of a RFCS to update ARC, results in inaccurate information being passed to the Department. Incomplete information also means that ARC statistics become less useful for comparing RFCS project activities.

Overall, it was noted that ARC and client records were more likely to be well maintained in projects in which an administrative assistant was employed.

### Risk exposure

Incomplete ARC records may expose the RFCS project to adjusted funding amounts because of incorrect reporting to the Department.

Incomplete physical client files may result in RFCS projects being unable to adequately defend themselves in the event of legal action against them by a client.

### Recommendation 7 (medium priority)

All RFCS projects should introduce a self-audit process in which ARC entries are independently audited against the physical client file to ensure all ARC information is supported.

The Department should contact all RFCS projects where no administrative assistance is currently employed and encourage them to seek mechanisms through which they can address this issue (e.g. sharing office services or RFCS project amalgamation).

## Finding 8 Inconsistent statement of client numbers

<b>Finding:</b>	<b>RFCS projects do not have a consistent standard for what constitutes a client. Thus, some projects are overstating client numbers.</b>
-----------------	---

### Discussion

During the review of client records, RFCS projects were asked what criteria they applied to decide that a contact had become a client. The answers provided varied significantly, with some projects indicating it was once they had acted on the contact, possibly just by making an enquiry on their behalf. Other projects attached a time criterion to contacts, indicating that once they had spent more than a certain amount of time on the contact they considered them a client. While this time factor was the most common criterion applied, the time applied varied from an hour to half an hour.

The glossary on page 51 of the *ARC User Guide* defines clients as:

*Primary Producers, fishing enterprises and Small Rural Businesses in rural areas who are:*

- a) *experiencing financial hardship and have no other sources of financial assistance;*
- b) *in need of information and assistance to make decisions about their future business directions; and*
- c) *are being assisted by You.*

*In order to maintain some level of consistency across the program a client should only be entered into the client statistical database –ARC –once they have received a minimum 1 hour assistance from the Rural Financial Counselling Service, specifically to identify their current financial circumstances. The same condition will be used to reactivate clients who have become inactive.*

An inconsistent approach to determining when a contact is a client results in the comparability of RFCS projects being lost. Projects with high numbers of clients may be providing the same service to the community as RFCS projects with lower client numbers. The difference in client numbers may occur when “clients” are established for activities such as “Committee”, “Department” and “Marketing” which reflect administrative activities of the counsellor. Many rural financial counsellors had established these codes to avoid breaching the requirement in the funding agreement to spend 75% of their time on client work.

### Risk exposure

The Department may not be able to use client numbers as reported in ARC as a reliable statistic with which to measure the performance of RFCS if a consistent definition of a “client” is not applied. This is particularly an issue when RFCS projects are applying for emergency funding based on client numbers.

Any attempt at benchmarking RFCS projects will be unsuccessful while inconsistent criteria are applied.

### Recommendation 8 (high priority)

The Department should state within the main body of information in both the *Resource Manual* and the *ARC User Guide* what constitutes a client. Within the funding agreements it would also

be worthwhile updating the definition of a client in the schedule, to include the time frame in which a person must be serviced to be considered a client. At present it states only what type of entity a client may be, with no reference to time frame.

Where services are found to be recording client numbers outside the average parameters of a typical service, a review of client record-keeping should be undertaken.

The Department should review the need to maintain the 75%/25% criterion which is applied to all services for client time/administrative time split.

### **Finding 9** Inefficiencies in provision of services in some regions

<b>Finding:</b>	<b>The Department may be able to gain some efficiencies in the delivery of financial counselling services by amalgamating RFCS projects in some areas.</b>
-----------------	--

#### **Discussion**

During the performance review, a number of the RFCS projects visited were geographically very close to each other. The reviewers believe that efficiencies could be gained by combining these projects. Savings would be made in the costs of accommodation, administrative assistance and utilities. Management committees would also be in a position to become more active if they were combined.

Some services had already gained efficiencies by combining administrative functions such as financial management.

#### **Risk exposure**

The Department may incur unnecessary expenditure in some areas if there are overlaps in service provision.

#### **Recommendation 9 (high priority)**

The Department should explore options to improve efficiency of service delivery at RFCS projects. These options are discussed in the next section of this report.

