
New South Wales Auditor-General's Report

Performance Audit

Management of the ClubGRANTS scheme

Department of Trade and Investment, Regional Infrastructure
and Services – Office of Liquor, Gaming and Racing

Independent Liquor and Gaming Authority



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Management of the ClubGRANTS scheme: Department of Trade and Investment, Regional Infrastructure and Services – Office of Liquor, Gaming and Racing, and the Independent Liquor and Gaming Authority.**

A handwritten signature in black ink that reads 'Peter Achterstraat'.

Peter Achterstraat
Auditor-General
2 May 2013

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Executive summary

Background

The ClubGRANTS scheme, formerly known as the Community Development and Support Expenditure scheme, is to ensure that larger registered clubs in New South Wales contribute to the provision of front-line services to their local communities. Also, the scheme is to ensure that the disadvantaged in the community benefit from the contributions made by clubs.

The scheme was established in 1998 under the *Registered Clubs Act 1976*. Since 2001, *Gaming Machine Tax Act 2001* outlines the legislative responsibilities under the scheme.

When introducing the scheme, the then Minister for Gambling and Racing stated that the scheme 'specifically recognises the valuable role played by registered clubs in their local communities and provides the government with a more effective method of rewarding clubs for the support they provide to those communities'.

The minister also stated that 'guidelines for what is to constitute community support expenditure are to be approved by the minister'. The 'ClubGRANTS guidelines' provide guidance on the operations of the scheme.

This scheme provides tax rebates on gaming machines profits generated by registered clubs when they provide financial or in-kind support for locally-based community programs and services. Clubs are entitled to a maximum of 2.25 per cent in tax rebates on gaming machine profits over \$1 million. In 2012, 472 registered clubs participated in the scheme.

Since 2002, \$417 million in ClubGRANTS tax rebates has been provided to registered clubs. This is government revenue foregone.

Tax rebates can be claimed for three types of expenditure:

- Category one is for projects and/or services that contribute to the welfare and broader social fabric of the local community, and aimed at improving the living standards of low income and disadvantaged people. The total tax rebate allowed is 0.75 per cent of gaming machine profits over \$1 million.
- Category two is for other community development support activities and projects not eligible under category one and expenditure allocated to a club's core activities. The total tax rebate allowed is 1.1 per cent of gaming machine profits over \$1 million. This was increased in 2011 from 0.75 per cent.
- Category three was introduced in 2011 and is a contribution of 0.4 per cent of gaming machine profits over \$1 million by clubs to a Statewide funding pool for large scale projects associated with sport, health and community infrastructure. This is a direct deduction from gaming machine profits.

Under the Act, the Minister for Tourism, Major Events, Hospitality and Racing:

- may publish ClubGRANTS guidelines outlining projects and services that can be funded under each category and how ClubGRANTS funds are to be used
- approve grants for projects and services under category three.

The *Gaming Machine Tax Act 2001* gives responsibility to the Independent Liquor and Gaming Authority (the Authority) to ensure that:

- tax rebates are provided based on evidence that funds have been used by registered clubs towards community development and support
- tax rebates for category one and two do not exceed 1.85 per cent
- based on information from the ClubGRANTS local committee, tax rebates are not provided where registered clubs have not complied with the ClubGRANTS guidelines

The NSW Office of Liquor, Gaming and Racing (OLGR) manages the scheme and provides administrative support to the minister and the Authority in the carrying out of their statutory responsibilities. The audit focused on how well OLGR carries out this role.

We answered the following questions:

- Are there guidelines consistent with the objectives of the *Gaming Machine Tax Act 2001*?
- Is the scheme managed to deliver according to policy and guidelines?

Conclusion

We found that the ClubGRANTS guidelines were consistent with the objectives of the *Gaming Machine Tax Act 2001*. We also recognise that the governance arrangements of the scheme are complex. There are many stakeholders involved with various levels of responsibilities.

However, overall, there is room for improvement in the way the ClubGRANTS scheme is managed in accordance with the guidelines. The administration of all three categories should be strengthened.

In the absence of proper monitoring, there is limited assurance that category one is effectively managed.

The Act and the guidelines are silent on how category two should be administered. This leads to a lack of transparency in the provision of funds.

The guidelines outline how category three funds should be administered. However, the relevant processes as set out in the guidelines have not been established one year after the introduction of the new category. All the funds spent to date in category three have been allocated under election commitments.

The Act states that tax rebates are provided if the Authority is satisfied that clubs have spent funds towards community development. We found that the tax rebate approval process is not robust. It also lacks a mechanism to allow feedback on claims that do not comply with the guidelines.

Public reporting on the performance of the scheme is limited. This should be improved so that the public can have confidence that the scheme is achieving its objectives.

The participation of all sectors of the community in the ClubGRANTS scheme is strong and there have been successful projects funded by the scheme. However, to provide assurance that ClubGRANTS funds are spent according to the guidelines, regular monitoring for compliance is required.

OLGR advised it will seek approval in 2013-14 to undertake a review of the implementation of the ClubGRANTS guidelines.

Supporting findings

Is category one effectively managed?

The ClubGRANTS guidelines relevant to category one are consistent with the objectives of the Act. However, the management of category one could be improved through better monitoring.

We found the guidelines were clear on the composition and operations of the local committees.

However, the guidelines are unclear on how clubs should make decisions based on the recommendations from local committees. The Office of Liquor, Gaming and Racing (OLGR) advised that the scheme has been established to provide clubs with a high degree of autonomy, with minimal intervention by government.

We found that compliance with the guidelines varies. We also found that the tax rebate approvals are not robust. Tax rebates are provided to clubs without assessing the validity and accuracy of the returns. These assessments are carried out a few months later. They also lack a mechanism to allow feedback on claims that may not comply with the guidelines.

There have been successful projects funded through this category. However, in the absence of proper monitoring, there is limited assurance on the effectiveness of category one. There is also limited public reporting on the benefits received by the local community through this category.

OLGR advised that it will seek approval in 2013-14 to undertake a review of the implementation of the ClubGRANTS guidelines.

Is category two effectively managed?

The ClubGRANTS guidelines relevant to category two are consistent with the objectives of the Act. However, there could be significant improvements in the management of category two.

Category two provides the highest tax rebate. However, the Act and the guidelines are silent on the administration of these funds. The guidelines are also vague on what can be funded under category two. OLGR advised that the absence of processes for the administration of category two is a matter of government policy and clubs themselves are best placed to make funding decisions.

The tax rebate assessment and approval process for category two is the same as category one.

In the absence of transparent processes for administering category two, the public cannot have assurance that this category is effectively managed.

Is category three effectively managed?

The ClubGRANTS guidelines relevant to category three are consistent with the objectives of the Act. However, there could be significant improvements in the management of category three.

One year after the introduction of category three, the ClubGRANTS Fund committee, set out in the guidelines to administer grants under this category has yet to be established. There have been four grants approved and spent under election commitments.

Recommendations

OLGR should take all the necessary actions including advising the minister to:

Strengthen the ClubGRANTS guidelines and ensure compliance

1. by December 2013 include all relevant requirements of the *Gaming Machine Tax Act 2001* in the ClubGRANTS guidelines (page 26)
2. by September 2013 proactively communicate to all local committees an estimate of funding available under category one (page 32)
3. by December 2013 develop grants administration guidelines for category two (page 34)
4. by December 2013 establish the ClubGRANTS Fund committee under category three (page 40)
5. by December 2013 develop grant management processes for the provision of grants under category three and publicise the application process (page 40).

Improve review processes

6. by December 2013 develop a mechanism for feedback from local committees on tax rebate claims by clubs (page 32)
7. by December 2013 strengthen the tax rebate process to include a timely assessment of tax rebate claims and consideration of any tax rebate information provided by local committees (pages 32 and 36)
8. by December 2013 include in the annual audit program of registered clubs, a review of ClubGRANTS expenditure and publicise common issues (pages 32 and 36)
9. by December 2013 consider an annual independent audit of ClubGRANTS expenditure by clubs and a statement be provided to OLGR (pages 32 and 36)
10. by December 2013 establish and publicise a complaints mechanism for breaches of the ClubGRANTS guidelines (pages 32, 36 and 40).

Improve reporting and transparency of the ClubGRANTS scheme

11. continue to provide monthly reports on delegated functions relating to the ClubGRANTS scheme to the Independent Liquor and Gaming Authority (pages 32 and 36)
12. by September 2013 work with clubs and benefiting organisations to ensure they publicly report on funding provided under category one and two in accordance with the ClubGRANTS guidelines (pages 32 and 36)
13. by December 2013 publicly report on category three funding provided including information on the recipients and the purpose of the grants (page 40)
14. by December 2014 review the ClubGRANTS scheme to assess whether the scheme is effective and achieving its objectives against the guidelines (pages 32 and 36).

Response from the Department of Trade and Investment, Regional Infrastructure and Services



**Trade &
Investment**

Office of the Director General

DGTO13/139
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Mr Peter Achterstraat
Auditor-General
Audit Office of NSW
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Dear Mr Achterstraat

Performance Audit – *Management of the ClubGRANTS scheme*

I refer to your letter of 26 March 2013 regarding the Audit Office's Performance Audit, *Management of the ClubGRANTS scheme*.

I thank the Audit Office for providing the opportunity to contribute to the preparation of the report, and welcome the opportunity to provide a formal response.

Please find enclosed the response on behalf of NSW Trade & Investment.

Should you require further information on this matter, Ms Cathrine Lynch, Director, Policy and Strategy, Office of Liquor, Gaming and Racing, can be contacted on 02 9995 0672 or at cathrine.lynch@olgr.nsw.gov.au.

Yours sincerely

Jeannine Biviano
Acting Director General

Encl.

17/4/13

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NSW TRADE & INVESTMENT

RESPONSE TO NEW SOUTH WALES AUDITOR GENERAL'S REPORT INTO THE MANAGEMENT OF THE CLUBGRANTS SCHEME

Introduction

NSW Trade & Investment appreciates receiving the *Performance Audit – Final Report: Management of the ClubGRANTS scheme*. The report provides a useful analysis of the scheme's operation, and contains helpful observations and recommendations. It is proposed that all of the report's recommendations will be implemented, although implementation may differ in some respects from the specific requirements in the report.

NSW Trade & Investment is of the view that some of the observations in the report do not take account of the principles underpinning the scheme's operation, much of which is determined by Government policy. The respective roles of stakeholders in the scheme's Governance are not properly identified, and some commentary is selective and not representative of the most common outcomes.

Accordingly, this response provides clarification on these matters. It identifies specific areas of concern to NSW Trade & Investment, and provides a response to each of the recommendations.

Policy underpinning the scheme

The ClubGRANTS scheme has been established to provide clubs with a high degree of autonomy. The scheme's framework reflects the view of the legislature that clubs are best placed to make funding decisions under Categories 1 and 2 of the scheme. This policy position was reaffirmed by the responsible Minister in the second reading speech when introducing the ClubGRANTS scheme reforms into Parliament on 3 August 2011.

The *Gaming Machine Tax Act 2001* leaves a number of matters (such as the decision making process for the approval of grants) for clubs to determine in accordance with their own objectives, and within the context of a simple legislative framework supported by the ClubGRANTS Guidelines. This operational model reflects Government policy.

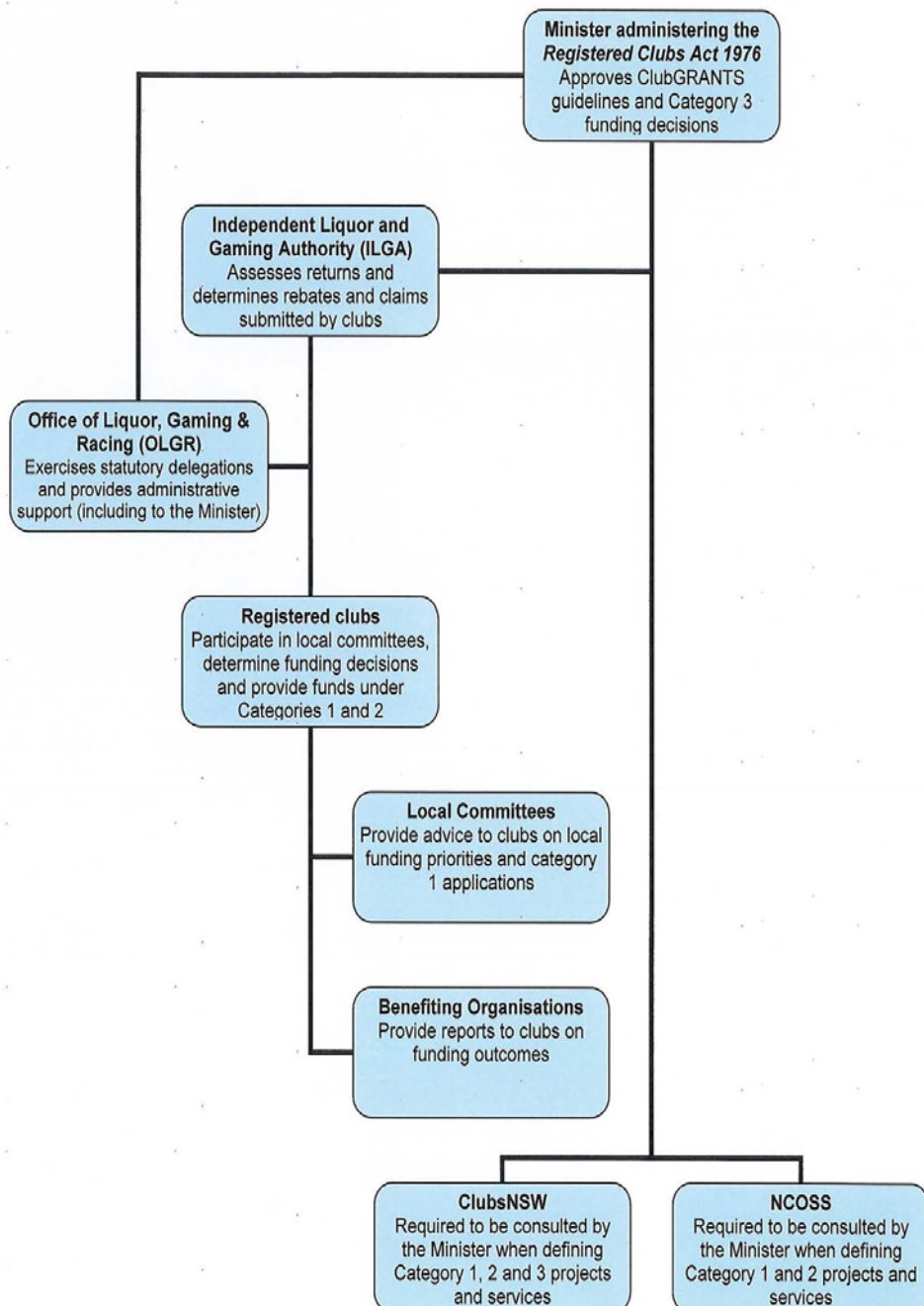
These policy objectives were outlined in a letter from the Minister for Tourism, Major Events, Hospitality and Racing, and Minister for the Arts, to the Auditor-General on 26 September 2012 following the commencement of the audit process. They were also detailed in the feedback provided by NSW Trade & Investment to the NSW Auditor-General's office.

Some of the analysis and recommendations in the report are critical of issues which are matters of Government policy. For instance, the report notes that the Act and Guidelines are silent on the administration of Category 2 funding, which allows clubs to fund projects and services operated by clubs and affiliated organisations. This reflects the Government's policy that clubs are best placed to make funding decisions and that there should be minimal Government intervention.

Roles of stakeholders in the scheme's governance

It is important to understand the governance of the scheme and, intrinsic to this are the roles and respective accountability of the various stakeholders in the scheme. These stakeholder roles are not accurately captured in the report, and the specific governance responsibilities of some stakeholders are not recognised.

Governance roles are as follows:



Assessment of gaming machine tax rebates

The Report comments on the assessment of tax rebate returns, and comments that their accuracy and validity are examined after rebates are approved.

ClubGRANTS registered clubs are required to submit an annual return to the Independent Liquor and Gaming Authority, providing details of Category 1 and Category 2 rebates that have been claimed during the year. These returns are assessed, and where there is an anomaly or incomplete information, further information is sought from a club.

The Authority must be satisfied that a rebate complies with the ClubGRANTS Guidelines. Where the Authority considers that a rebate does not comply with the guidelines, a reassessment can be undertaken and adjustments made according to a club's gaming machine tax liability.

The Report does not recognise that the risk assessment principles underpinning this assessment model are consistent with tax models used by the Commonwealth and other jurisdictions.

Response to findings*Is Category one effectively managed?*

The report finds that the ClubGRANTS Guidelines are unclear as to how clubs should make decisions based on the recommendations from local committees. Section 16 of the *Gaming Machines Tax Act 2001* provides for the content of the guidelines and their publication by the Minister administering the *Registered Clubs Act 1976*. The ClubGRANTS Guidelines establish requirements for the Category 1 funding process, including the workings of local committees. These committees facilitate a broad consultative and advisory process in relation to Category 1 funding decisions made by clubs (including identifying local funding priorities).