### **Finding 10** Inconsistent level of counsellor qualifications

<b>Finding:</b>	<b>Qualifications among rural financial counsellors varied significantly. Not all rural financial counsellors held relevant formal qualifications.</b>
-----------------	--

#### **Discussion**

During the review, information was collected on the experience of, and formal and informal qualifications held by rural financial counsellors. It was noted that there was a wide range in experience and qualifications among rural financial counsellors.

In general, those rural financial counsellors without formal qualifications had experience in the banking or finance sector before commencing as a rural financial counsellor. Most rural financial counsellors with formal qualifications had completed studies with an agricultural focus.

### **Risk exposure**

Rural financial counsellors may not have suitable skills to adequately fulfil their role.

### **Recommendation 10 (high priority)**

The Department should explore options to provide all rural financial counsellors with a minimum level of qualifications. In particular, it should consider the development, in conjunction with an external body, of a certificate course in rural financial counselling. The course should cover all the basic skills needed by a counsellor, such as cash flow budgeting, time management and record keeping.



# IMPROVING RFCS OPERATIONS AND SERVICE DELIVERY

## Introduction

The focus of the audit stage of this performance review was to identify the areas in which individual services were in breach of either the audit criteria or their funding agreement. As described in the previous section, recommendations were made which focused on dealing with each individual finding in isolation. An overall finding was that a significant number of services were undertaking activities which were considered contrary to their funding agreements. No service was found to be fully compliant with the audit criteria and funding agreement requirements.

The impacts of each instance of non-compliance identified extend beyond individual RFCS projects to the program as a whole. In this section of the report we consider impacts and opportunities identified within individual service reviews, and apply a holistic approach to identify options for overcoming problems so as to improve RFCS operations and service delivery.

The impacts of the individual instances of non-compliance were found to fall into two main classes:

- **accountability** — impacts which affected the ability of individual RFCS projects or the Department to remain accountable for the funds expended in providing financial counselling services
- **efficiency and effectiveness** — impacts that affected the efficiency and effectiveness of the delivery of services to rural communities.

## Methodology employed

The opportunities identified during the review have been analysed and presented in this report in the context of the COSO (Committee of Sponsoring Organisations) Internal Control Framework in combination with a SWOT (strengths, weaknesses, opportunities, threats) analysis.

The COSO Internal Control Framework, details of which can be found at <[www.coso.org](http://www.coso.org)>, provides a basis for analysing the key components of a program and identifying areas where improvements can be made and benefits gained. Internal control is essential for effective management and service delivery of a program and to ensure that desired outcomes are achieved. In addition, internal controls promote efficiency, reduce risk and assist in the assurance of financial reliability and legislative compliance. Five interrelated components of internal control were considered during the review:

- **risk management** — consideration and documentation of all risks associated with the provision of funding and development of an effective risk mitigation strategy
- **control environment**
  - implementation of an appropriate organisational structure to achieve the objectives of the program, including identifying roles and responsibilities for key staff within the program
  - appropriate training for staff involved in administration and management of the program

- **control activities** — appropriate and cost-effective mechanisms, operating effectively to ensure compliance with current legislation, including ensuring that the chief executive manages the affairs of the program in a way that promotes proper use of Australian Government funds in accordance with the Financial Management and Accountability Act
- **information and communication** — adequate systems to ensure that RFCS projects can meet reporting requirements, and that appropriate management reports have been developed and are prepared in a timely manner
- **monitoring and review** — regular monitoring and review processes to ensure that funding agreements remain current and relevant, that the performance of RFCS projects is assessed regularly, and that accountability for Australian Government funds is maintained.

The assessment of each of these components provides an effective way to determine the overall operation of the Department in its delivery of the RFCS program and allows the identification of both good practices and areas for improvement within the program.

SWOT analysis is a standard tool used to identify areas for improvement in an organisation. It is an effective way of identifying strengths and weaknesses, of assessing the opportunities and threats an agency might face. Through a SWOT analysis, areas for potential improvement can be identified and implemented to benefit the organisation.

The review of 24 RFCS projects forms part of the Department's control activities in that the audit objectives assessed the performance of individual services. The review did not, however, look at internal processes and procedures in place within the Department to administer and manage the program.