While the guidelines recommend that clubs allocate a minimum of 75 per cent of Category 1 funds in accordance with the local committee's recommendations, the legislation and guidelines allow clubs to make Category 1 decisions that differ from the committee's recommendations. Category 1 funding decisions can also be made without funding proposals having been considered by the local committee process. This reflects Government policy intentions in regard to the role of clubs in determining funding allocations under the scheme.

The Report notes that there have been successful projects funded through Category 1, and provides a very small example of such projects. However, it is noted that since the scheme's inception in 1998, tens of thousands of projects and services have been funded under the scheme. There is no suggestion in the report or elsewhere that such projects and services have not been successful.

Is Category two effectively managed?

The Report finds that the Act and the guidelines are silent on the administration of Category 2, and that the guidelines are vague on what can be funded under this category.

The absence of provisions in the legislation and guidelines relating to a process for the administration of Category 2 grants is deliberate, and reflects the policy that clubs are the decision makers in regard to these funding allocations. This policy also underpins the

absence of any requirement in the Act for Category 2 funding to be considered or supported by a third party. Further, clubs are entitled to provide funding for their core activities under Category 2, and external advice and/or support is not necessary in these circumstances.

The ClubGRANTS Guidelines include a requirement that clubs make every attempt to place on their websites a list of programs, projects or services for which funding has been provided, including funding provided under Category 2. This is a relatively new requirement which commenced on 1 September 2012 and will facilitate greater transparency and public accountability for funding provided by clubs.

Is Category three effectively managed?

The Report finds that the ClubGRANTS Fund Committee to administer grants under Category 3 has not been established, and notes that there have been four grants approved which stem from election commitments.

It is important to note that the Act does not require that there be a grants administration process for Category 3 in the guidelines, nor does it provide for the establishment of the ClubGRANTS Fund Committee, or require the committee to be established before Category 3 funding decisions are made by the Minister. The establishment of the committee is an administrative decision made by the Minister.

The ClubGRANTS Guidelines provide that the committee is to:

- a) consider applications for grants from the ClubGRANTS Fund;
- b) develop mechanisms, including performance indicators, to monitor and evaluate the expenditure of funds approved by the Minister; and
- c) develop a model "Funding and Performance Agreement" for use for funded projects and services that receive ClubGRANTS Funds.

The role of the committee, which is to include a representative of ClubsNSW, is to support the Minister in making funding decisions. It is not the role of the committee (when established) to "administer" grants as suggested in the report.

The Minister is responsible for all funding decisions made under Category 3 regardless of the establishment of the committee, and is not bound to seek advice from the ClubGRANTS Fund Committee before making a funding decision. Section 17A(4) of the *Gaming Machine Tax Act 2001* provides that the Minister can approve expenditure from the fund to support and develop, by way of grant, large scale projects or services associated with sport, health or community infrastructure that are defined in the ClubGRANTS Guidelines as Category 3 projects and services. The funding of election commitments is consistent with these provisions.

The report notes that an important role for agencies in putting election commitment projects forward for funding approval is to ensure that Ministers are appropriately informed as to the nature of the project and whether it is likely to make proper use of public money.

However, it needs to be noted that funding for certain Category 3 commitments was identified prior to the 2011 election when the current Government was in opposition. Following the election the Government proceeded to implement its election commitments. In these circumstances the role of agencies is limited. However the Department has a role in ensuring that election commitments meet appropriate legislative and administrative arrangements.

been, and will continue to be, provided to the Minister when approving Category 3 funding to ensure all legislative and administrative requirements are met.

The Report notes that in 2011-12, \$9 million of gaming machine profits was transferred into the ClubGRANTS Fund. However, the Department provided advice during the audit process that this was subsequently reduced to \$8 million in May 2012 as a result of an assessment made by Treasury of projected gaming machine profits in 2011-12.

Response to other issues raised in the report.

The Report states that there are over 95,800 gaming machines in New South Wales which provided over \$660 million in gaming machine tax to the NSW Government in 2011-12. The latest records indicate that there are 94,095 gaming machines in clubs and hotels in NSW. The gaming machine tax figure noted above relates to tax paid by clubs only.

Public reporting

The Report states that public reporting on the performance of the scheme is limited. However, as advised during the audit process, there is no requirement in the Act or the guidelines for there to be public reporting on the performance of the scheme. While not disputing that it is in the public interest for information to be available on the performance of the scheme, it is not clear against what criteria or requirements additional public reporting would be measured.

Local committee feedback

The Report notes that, under the legislation, tax rebates should not be provided to a registered club by the Independent Liquor and Gaming Authority where a local committee provides information that the club failed to comply with the guidelines. While this mechanism to provide feedback by local committees is contained in section 17(3) of the Gaming Machine Tax Act, it is not reflected in the guidelines. OLGR will recommend to the Minister that the guidelines be amended to address this issue and ensure compliance with the relevant legislation.

Publication of funding estimates by local government area

The Audit Office found that although OLGR publishes on its website estimates of funding available in each local government area, local committee members who were interviewed were not aware of this.

OLGR will raise awareness about the information available to local committees through ClubsNSW, the Council of Social Service of New South Wales, and through its website, newsletter and e-news.

ClubGRANTS clubs have, since 1 September 2012, been required to make every attempt to publicise on their websites the programs, projects and services for which funding has been provided. The information includes the total amount of the grant and whether the expenditure provided was under Category 1 or 2. This information must be updated every six months. This information is required to be placed on clubs' websites from 1 March 2013 and be available to local committees.

Local committee operations

The Audit Office found that local committee operations are limited to making recommendations on suitable projects to clubs. This is the policy intention as per the *Gaming Machine Tax Act 2001* and the guidelines.

ClubGRANTS audits

The report states there have been limited audits of clubs, and no reviews of funded organisations for compliance with the guidelines.

OLGR audits ClubGRANTS clubs through its risk based compliance audit program. There is no statutory basis or requirement for OLGR to audit funded recipients. However, benefiting organisations are required to provide reports to clubs on funding outcomes, and these documents can be reviewed as part of the compliance audit process.

Local committee representation

The report states that compliance with the guidelines varies. For example, of the eight local government areas visited, only one had an Aboriginal representative on the local committee.

It is noted that under the ClubGRANTS Guidelines, Aboriginal representation is not a mandatory requirement. However, NSW Trade & Investment agrees that it is a component of best practice to actively encourage and include Aboriginal representation on local committees. The Department will raise this issue with ClubsNSW.

2005 review of the scheme

The report notes that a 2005 review ("The Scullion Review") of the former CDSE scheme (now called the ClubGRANTS scheme) found there was a lack of transparency and accountability of how funds were spent under the scheme.

It should be noted that the former Government made a policy decision not to implement all of the recommendations contained in the review's report.

The report states that there have been no reviews carried out of the local committee process. This is not correct as the scope of the Scullion review included an examination of the issues facing local committees as part of its review.

Reassessment of rebate claims

The Report states that reassessments are minimal and are generally adjustments for claims under the incorrect category.

All clubs are assessed on the basis that they are entitled to the maximum subsidies available under the scheme. Reassessments are made where a club does not expend funds equating to the total allowable rebate.

The overwhelming majority of clubs expend all their allowable ClubGRANTS funds during the relevant reporting period. Most of that expenditure is correctly allocated in accordance with the requirements of the scheme. Where a club does not expend the maximum allowable amount under the scheme, or funds are incorrectly allocated, a reassessment is undertaken.

It is noted that 474 ClubGRANTS returns were received between 27 July and 18 December 2012 for the gaming machine tax year ending 31 August 2012. All of these returns were thoroughly reviewed for tax assessment purposes in accordance with established procedures to ensure tax rebates were applied correctly. Approximately 40 clubs are subject to reassessments each year.

The Report states that during the audit, OLGR advised that due to a lack of resources it has been difficult to conduct a thorough review of tax rebate returns.

However, all returns are checked and thoroughly reviewed for tax assessment purposes in a timely manner to ensure each club meets its obligations under the ClubGRANTS guidelines. This approach to reviewing information is consistent with the model used by the Commonwealth and other jurisdictions for assessing tax rebate claims.

The report states that prior to the audit, the Independent Liquor and Gaming Authority did not receive any feedback from staff within the OLGR on delegated functions.