## Improving accountability

### Introduction

The review found that the Department is reliant on information provided by the RFCS projects to effectively manage and allocate the funding available under the program, and to maintain accountability for expenditure of Australian Government funds.

Information is provided to the Department from a number of sources including:

- ARC database reports — extracted every four months from ARC systems maintained by each of the RFCS projects and provided to the Department where they are consolidated
- funding applications and funding agreements — in which projects provide the Department with information on the goals and objectives of their organisation and the estimated costs of providing a rural financial counselling service in their community
- annual financial reports — provided to the Department at the end of each year, following the completion of a project's annual financial audit
- ad hoc information provided at the request of the Department, or by a RFCS project to support a claim for changes in its funding.

A number of weaknesses in financial and other record-keeping processes and procedures were identified at RFCS locations. These weaknesses affect the quality of information provided to the Department and therefore its ability to remain accountable for funding.

### SWOT analysis

The results of a SWOT analysis of the accountability of the Department follow.

Strengths	Weaknesses	Threats	Opportunities	COSO element strengthened by addressing weaknesses
<p><b>ARC database</b></p> <ul style="list-style-type: none"> <li>Database developed by the Department to facilitate statistical data collection and reporting</li> <li>Some structure reporting mechanisms are in place, for instance four-monthly ARC reports</li> </ul>	<ul style="list-style-type: none"> <li>RFCS projects have inconsistent definitions of clients, leading to lack of comparability of client numbers reported</li> <li>Inconsistent use of ARC categories results in a lack of comparability of services provided</li> <li>The pre-existing version of ATLAS is dysfunctional, poorly programmed and unreliable</li> <li>Limited analysis of data by Department (largely due to database dysfunctionality)</li> <li>ARC statistics are not useful to the Department</li> <li>ARC information may be lost if RFCS projects do not back-up data or receive appropriate training</li> </ul>	<ul style="list-style-type: none"> <li>The Department may be criticised for lack of accountability for Australian Government funds</li> </ul>	<ul style="list-style-type: none"> <li>Improvements to ARC can be made to ensure statistics produced can be actively used to monitor services and determine apportionment of program funds to individual RFCS projects. The department is in the process of implementing ARC improvements.</li> </ul>	<p><b>Monitoring and review</b></p> <p><b>Control activities</b></p> <p><b>Information and communication</b></p>
<p><b>Approved budgets</b></p> <ul style="list-style-type: none"> <li>Some structure reporting mechanisms are in place; for instance, a standard budget exists for funding applications</li> </ul>	<ul style="list-style-type: none"> <li>By omitting or understating costs, budgets do not reflect actual running costs of the organisation</li> <li>Budgets are overstated, resulting in RFCS projects accruing surplus funds</li> </ul>	<ul style="list-style-type: none"> <li>The Department may be criticised for failing to recover Australian Government funds provided to projects, but not expended during their annual activities</li> </ul>	<ul style="list-style-type: none"> <li>Improvements can be made to the review of funding applications and annual acquittal of funds</li> </ul>	<p><b>Monitoring and review</b></p> <p><b>Control activities</b></p>

<b>Strengths</b>	<b>Weaknesses</b>	<b>Threats</b>	<b>Opportunities</b>	<b>COSO element strengthened by addressing weaknesses</b>
<p><b>Approved budgets (cont'd)</b></p> <ul style="list-style-type: none"> <li>• Some structured reporting mechanisms, such as the four-monthly ARC reports, are in place</li> </ul>	<ul style="list-style-type: none"> <li>• In-kind contributions stated in funding applications are overstated, or not received by the RFCS project during the reporting period</li> <li>• RFCS projects are not required to acquit funds against budget</li> </ul>		<ul style="list-style-type: none"> <li>• Acumen Alliance can provide information that can be used to provide parameters to measure proposed and actual expenditure against budgets</li> <li>• Implementation of a structured accounting framework that would allow for consistency and comparability in information provided by RFCS projects</li> </ul>	
<p><b>Information and communication</b></p> <ul style="list-style-type: none"> <li>• Some structured reporting mechanisms, such as the four-monthly ARC reports, are in place</li> </ul>	<ul style="list-style-type: none"> <li>• Failure of the Department to respond in a timely and decisive manner on matters brought to its attention</li> <li>• Failure of RFCS projects to record administration time because rural financial counsellors have set up client codes for particular administration tasks, or because an administrative assistant's time is not entered</li> <li>• Multiple communication points between RFCS projects and the Department lead to misinformation and inefficient resolution of issues</li> </ul>	<ul style="list-style-type: none"> <li>• RFCS projects cease communicating with the Department, as they see no value or need in doing so</li> <li>• The Department may act on inaccurate or incomplete information, resulting in an inappropriate outcome</li> <li>• The Department's position on issues may be inconsistently communicated</li> <li>• ARC reports may distort the actual effort of rural financial counsellors and administration staff, resulting in an inability to justify grant expenditure</li> </ul>	<ul style="list-style-type: none"> <li>• Implement a communications strategy which details all the methods by which information is to be provided to RFCS projects from the Department</li> <li>• Update the RFCS <i>Resource Manual</i> to include more detail and the answers to frequently asked questions and issues that arise</li> </ul>	<p><b>Information and communication</b></p> <p><b>Monitoring and review</b></p>