In June 2005 OLGR established a network common to both the Independent Liquor and Gaming Authority and OLGR which contains details of all reassessments made under delegation. This system facilitates access to this information for both entities. Additionally a detailed audit trail of each club's assessment is available on the Centralised Monitoring System database which records transactions dating back to August 2002. There is no record of the Authority seeking further information or reports from OLGR on delegated decisions made in respect of the ClubGRANTS scheme.

Performance monitoring

The Report states there is a lack of monitoring of the performance of the scheme, and suggests that additional monitoring of Category 1 would assist in informing whether the community has benefited from funded programs and services.

Clubs provide funding for an enormous range of community based projects and services under the scheme. An assessment of how the community has benefited from each of these funded programs would be a very large undertaking that would not be possible within the current resources of NSW Trade & Investment. It is intended that a review of the ClubGRANTS Guidelines be undertaken in 2013-14, and it is proposed that, in accordance with the Audit Office recommendation, this matter be considered as part of that review.

Funding recipients

The Report lists various concerns raised by local committee members, including that clubs provide Category 1 grants to the same charities every year; some grants are given based on club philosophy rather than local priorities, funding by some clubs is subjective, and decisions can be influenced by lobbying from organisations seeking funding. The Report notes the same for funding under Category 2.

The guidelines permit clubs to make their own funding decisions so long as the expenditure provided is eligible under the guidelines. This is consistent with Government policy that clubs are best placed to make decisions about funding allocations.

ClubGRANTS Steering Committee

The Reports refers to a ClubGRANTS steering committee that was not in operation during the audit. This committee was established by the former Government at the beginning of the last decade for specific purposes that existed at the time, and was discontinued towards the end of the last decade as it was no longer considered necessary. It has not met for five years. There is no identified current need for this committee and there are no plans to reinstate it.

ClubGRANTS expenditure

The Report lists various kinds of expenditure claimed as tax rebates and states it is unclear whether these have been claimed according to the guidelines.

While ClubGRANTS clubs may list many different kinds of expenditure in their annual returns, not all of the expenditure included in a return will necessarily be eligible expenditure. A club will not receive a gaming machine tax rebate for ineligible expenditure. Every annual return is audited to determine whether it relates to eligible expenditure under the guidelines.

It is worthwhile noting that the examples provided in the report are a very small sample, including only 13 expenditure items totalling 0.6 per cent of the total submitted expenditure. However, clubs provide expenditure for many thousands of projects and services each year under Category 2. Common examples include expenditure on rural fire brigades, search and rescue squads, local sport, veteran's welfare, neighbourhood and community centres, local schools and child care centres, organisations that support people with disabilities and those living with diseases such as cancer, multiple sclerosis and Alzheimer's disease.

It is also important to consider the context of the expenditure claimed under the scheme. For example, the reference to "tattoo expenses" in the report's sample would refer to a military tattoo. The expenses associated with military tattoo are entirely consistent with the guidelines and the operation of the scheme, particularly for RSL and services clubs.

In places the report confuses eligible expenditure with eligible recipients. Expenditure can be provided if it is eligible under the guidelines. It is the expenditure that is eligible, not the recipient.

Funding eligibility

The report states that funding was provided in 2011-12 to *Youth Off The Streets* by clubs from Categories 1 and 2, while this charity also received funding under Category 3, and that this is contrary to the guidelines.

It was not intended that organisations that have received Category 1 or Category 2 funding in the past would be excluded from Category 3 funding, rather those that had received Category 3 should not be able to then apply for Category 1 or 2 funding for those same projects or services (i.e. double-dipping). The guidelines will be reviewed to provide clarity on this issue.

Response to Recommendations

NSW Trade & Investment's response to each recommendation is set out below.

OLGR should take all the necessary actions including advising the Minister to:

Strengthen the ClubGRANTS guidelines and ensure compliance

1. by December 2013 include all relevant requirements of the Gaming Machine Tax Act 2001 in the ClubGRANTS guidelines (page 14).

The Minister responsible for administering the *Registered Clubs Act 1976* approves the ClubGRANTS Guidelines. NSW Trade & Investment will provide advice to the Minister on this issue.

2. by September 2013 proactively communicate to all local committees an estimate of funding available under category one (page 20)

OLGR will communicate this information to local committees through ClubsNSW, the Council of Social Service of New South and through its website, newsletter and e-news that are provided to stakeholders.

3. by December 2013 develop grants administration guidelines for category two (page 22).

Government policy recognises that clubs are best placed to determine how ClubGRANTS funds, which are derived from club gaming machine revenue, should be spent in their communities. This was reaffirmed by the Minister in the second reading speech for the *Gaming Machine Tax Amendment Bill 2011* on 3 August 2011.

Under the ClubGRANTS Guidelines, the administration of Category 1 expenditure includes a process (i.e. local committees) to provide local stakeholders with an opportunity to express their views on funding priorities.

The legislation as drafted reflects Government policy that such a process is not required for Category 2 expenditure, therefore providing clubs with discretion to fund projects that may otherwise not receive funding under Category 1. Category 2 expenditure, which includes expenditure on a club's core activities, is solely determined by clubs.

However, the benefit of having best practice grants administration guidelines for Category 2 funding is appreciated, and NSW Trade & Investment will work with ClubsNSW to ensure there is a best practice model that can be used by clubs.

4. by December 2013 establish the ClubGRANTS Fund committee under category three (page 28)

The Minister responsible for administering the *Registered Clubs Act 1976* is responsible for establishing the ClubGRANTS Fund Committee. The Minister has approved, in principle, of the Committee's establishment, as part of the process to invite applications for funding under Category 3. Steps are being taken to establish the Committee in 2013.

5. by December 2013 develop grant management processes for the provision of grants under category three and publicise the application process (page 28)

Under the ClubGRANTS Guidelines, the ClubGRANTS Fund Committee is responsible for developing these processes, including the development of a model Funding and Performance Agreement for funded projects and services. It is proposed that this occur once the committee has been established.

Improve review processes

6. by December 2013 develop a mechanism for feedback from local committees on tax rebate claims by clubs (page 20)

This recommendation will require amendments to the guidelines. The Minister responsible for administering the *Registered Clubs Act 1976* approves the ClubGRANTS Guidelines. NSW Trade & Investment will provide advice to the Minister on this matter and potential approaches that might meet the intent of this recommendation.

7. by December 2013 strengthen the tax rebate process to include a timely assessment of tax rebate claims and consideration of any tax rebate information provided by local committees (pages 20 and 24).

While this is primarily a matter for the Independent Liquor and Gaming Authority, it is noted that the existing tax rebate process is consistent with the model used by the Commonwealth and other jurisdictions for assessing tax rebate claims.

The concept of a timely assessment is subjective in the absence of an accepted benchmark. As assessment and associated rebate is unaffected by whether or not the assessment is undertaken immediately or some time later. This principle is applied under the Commonwealth's taxation system, whereby tax can be collected and assessed in subsequent years.

OLGR is working with the Independent Liquor and Gaming Authority in the assessment of tax rebates to ensure industry compliance with the guidelines.

8. by December 2013 include in the annual audit program of registered clubs, a review of ClubGRANTS expenditure and publicise common issues (pages 20 and 24).

OLGR's annual compliance audit program includes a review of ClubGRANTS expenditure. This is conducted on a targeted, risk based approach. Any common issues identified, for example claiming expenditure for items that are ineligible under the ClubGRANTS Guidelines, can be published in the Office of Liquor Gaming and Racing's publication *Liquor + Gaming* to alert industry.

9. by December 2013 consider an annual independent audit of ClubGRANTS expenditure by clubs and provide a statement to be provided to OLGR (pages 20 and 24).

Such an audit would require legislative support, and there would be significant costs for clubs and government. NSW Trade & Investment is intending to undertake a review of the ClubGRANTS Guidelines in 2013-14, and it is proposed that, in accordance with the recommendation, this matter be considered as part of that review.

10. by December 2013 establish and publicise a complaints mechanism for breaches of the ClubGRANTS guidelines (pages 20, 24 and 28).

Complaints can already be made to OLGR about the actions of registered clubs under the ClubGRANTS scheme, including alleged breaches of the ClubGRANTS Guidelines. A complaint can be made at http://www.olgr.nsw.gov.au/website_complaints.asp.

Information will be added to the OLGR website to provide greater clarity that complaints can be made in respect of breaches of the ClubGRANTS Guidelines.

Improve reporting and transparency of the ClubGRANTS scheme

11. continue providing monthly reports on delegated functions relating to the ClubGRANTS scheme to the Independent Liquor and Gaming Authority (pages 20 and 24).

Where statutory functions are delegated to OLGR officers by the Independent Liquor and Gaming Authority, OLGR will continue its practice of ensuring the availability of monthly reports to the Authority on delegated functions under the ClubGRANTS scheme.