Strengths	Weaknesses	Threats	Opportunities	COSO element strengthened by addressing weaknesses
<p><b>Monitoring and review</b></p> <ul style="list-style-type: none"> <li>Some monitoring occurs in the form of ARC reports and the requirement for projects to provide audited annual accounts</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring is not tied to future funding provision</li> <li>Feedback on issues and concerns in information provided from RFCS projects does not occur</li> <li>The 75%/25% requirement for allocation of rural financial counsellors' time is distorted by current use of ARC — recording of assistants' time can also distort the ratio</li> </ul>	<ul style="list-style-type: none"> <li>The Department makes decisions in relation to the continuation and future direction of the program based on incomplete or inaccurate information</li> <li>RFCS projects provide services inconsistent with their funding agreement which are not detected</li> <li>Funds remain unspent and are not returned to the department</li> </ul>	<ul style="list-style-type: none"> <li>Develop an ongoing program of site visits and self audits to ensure RFCS projects are implementing recommendations and changes suggested by the department</li> </ul>	<p><b>Monitoring and review</b></p> <p><b>Information and communication</b></p>

## Action plan

### Improvements to ARC functionality

It is recommended that the department include in its current upgrade of the ARC database, enhancements to its functionality. Enhancements should include the following:

- Mandatory data fields — the department needs to assess what analysis is to be performed on the data provided by the RFCS projects in order to determine which data fields are to be made mandatory. At the time of the review, consistency of ARC data across projects was not being achieved. As a minimum, rural financial counsellors should be required to enter all of the relevant contact details of clients, including their addresses, phone numbers and Local Government Areas (LGAs). All clients should be assigned a client number or code, and all “assistance” made available to the client by the rural financial counsellor should be recorded. Further decisions on mandatory fields would be based upon the Department’s assessment.
- The ability to report on a rural financial counsellor’s activities on a specific day needs to be included in the reporting functionality of ARC. This would facilitate the accurate recording and reporting of actual time spent on particular activities, and to determine whether the current split of time between administrative functions and providing the required services is appropriate.
- The search facility should include LGA as a criterion.
- The finance screen should include a text box for Date of last financial update to ensure data is kept up to date.
- Any new version should maintain data back-up functionality.
- Any new version should retain the mail merge functionality, as rural financial counsellors and administration staff have found this useful.

### Implementation of a structured accounting framework

It is recommended that the Department implement a structured accounting framework which is applied to all RFCS projects for funding applications, annual financial reporting and financial record keeping. The framework should include the following:

- A standardised chart of accounts, which lists all anticipated income and expenditure for a project. This should be used by all RFCS projects for budget applications, acquittals of funds at the completion of a funding period and day-to-day financial record keeping. Projects should be encouraged to limit their operating accounts to the standard accounts. Use of the standard chart of accounts should be mandatory in all reporting to the Department.
- A formalised assessment process for each funding cycle that involves establishing parameters for each category in the chart of accounts, and then assesses all applications against these parameters for reasonableness and completeness. It was noted during the review that a number of projects had no budgetary records for utilities, yet incurred expenditure for electricity, gas and telephone services. Such anomalies would be identified and removed by applying a formalised assessment process.
- Provision of guidance in the *Resource Manual* on how to establish an appropriate audit trail for expenditure incurred and income received.

## **Review of funding applications and annual acquittals of funds**

It is recommended that the Department employ a more formalised process for review of funding applications and of annual acquittal of funds. This process should be implemented in parallel with the structured accounting framework, as the ability of the review process to work effectively will depend on the accuracy, completeness and comparability of information provided by RFCS projects.

It is recommended also that the formalised process be outsourced, as it will be required only for defined periods; that is, it will be required only once in a funding cycle for funding applications, and once at the end of each financial year for annual acquittals of funds.

The process should involve establishing acceptable parameters for each category of income and expenditure, then assessing the application or acquittal against this measure. Once an agreed funding amount is determined, this should form the basis for the annual acquittal. Assuming the implementation of a structured accounting framework, the acquittal process will involve the comparison of actual expenditure against budgeted funding, a process that should take a matter of minutes. A policy should be established for the resolution of all instances where over- or under-spending of budgeted funds occurred.

## **Communications strategy**

It is recommended that the Department develop a communications strategy that details what information needs to be provided to RFCS projects and the channels through which this information will be communicated. During the review, projects regularly noted that they felt that communication with the Department could be improved, particularly in the event that there were changes in the Departmental staff administering their project. The strategy should include a formal mechanism for recording queries and responses, to ensure that similar queries are answered consistently.

It is recommended that the communications strategy include a policy on who provides information from RFCS projects. We believe that, in the first instance, the Department should communicate only with the chair of the management committee or their nominated representative, except if the issue raised is a technical one, in which case it should be directed to the ARC help desk. Establishing a clear protocol for communication will reduce the risk of misinformation arising, or inconsistent responses from the Department occurring being reduced. The communications strategy and any associated policies should be made available to RFCS projects for comment before they are implemented.

## **Update of RFCS *Resource Manual***

It is recommended that the Department update the *Resource Manual* to overcome a number of problems that were identified during the audit phase. In particular, the *Resource Manual* should include:

- the Department's policy on treatment of RFCS projects that fail to adhere to the terms of their funding agreements
- the Department's policy on what constitutes a client and where time should be recorded when work is performed that is not specifically related to a client created in ARC
- what constitutes a service outside the parameters of a funding agreement
- a number of check sheets to guide operations and corporate governance of rural financial counsellors and committee members.



## Benefits

A number of benefits can be gained by implementing each of the aforementioned action items recommended. These benefits must be assessed against the costs and resources required to implement the actions.

The benefits of improving ARC functionality include improved reporting from the system. This will lead to improved decisions-making, and an increased usage of ARC as it more closely reflects the activities being performed by RFCS projects.

The benefits of implementing a structured accounting framework include the following:

- There would be improved comparability and consistency of financial information from projects. Comparability of information is important to ensure that RFCS projects do not overstate their funding requirements, and to identify any anomalous expenditure they incur.
- Requests for funding would be simpler and more accurate if funding categories matched day-to-day financial records of the RFCS projects. In addition, projects would be less likely to omit essential expenditure at the funding application stage, reducing the likelihood that they will have to seek additional funding at a later date.

The benefits of implementing a formal review process for funding applications and annual acquittals would include:

- improved accountability for provision of funds to RFCS projects, as each project is assessed against predetermined criteria
- funds being allocated to those services that have a greater need
- outsourced providers completing the job for a fixed fee each period, removing the need for additional resources to be allocated to the program by the Department
- applications from outsourced providers being assessed solely on their merits, since the applicants have no relationship with any of the projects
- variations from previous levels of expenditure and approved funding amounts being identified and followed up promptly.

The benefits of updating the *Resource Manual* flow from the current pattern of usage. In most instances, RFCS projects audited in the review indicated that they relied on the manual in the first instance for guidance if a problem arose, so updates to it will immediately benefit the projects if and when they encounter problems.

## Improving delivery of services to rural communities

### Introduction

For the Department to be able to demonstrate that the Rural Financial Counselling Service is meeting the objectives of the Agriculture Advancing Australia program, it must be able to show that it understands the needs of communities and is delivering a service that directly meets those needs. The Department must strike an appropriate balance between maintaining accountability and control over Australian Government funds, and providing communities with the opportunity and autonomy to use the funds in the way that best meets their needs.