12. by September 2013 work with clubs and benefiting organisations to ensure they publicly report on funding provided under category one and two in accordance with the ClubGRANTS guidelines (pages 20 and 24).

NSW Trade & Investment will work with the club sector to educate clubs about the requirement to publicly report on funding provided under Category 1 and 2.

13. by December 2013 publicly report on category three funding provided including recipients and the purpose of grants (page 28).

The ClubGRANTS Fund Committee, when established, will be required to provide the Minister with an annual report detailing the expenditure of funds during the gaming machine tax year. Consideration will be given to what public reporting will be appropriate.

14. by December 2014 review the ClubGRANTS scheme to assess whether the scheme is effective and achieving its objectives against the guidelines (pages 20 and 24).

It is proposed that a review of the ClubGRANTS Guidelines will be undertaken in 2013-14. This proposed review will provide an opportunity to consider whether the guidelines are consistent with Government policy and its objectives for the scheme.

~~~~~

# Response from the Independent Liquor and Gaming Authority



Mr Peter Achterstraat  
Auditor-General  
Audit Office of New South Wales  
Level 15, 1 Margaret Street  
SYDNEY NSW 2000

Dear Mr Achterstraat

## Performance Audit – Management of the ClubGrants scheme

The Independent Liquor and Gaming Authority acknowledges the work of the Audit Office in reviewing this scheme and appreciates the opportunity to comment on the draft report.

The Authority is obliged under s.17(1) of the *Gaming Machine Tax Act 2001* to be satisfied - on such evidence as it may require - that relevant clubs have applied the requisite proportion of their gaming machine profits to community development and support. That is, that the clubs have complied with the ClubGrants scheme guidelines, to entitle them to a tax rebate. As the draft report finds, a total of \$417 million has been permitted in tax rebates under this scheme over the past decade.

Under existing arrangements, the Authority is provided annually with a statutory declaration from each club's secretary that the necessary expenditure has been incurred, accompanied by summary information about that expenditure. These returns must be lodged by clubs immediately after the end of each financial year (i.e. after 31 August) to enable the appropriate tax payments to be swept from each club's account on 21 September.

The Authority's practice has been to accept the information contained in these several hundred returns, which identify many thousands of grants, on the basis of very limited initial review, while performing a more detailed analysis over subsequent months. This is a labour intensive process that is susceptible to the weaknesses identified in the draft report.

The Authority notes the recommendations for improvement contained in the report. However, it considers a more efficacious structure for a program of the magnitude of the ClubGrants scheme would be one that required each relevant club to:

- submit an independently audited statement that the claimed expenditures comply with the requirements of the ClubGrants guidelines; and
- procure from each relevant local committee a statement that the committee is satisfied that the club has complied with its obligations under those guidelines.

The Authority considers a process of this kind, accompanied by targeted follow-up checks, would provide it with a substantially greater level of satisfaction that there is an appropriate level of compliance, at reduced public cost.

The Authority will look to work with relevant stakeholders to implement this arrangement with effect from the tax year commencing 1 September 2013.

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GPO Box 3970, Sydney NSW 2001 Tel +61 2 9995 0599 Fax +61 2 9211 0062  
[www.ilga.nsw.gov.au](http://www.ilga.nsw.gov.au) ABN 42 496 653 361

Finally, the draft report contains several references to the Authority having delegated certain of its functions under the Act to "OLGR", or (more correctly) to officers within OLGR.

You should be aware that until 11 February 2013, the Authority did not have management responsibility for the officers who performed liquor and gaming machine-related work on its behalf. Instead, those officers reported to OLGR, within NSW Trade and Investment. However, in accordance with enhanced governance arrangements entered into by the Authority with NSW Trade and Investment from that date, many of those officers now report direct to the Authority. Consequentially, the Authority also revoked its delegations to officers who do not report to the Authority - including the delegation of the Authority's functions under the Gaming Machine Tax Act.

The Authority thanks you for the opportunity to provide this response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'D. Greenhouse', is positioned above the printed name.

David Greenhouse  
**Chief Executive**

19 April 2013

# Introduction

## 1. Background

### 1.1 Registered clubs and gaming machines in New South Wales

Registered clubs are not-for-profit organisations that provide recreational services to club members. There are over 1,500 registered clubs in New South Wales. They are of various types including sporting, RSL/services, football, community/workers, golf and cultural/religious clubs.

Electronic gaming machines are the major source (62 per cent) of revenue for registered clubs. There are over 95,800 gaming machines in New South Wales. In 2011-12, gaming machine profits amounted to over \$3.4 billion and provided over \$660 million in gaming machine tax to the NSW Government.

#### Exhibit 1: Gaming machine profits and taxes generated by clubs

| Year*   | Gaming machine profits<br>\$ | Gaming machine tax<br>\$ |
|---------|------------------------------|--------------------------|
| 2007-08 | 3,176,463,781                | 608,679,174              |
| 2008-09 | 3,256,018,238                | 635,586,507              |
| 2009-10 | 3,244,871,356                | 640,291,886              |
| 2010-11 | 3,356,293,191                | 673,288,794              |
| 2011-12 | 3,461,721,769                | 660,198,293**            |

Source: Office of Liquor, Gaming and Racing

Notes: \* The gaming machine year is from 1 September to 31 August. \*\*The annual gaming machine tax rates were reduced effective as at 1 September 2011.

### 1.2 What is the ClubGRANTS scheme?

The ClubGRANTS scheme (previously called the Community Development and Support Expenditure scheme – CDSE) was established in 1998 under the *Registered Clubs Act 1976*. In 2001, the scheme was transferred to the *Gaming Machine Tax Act 2001*.

The ClubGRANTS scheme is a tax rebate scheme for registered clubs. It applies to those registered clubs earning gaming machine profits of over \$1 million annually. This is through providing cash or in-kind support to eligible recipients. In turn, the NSW Government provides a tax rebate to clubs of up to 2.25 per cent.

The ClubGRANTS guidelines states that 'the scheme is designed to ensure that larger registered clubs in New South Wales contribute to the provision of front-line services to their local communities; and to ensure that the disadvantaged in the community are better positioned to benefit from the substantial contributions made by clubs. It also facilitates contributions by larger clubs towards infrastructure to support sporting, health and community activities'.

These tax rebates are government revenue foregone.

Refer to Appendix 2 for details of the legislation on the ClubGRANTS scheme.

The ClubGRANTS guidelines provide guidance on the administration of the scheme. There are three categories of expenditure.

The ClubGRANTS scheme is a tax rebate scheme for registered clubs

NSW Government provides a tax rebate to clubs of up to 2.25 per cent



## Exhibit 2: Categories of expenditure under the ClubGRANTS scheme

**Category one:** Projects and/or services that contribute to the welfare and broader social fabric of the local community, and aimed at improving the living standards of low income and disadvantaged people. The total tax rebate allowed is 0.75 per cent of gaming machine profits over \$1 million.

**Category two:** Other community development and support activities and projects not eligible under category one and expenditure allocated to a club's core activities. The total tax rebate allowed is 1.1 per cent of gaming machine profits over \$1 million.

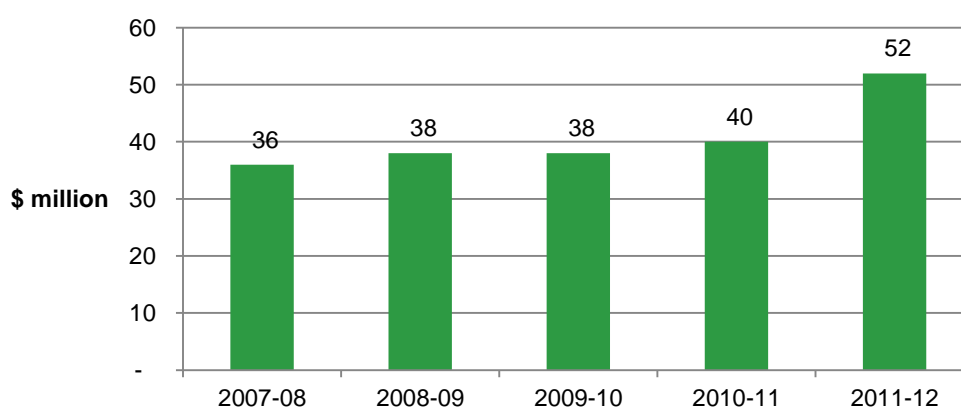
**Category three:** A contribution of 0.4 per cent by clubs to a Statewide funding pool for large scale projects associated with sport, health and community infrastructure. This is a direct deduction from clubs gaming machine profits into the Statewide ClubGRANTS Fund.

Source: Office of Liquor, Gaming and Racing.

In 2012, 472 registered clubs participated in the scheme. From 2002-03 to 2011-12, over \$417 million in tax rebates has been provided to registered clubs under the scheme.

## Exhibit 3: ClubGRANTS tax rebates to registered clubs over the last five years

In 2012, 472 registered clubs participated in the scheme



Source: Office of Liquor, Gaming and Racing.

In 2012, 134 local government areas benefited from the scheme.

## Exhibit 4: Local government areas receiving the highest funding

| Local government areas | Average annual funding<br>(2002-03 to 2011-12)<br>\$ |
|------------------------|------------------------------------------------------|
| Fairfield              | 3,593,964                                            |
| Bankstown              | 1,784,932                                            |
| Blacktown              | 1,700,090                                            |
| Canterbury             | 1,598,743                                            |
| Penrith                | 1,491,619                                            |

Source: Office of Liquor, Gaming and Racing.

There have been several changes to the scheme over the years. In 2011, the Act and the ClubGRANTS guidelines were amended to:

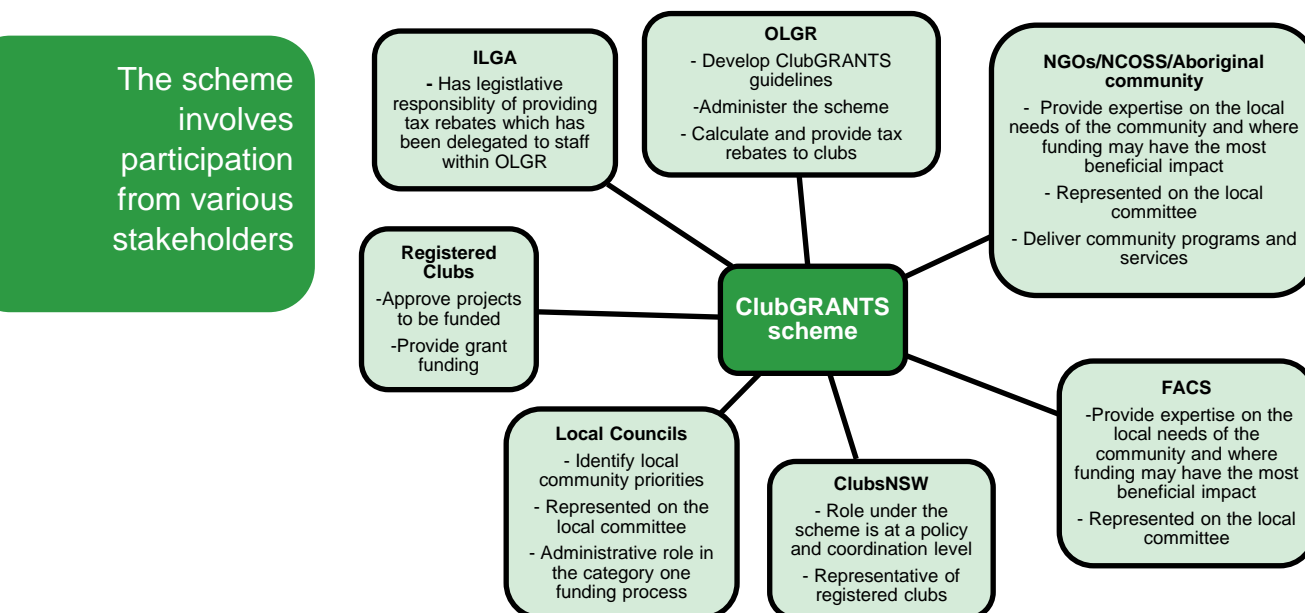
- change the name of the scheme from the Community Development and Support Expenditure scheme to the ClubGRANTS scheme
- increase the tax rebate claimable under category two from 0.75 per cent to 1.1 per cent
- introduce a new category three fund pool, into which 0.4 per cent of a club's gaming machine profits over \$1 million would be transferred, for large scale infrastructure projects.

Refer to Appendix 3 for details. These changes were consistent with the Memorandum of Understanding signed in 2010 between the NSW Liberals and the Nationals and ClubsNSW (peak body for registered clubs).

### 1.3 Who are the stakeholders and what are their roles?

The ClubGRANTS scheme involves participation from various stakeholders in the public and the not-for profit sector.

**Exhibit 5: Stakeholders in the ClubGRANTS scheme**



Source: Audit Office research 2012.

Note: ILGA: Independent Liquor and Gaming Authority; FACS: Department of Family and Community Services; NCOSS: Council of Social Services of New South Wales; NGO: Non-Government Organisations; OLGR: Office of Liquor, Gaming and Racing.

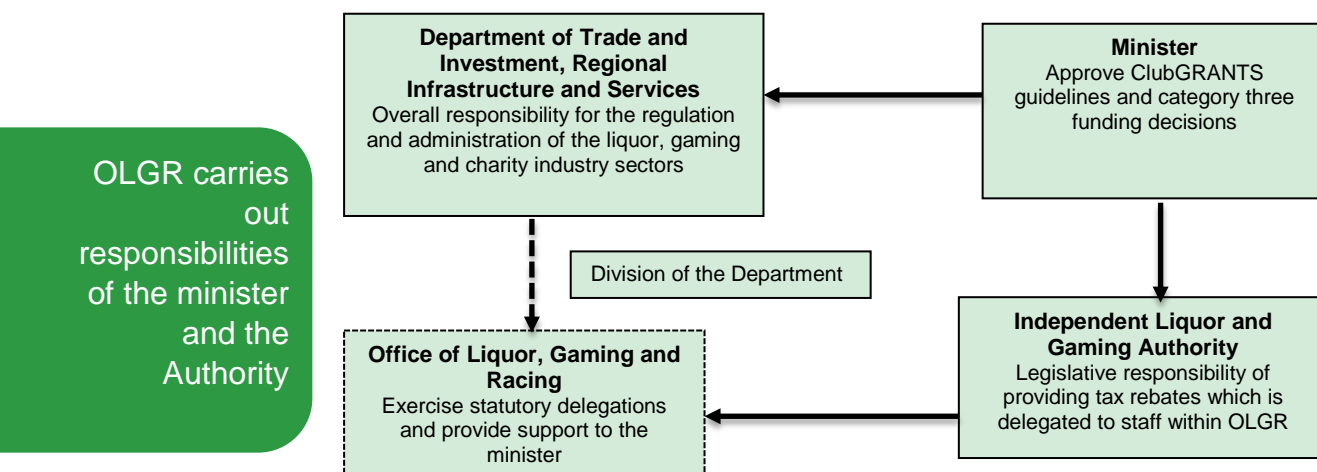
The Minister for Tourism, Major Events, Hospitality and Racing under the Act:

- may publish ClubGRANTS guidelines outlining projects and services that can be funded under each category and how ClubGRANTS funds are to be used
- approve grants for projects and services under category three in accordance with the ClubGRANTS guidelines.

With regards to providing accurate tax rebates to clubs, the Act gives responsibility to the Independent Liquor and Gaming Authority (the Authority) to ensure that:

- tax rebates are provided based on evidence that funds have been used by registered clubs towards community development and support
- tax rebates do not exceed 1.85 per cent for categories one and two
- based on information from the ClubGRANTS local committee, where registered clubs have not complied with the ClubGRANTS guidelines tax rebates are not provided.

#### Exhibit 6: Governance of the ClubGRANTS scheme



Source: Audit Office research, 2012.

OLGR carry out responsibilities of the minister and the Authority.

#### Exhibit 7: Additional responsibilities of OLGR

OLGR is also responsible for:

- providing information publicly on estimated category one funds available for the provision of grants
- providing information publicly on the process for applying for category three grants
- reviewing clubs and benefiting organisation for compliance against the guidelines.

Source: Audit Office research, 2012.

The audit focused on OLGR and assessed how well it manages the ClubGRANTS scheme. In the next three sections, the report examines the management of each category (one, two and three) in turn.

# Key findings

## 2. Is category one effectively managed?

The management of ClubGRANTS category one can be improved through better monitoring.

### 2.1 Does category one have guidelines consistent with the objective of the Act?

**Finding:** The ClubGRANTS guidelines relevant to category one are consistent with the objectives of the Act. We found the guidelines were clear on the composition and operations of the local committees.

However, the guidelines are unclear on how clubs should make decisions based on the recommendations from local committees.

Category one funding contributes to the welfare of the local community

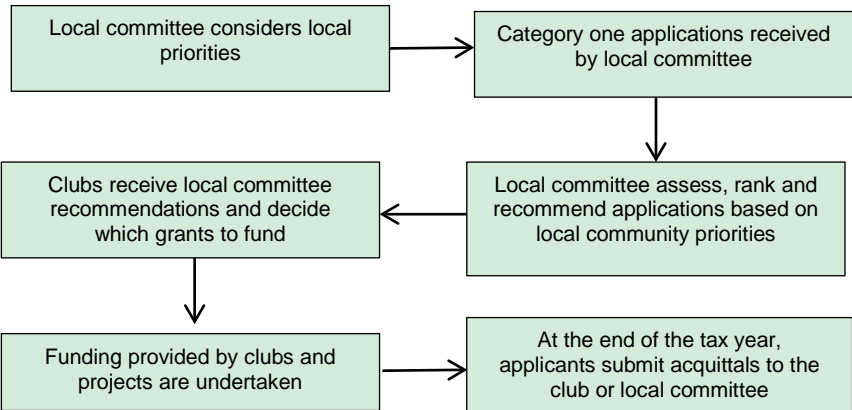
The Act requires that ClubGRANTS guidelines define the ‘terms’ of category one projects and services. It also requires the guidelines to determine ‘what constitutes the application of profits to community development and support’. This is done in consultation with ClubsNSW and the Council of Social Services of New South Wales.

The ClubGRANTS guidelines state that category one funding is for projects and/or services that contribute to the welfare and broader social fabric of the local community, and is aimed at improving the living standards of low income and disadvantaged people. Refer to Appendix 4 for details.

Category one has a consultative process for allocating funds. Local committees are established according to local government areas. The local committees are made up of local clubs and key community service agencies including local councils, representatives from the Department of Family and Community Services, the Council of Social Services of New South Wales and the local Aboriginal community.

These committees have a role in ensuring that category one funds allocated are aligned to community priorities. They identify local community priorities so clubs can determine which projects and services to fund. Refer to Appendix 5 for key roles of a local committee.

#### Exhibit 8: Current practice for providing grants under category one



Source: ClubGRANTS guidelines, May 2012.

We found that the processes were clear in the guidelines on the composition and operations of the local committees.

In the local government areas visited, representation on the local committees was strong and there was a general commitment to recommend grants for the most worthy projects. We found various initiatives for selecting suitable projects. Refer to Exhibit 9.

#### Exhibit 9: Potential applicants need to demonstrate likely benefits

The Wyong local committee requires all new funding applicants to provide a presentation to the local committee outlining the objectives of the project, how the funds will be used and the potential benefit that will be achieved.

The purpose of this is to allow applicants the opportunity to demonstrate how ClubGRANTS funding will be used to contribute to the local community.

Source: Audit Office research, 2012.

Most registered clubs expressed a commitment to addressing local needs of the community. There is also a common view that the ClubGRANTS scheme is a good model.

However, the guidelines are unclear on how clubs should make funding decisions. OLGR advised that the scheme has been established to provide clubs with a high degree of autonomy, with minimal intervention by government.

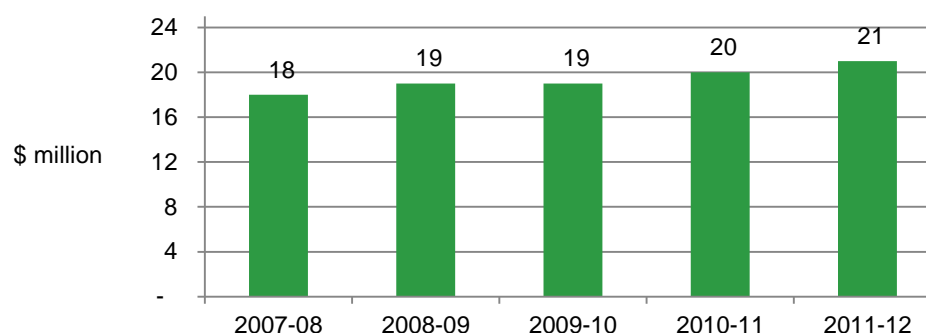
ClubsNSW has provided some guidance. Funding decisions by clubs are to consider factors such as:

- Has the club supported this project before? If so, has the recipient reported on the previously funded project?
- Does the project historically receive funding from a local club in the area? If so, is continued funding vital for its viability?
- Are other sources of funding available from federal, State or local government or other funding sources for the project?
- Does the project represent good value for money?
- Does the project duplicate existing services in the same area?

Other States which use gaming revenue to assist community projects have clear standards on the provision of funds. Refer to Appendix 9 for details.

From 2007-08 to 2011-12 approximately \$97 million has been provided as tax rebates to clubs for community projects funded under category one.

#### Exhibit 10: Tax rebates given to clubs for providing grants under category one



Source: Office of Liquor, Gaming and Racing.