The key issues of service delivery were identified during the review were that:

- RFCS projects are delivering services outside their current funding agreements; in particular, all projects were found to be providing some form of personal counselling to the community
- management committees did not have sufficient corporate governance mechanisms in place to ensure the projects were effectively and efficiently run
- RFCS projects were run inefficiently when management committees were not in control and no administrative support was provided.

These weaknesses affect the ability of the Department to ensure that the RFCS program is efficiently and effectively delivered to rural communities.

### **SWOT analysis**

The results of a SWOT analysis of the Department's delivery of the RFCS program follows.

Strengths	Weaknesses	Threats	Opportunities	COSO element strengthened by addressing weaknesses
<p><b>Provision of services</b></p> <ul style="list-style-type: none"> <li>RFCS projects audited were able to articulate the broad needs of the communities they were operating in and appeared to be addressing their financial counselling needs</li> <li>Services adapted to the communities they were operating in — where no other services (financial counselling, legal services, mental health workers and banks) were available, rural financial counsellors offered broader services than those of major regional centres</li> </ul>	<ul style="list-style-type: none"> <li>RFCS projects are delivering services outside the current parameters of their funding agreements</li> <li>RFCS projects and/or rural financial counsellors were involved in activities that would be considered as conflicting with their obligations to deliver free services under the program (e.g. fee for service activities provided in program, which is supposed to provide free services to the rural community)</li> </ul>	<ul style="list-style-type: none"> <li>The Department may be criticised for lack of control over the delivery of its program.</li> </ul>	<ul style="list-style-type: none"> <li>Review the efficiency and effectiveness of service delivery in areas where services are located geographically close together, or where management committees are not exercising appropriate corporate governance</li> <li>Different options for delivery of Rural Financial Counselling Services can be explored</li> </ul>	<p><b>Monitoring and review</b></p> <p><b>Control activities</b></p> <p><b>Information and communication</b></p>
<p><b>Assessment of need for services</b></p> <ul style="list-style-type: none"> <li>RFCS projects are able to apply for additional funding where needs in an area change</li> </ul>	<ul style="list-style-type: none"> <li>Services are operating at capacity, primarily due to the effects of drought on farmers, and may not be able to service others in need in the community</li> </ul>	<ul style="list-style-type: none"> <li>New rules excluding RFCS projects from completing FarmHelp forms will reduce available operating capital considerably</li> <li>The Department may be criticised for failing to recover Australian Government funds provided to projects but not expended during their annual activities</li> </ul>	<ul style="list-style-type: none"> <li>Review the efficiency and effectiveness of service delivery in areas where services are located geographically close together, or where management committee are not exercising appropriate corporate governance</li> <li>Different options for delivery of RFCS help can be explored</li> </ul>	<p><b>Monitoring and review</b></p> <p><b>Control activities</b></p>

Strengths	Weaknesses	Threats	Opportunities	COSO element strengthened by addressing weaknesses
<p><b>Efficiency and effectiveness of service delivery</b></p> <ul style="list-style-type: none"> <li>• RFCS responsive to needs of community</li> <li>• Services provided in timely manner</li> </ul>	<ul style="list-style-type: none"> <li>• Services responding to all needs rather than those they are funded for (financial counselling), leading to inefficient delivery of services</li> <li>• Delivery of services to those who can afford to pay for them (to the potential detriment of those who cannot)</li> <li>• Poor corporate governance exercised by management committees — no RFCS project audited was assessed to have appropriate corporate governance mechanisms in place</li> <li>• Failure to segregate the roles of rural financial counsellor and committee — in a number of projects, the rural financial counsellor was performing administrative roles such as completing funding applications and was participating in management committee meetings</li> <li>• Client records did not adequately document meetings between the client and rural financial counsellor or the work performed by the rural financial counsellor</li> <li>• Where no administrative assistant was employed, projects were found to be less efficient</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of community involvement in RFCS projects that are seen to be inefficiently run — it was observed that committees of well run projects had less difficulty attracting members</li> <li>• Funding agreements may not be adhered to where projects are inefficiently run</li> <li>• RFCS projects may be unable to defend the actions of the rural financial counsellor where poor records are maintained</li> <li>• Liability exposure — competitive neutrality issues with private fee for service providers</li> </ul>	<ul style="list-style-type: none"> <li>• Review the efficiency and effectiveness of service delivery in areas where services are located geographically close together, or where management committees are not exercising appropriate corporate governance</li> <li>• Different options for delivery assistance through the Rural Financial Counselling Service can be explored</li> </ul>	<p><b>Control environment</b></p> <p><b>Monitoring and review</b></p> <p><b>Control activities</b></p>