The guidelines are unclear on how clubs should make funding decisions

Over the last five years \$97 million was provided as tax rebates under category one

The guidelines outline the requirements under the Act on how tax rebates will be provided except for one provision. The Act states that tax rebates are not to be provided where information from local committee indicates that registered clubs have not complied with the guidelines. This mechanism for local committees to provide feedback is not reflected in the guidelines.

To ensure public funds are effectively spent, clarity around the assessment standards of tax rebates is important.

**Recommendation:**

OLGR to include all relevant requirements of the *Gaming Machine Tax Act 2001* in the ClubGRANTS guidelines.

## 2.2 Is category one managed to deliver according to policy and guidelines?

**Finding:** In the absence of proper monitoring, there is limited assurance that category one is effectively managed.

We found compliance with the guidelines varies. Tax rebates approvals are not robust. They also lack the mechanism to allow feedback on claims that may not comply with the guidelines.

There is limited public reporting on the benefits received by the local community through this category.

Monitoring of category one can be improved to ensure it is managed according to the guidelines. We found that:

Monitoring of  
category one  
can be  
improved

- although OLGR publishes on its website estimates of funding available in each local government area, local committee members we visited were not aware of this
- local committee operations are limited to making recommendations on suitable projects to the clubs
- there have been no reviews carried out of the local committee processes and of whether category one grants have been provided according to the guidelines
- there have been limited audits of clubs and no reviews of funded organisations for compliance with the guidelines.

As a result, compliance with the guidelines varies.

For example, of the eight local government areas we visited, only one had an Aboriginal representative on the local committee.

Local committees we visited raised a number of concerns on the administration of category one.



## Exhibit 11: Some concerns raised by local committee members

- Clubs give grants to the same charities every year
- Some grants are given based on club philosophy and not local priorities
- Funding by clubs is subjective and decisions can be influenced by lobbying from organisations seeking funding
- Some clubs know which projects they will be funding thus making local committee rankings redundant
- Double-dipping by funded organisations is possible, however is difficult to detect
- There is no transparency on how much funding is available to allocate towards category one projects.
- High ranked projects are not always funded
- Club representatives generally outnumber other representatives on the local committee thus influencing the ranking of suitable projects for funding.

Source: Audit Office research, 2012.

A steering group was formed to review the progress and outcomes of the ClubGRANTS local committees. Its membership comprises:

- Office of Liquor Gaming and Racing
- Independent Liquor and Gaming Authority
- Family and Community Services
- Council of Social Service of New South Wales
- ClubsNSW
- Local Government and Shires Association.

This steering group was to meet at least quarterly to consider feedback from representatives on each local committee on its progress and achievements.

Also, it was to make periodic recommendations to the government on changes to the ClubGRANTS guidelines and other elements of the scheme. This group was not in operation during the audit.

### Provision of funding

Although the guidelines do not outline how funding decisions should be made, it recommends that clubs allocate a minimum of 75 per cent of category one funds in accordance with the local committee's recommendations. Most local committees are not aware of the level of funding available to clubs under category one. Most clubs do not provide this information to the local committees.

Further analysis conducted by one local committee found that most clubs contributed between 19 to 62 per cent of category one funds based on local committee recommendations. Refer to Exhibit 12 for details.

Local  
committee  
recommendations  
influence  
19 to 62  
per cent of  
category one  
funding  
decisions

## Exhibit 12: Allocation of category one funds in one local government area in 2011-12

| Club | Funds allocated through local committee<br>\$ | Total category one funds available to club<br>\$ | Funding on local committee recommendations<br>% |
|------|-----------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| A    | 138,278                                       | 221,731                                          | 62                                              |
| B    | 74,433                                        | 79,562                                           | 94                                              |
| C    | 40,000                                        | 39,882                                           | 100                                             |
| D    | 134,128                                       | 371,147                                          | 36                                              |
| E    | 67,060                                        | 132,669                                          | 51                                              |
| F    | 42,935                                        | 230,877                                          | 19                                              |
| G    | 20,000                                        | 36,169                                           | 55                                              |
|      | <b>516,834</b>                                | <b>1,112,038</b>                                 | <b>46</b>                                       |

Source: Audit Office research, 2012.

The guidelines also specify that funding preference not be given to projects or services that can be readily assisted by an existing government funding program. Local committee members have informed us that several projects funded through ClubGRANTS also receive funding through other government programs. Refer to Exhibit 13.

## Exhibit 13: Projects funded through the ClubGRANTS scheme in 2011-12

| Project               | Purpose of grant                                                                                                                    | Amount<br>\$ |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Panthers on the Prowl | Community education programs                                                                                                        | 150,000      |
| Youth Off The Streets | Neighbourhood centre, child protection/child care and family support.                                                               | 380,776      |
| Wesley Mission        | Community education programs, Counselling services, child protection/care, family support and early childhood health                | 140,737      |
| Drive to Survive      | Programs designed to improve driver behaviour as well as developing existing skills, increasing a driver's knowledge and awareness. | 88,775       |

Source: Audit Office research, 2012.

Clubs we visited informed us that since they regard ClubGRANTS funds as 'club money', they fund projects at their discretion based on club philosophy and history of funding.

An internal review of the then CDSE Scheme (former name of ClubGRANTS) in 2005 concluded that the scheme was not meeting its objectives. There was a lack of transparency and accountability of the funds contributed in this scheme.

There are ClubGRANTS projects that receive funding from other sources

## Exhibit 14: Findings of the internal review in 2005

An internal review in 2005 concluded that the scheme was not meeting its objectives

### There were several concerns raised in the review including:

- CDSE guidelines are too loose and open to interpretation
- there is a lack of adherence to the guidelines
- clubs do not consider local committee recommendations
- the scheme is an administrative burden on councils
- some funding provided does not seem to be aimed at the disadvantaged in the community
- there has been no attempt to measure outputs and outcomes
- in many local government areas there is considerable tension between local committees and clubs