## **Action plan**

### **Options for the delivery of the Rural Financial Counselling Service program**

It is recommended that the Department explore options for the delivery of the program other than the current model of one management committee in each location managing one RFCS project. The options which the Department could consider include the following:

- RFCS projects that are located close to each other could be amalgamated, either by combining the provision of services under one management committee, or by combining aspects of project function, such as financial management.
- An “area manager” or “executive officer” could be appointed, with responsibility for overseeing day-to-day management of a group of RFCS projects located close to each other. The area manager would report to the management committee of each project. It is envisaged that area managers would be funded by the Department and would be responsible for all reports to the Department, including prompt provision of ARC records and acquittals of funding amounts.
- RFCS assistance could be delivered through other government service providers such as Centrelink.
- A two-tier system based on degree of isolation could be developed, in which services are provided and funded according to the role they provide within their communities. Isolation would be judged on the basis of a number of criteria, including whether banks, Centrelink, Medicare, accountants, solicitors, personal counsellors and other professional services existed in the immediate vicinity of the RFCS project.

### **Benefits and costs**

Consideration and implementation of the above recommendations provides an opportunity for the Department to significantly improve a number of aspects of service delivery and the overall accountability of the program at a departmental and operational level. The benefits would include:

- improved accountability for provision of funds to RFCS projects as each project would be assessed against predetermined criteria
- increased accountability for Australian Government funds
- potential savings through the creation of consolidated services and reduced administrative costs.

The benefits and costs of the changes are summarised in the following table.

Action	Benefits	Costs to the Department
<b>Merging or partial merging of RFCS projects</b>	<ul style="list-style-type: none"> <li>• Saving of expenditure on rental of accommodation, administrative assistance and other running costs</li> <li>• More consistent delivery of corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>• Initial supervisory costs to ensure merge is effective — possible support of service</li> <li>• Loss of coverage of some rural areas if rural financial counsellors relocate. It is envisaged that RFCS projects will be merged only where counsellors are currently located close to each other and service delivery will not be affected. Where partial merging occurs it is anticipated that counsellors will not be relocated.</li> </ul>
<b>Employment of area manager or executive officer</b>	<ul style="list-style-type: none"> <li>• Improved information flows to both management committees and the Department</li> <li>• Independent supervision of rural financial counsellors by individual with detailed knowledge of the area.</li> <li>• Better accountability/control of the rural financial counsellor</li> <li>• Corporate governance may be strengthened where it is implemented/enforced by paid coordinator rather than volunteers</li> </ul>	<ul style="list-style-type: none"> <li>• Employment costs of area manager. Should be partially offset by reduction in administration costs experienced by the RFCS projects. In some areas, ex-rural financial counsellors may be able to be employed part-time to carry out this role.</li> </ul>

## Other issues

The performance review of the Rural Financial Counselling Service program focused on RFCS project operations and activities. It did not include a review of departmental processes and procedures to administer and monitor the program. Information on procedures currently in place for improving ARC, communicating with RFCS projects and assessing applications was provided to the reviewers during the review.

It is recommended that the processes and procedures in place within the Department to assess, administer, vary and acquit funding to RFCS projects be formally reviewed. The benefits of such a review would include the opportunity to identify additional opportunities for efficiency gains and areas where accountability can be further improved.

# FINDINGS OF A SELF-AUDIT INVESTIGATION

## Introduction

It was not possible for the Acumen review team to conduct first-hand audits of all 68 projects in the RFCS program. Those projects not included in the main review (24) were provided with a self-assessment checklist to complete and return (44).

The checklist was developed from the audit plan used during the main review. The self-assessment process had a two fold aim. First, it was designed to provide the Department with information on the activities of individual RFCS projects, including levels of current expenditure, in-kind support and expenditure on rural financial counsellors' salaries. Second, the process was designed to alert management committees to the types of information they should be continually seeking and reviewing to ensure they are complying with their obligations to the Department under their funding agreements.

This section of the report provides a summary of the overall findings from the assessment of completed checklists.

## Methodology employed

The self-assessment checklists were mailed to the chairs of the 44 RFCS projects which had not been included in the first-hand review. Each project was provided with instructions on how to complete the checklist and an electronic file to use in preparing their response.

The checklist was built around the following main questions:

### **Funding Agreement**

1. Was the service established in accordance with the funding agreement?
2. Were funds spent in accordance with the funding agreement and in accordance with the approved budget?

### **Management of funding**

3. Has a bank account been established with a deposit-taking institution solely for the purposes of accounting for and administering any funding provided under this agreement?
4. Are records maintained for all other funding provided to the service?
5. Have financial records been maintained to enable:
  - all income and expenditure to be identified
  - preparation of financial statement
  - audit of records
6. Has funding been used for the purchase of assets without prior approval?
7. Are full and accurate records maintained of activities?
8. Are insurance policies maintained in accordance with the funding agreement?
9. Are there any conflicts of interest?
10. Does the rural financial counsellor(s) meet the minimum competencies as specified in the *Resource Manual*?
11. Does the rural financial counsellor(s) have an employment contract?

### Committee

12. Does the committee meet on a regular basis and operate in accordance with committee guidelines provided in the *Resource Manual*?
13. What role does the rural financial counsellor play in committee meetings?
14. Does the committee conduct the program administration?
15. Are client and stakeholder satisfaction surveys completed?
16. Does the committee conduct formal performance reviews of the rural financial counsellor(s)?

### Client records

17. Are full and accurate client records maintained in ARC?

Each project was given a month to complete the checklist. The checklist was completed on time by 21 of the 44 projects (48%), which were subsequently assessed in this part of the review.

## Summary of findings and opportunities

The focus of the assessment was to identify areas in which the RFCS projects had failed to complete the checklist in an appropriate manner, and to identify responses in the checklist which suggested that follow up and further investigation should be undertaken by the Department.

Each RFCS was assessed using the following criteria for guidance:

- *Was there evidence of adequate corporate governance?* This was assessed by looking at the person who completed the self audit (whether a committee member or the rural financial counsellor), whether any conflicts of interest were declared, and a review of meeting minutes where they were provided.
- *Were funds expended according to the budget and in an appropriate way?* This was assessed by comparing actual expenditure against the budgeted expenditure and by looking at expenditure in specific categories, particularly in relation to rural financial counsellors' salaries. Recommendations were made to the Department to review future funding allocations where significant underspending had occurred.
- *Were adequate financial record keeping mechanisms in place to ensure appropriate records were maintained?* The ability to provide financial records, details of in-kind contributions and bank reconciliations were reviewed when assessing this criterion.

In general, it was rural financial counsellors rather than members of management committees who completed the checklists. In such instances, it was likely that the committee did not have governance mechanisms in place to ensure they had appropriate control over the project.

A significant number of projects were unable to adequately acquit their budget expenditure, evidenced by instances where acquittals on the worksheet provided did not align to profit and loss statements also provided.

The self-audits were designed to bring governance issues to the attention of management committees. A number of self-audit responses documented actions such as "Management committee to discuss LSL and superannuation at next meeting" which suggests the self audits achieved this goal. It is unlikely, however, that the goal was achieved where the rural financial counsellor rather than a committee member completed the checklist.

For each RFCS project self-audited, areas of concern were highlighted and the Department informed that the project fell into one or other of the following classes:

**Action required** — responses in the self-assessment checklist identified significant areas of concern. It is recommended the Department include the project in future audit programs.

**Monitoring required** — responses indicated that the project may be over/underspending budget allocation. The Department should monitor it to ensure that continued patterns of over/under spending are followed up.

**No action required** — self-assessment responses suggested the project is complying with its funding agreement and is incurring costs in line with the agreement.

Of the 21 projects involved, **6** were deemed to require **action**, **5** to need **monitoring** and **10** as requiring **no action**.

It should be noted that a further 23 projects did not complete the self audit.