- clubs feel it is their money and it is their right to spend as they wish which led to clubs funding projects they preferred
- there is a lack of accountability and transparency on what activities funds are spent on and whether the community is receiving value for money
- clubs were not informing local committees on funding available for grants
- clubs were not contributing at least 75 per cent of their funds on local committee recommendations
- local committee recommendations and priorities disregarded and funds given to 'pet projects'
- room hire which is a legislative responsibility of clubs
- some clubs granted most of their funds to their sub-branches.

Source: Robert Scullion and Associates Pty Limited, 2005, A review of the Community Development and Support Expenditure Scheme.

The above issues were raised again in this audit.

### Provision of tax rebates

Tax rebates which registered clubs claim are based on the gaming machine profits.

The Act states that the tax payable by a club is to be reduced based on evidence that ClubGRANTS funds have been applied to community development and support.

The Act also states that tax payable is not to be reduced where information received from a local committee show that a club has not complied with the ClubGRANTS guidelines.

Currently, clubs participating in the ClubGRANTS scheme have their taxable gaming machine profits over \$1 million reduced by 2.25 per cent, being the maximum tax rebate allowed under the scheme. This results in clubs paying less gaming machine taxes during the year.

Exhibit 15: Hypothetical example of ClubGRANTS tax rebate

| For gaming machine profit of \$2,000,000, tax payable would generally be \$318,800. |                                                                                                                                                                                                                 |                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Category one and two                                                                | A maximum tax rebate is 1.85 per cent.<br><br>1.85% of \$1,000,000 = \$18,500<br><br>Through the rebate process:<br><br>\$318,800 – \$18,500<br><br>(tax payable) – (tax rebate)<br><br>= \$300,300 tax payable | The tax rebate can be made up of:<br><br>Maximum <b>category one</b> funding of 0.75% of \$1,000,000 = \$7,500<br><br>Maximum <b>category two</b> funding of 1.1% of \$1,000,000 = \$11,000       |
|                                                                                     | Category three                                                                                                                                                                                                  | A maximum tax rebate is 0.4 per cent.<br><br>This amount is automatically transferred to the ClubGRANTS fund.<br><br><b>Category three</b> contribution = \$4,000<br>(0.4 per cent x \$1,000,000) |

Source: Office of Liquor, Gaming and Racing.

The deductions on gaming machine profits for category one and two (1.85 per cent) are payable as tax at the end of the tax year if clubs do not contribute an equivalent amount to eligible community projects during the year.

We found that the process for providing tax rebates to clubs is not robust.

The process for providing tax rebates to clubs is not robust

Currently, the tax payable is reduced prior to clubs submitting evidence on how the funds have been spent.

At the end of the tax year, registered clubs provide tax rebate returns on how the deductions provided have been utilised. In September of each year, following receipt of this information, tax rebates are approved on the total amount of deductions clubs received.

The assessment of individual tax rebate returns for accuracy and validity is carried out a few months later. We found that even when assessments are carried out:

- they are based on minimal evidence
- it is difficult to establish from the information provided whether grants have been given out under the correct category or whether they have met all the requirements of the guidelines
- assessment of tax rebate returns is subjective and based on the experience of staff. There are no procedures in place to provide an objective review.
- there is no feedback received from the local committees on whether the rebates claimed by clubs comply with the guidelines.

Once tax rebate returns are assessed, an adjustment is made to tax rebates where issues have been raised. OLGR informed that where a tax rebate claim does not comply with the guidelines, adjustments are made accordingly to a club's gaming machine tax liability. We found reassessments are minimal and are generally adjustments for claims under the incorrect category.

At January 2013, there were eight reassessments on record for the 2011–12 tax year. Refer to Exhibit 16.

#### Exhibit 16: Assessments on tax rebate claims

|                                    | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|------------------------------------|---------|---------|---------|---------|---------|
| <b>Number of tax rebate claims</b> | 17,706  | 17,195  | 17,128  | 17,555  | 17,622  |
| <b>Number of reassessments</b>     | 32      | 22      | 6       | 13      | 8       |

Source: Office of Liquor, Gaming and Racing.

Note: This data includes both categories one and two as information could not be differentiated.

During the audit, OLGR advised that due to a lack of resources it has been difficult to conduct a thorough review of the tax rebate returns.

Refer to Appendix 6 for details on the top ten local government areas receiving funding under category one.

#### Performance of category one

The Act requires that clubs ensure grants provided to benefiting organisations are accounted for. Practices are mixed in ensuring grants have achieved their benefits. We found some clubs visit grant recipients to assess outcomes of projects, however this is not a common practice.

The guidelines state that clubs must keep reports for at least five years in the event of review either of the clubs or the benefiting organisations by the Independent Liquor and Gaming Authority.

However, we found there is a lack of monitoring on the performance of the scheme. Proper monitoring of category one would assist in informing whether:

- it has been managed effectively and its intended objectives are being achieved
- tax rebates claims made by clubs are valid and accurate and grants are accounted for
- the community has benefited from funded programs and services.

Compliance audits were conducted on some individual projects in 2010 on whether funds provided by the clubs are according to the guidelines.

During the audit, OLGR advised that approval will be sought in 2013-14 to undertake a review of the implementation of the ClubGRANTS guidelines.

The guidelines also state that clubs and benefiting organisations should make every effort to publicise projects and funding under the scheme.

However, public reporting on funded projects by clubs we visited is minimal and varied. Refer to Appendix 7 for details.

Projects funded through the local committee process are published on websites of organisations, which provide administrative support to the local committees, for example local councils. We also found that ClubsNSW from time to time publishes information on the scheme.

Stakeholders we spoke to identified projects that had been successful in meeting the needs of the local community as Exhibit 17 illustrates.

There have been successful projects under category one



## Exhibit 17: Successful programs through the ClubGRANTS Scheme

The Kooloora Community Centre is a neighbourhood centre with a focus on disadvantaged households. It received \$9,900 funding in 2012 for two programs:

Vacation Care Program – provide children from disadvantaged and low socio-economic backgrounds, aged five to 11 years, with social and life skill experiences.

Inside Gossip - newspaper provides a forum for residents to address local concerns, and allow resident groups to communicate with the wider community. The publication reached over 2,000 households.

Source: Audit Office research, 2012.

### Reporting by OLGR in its delegated responsibilities

The provision of tax rebates is a responsibility of the Independent Liquor and Gaming Authority. This has been delegated to staff within OLGR.

We found that prior to this audit, the Authority did not receive any feedback from staff within OLGR on delegated responsibilities on tax rebates provided to clubs.

OLGR has commenced reporting to the Authority on assessments of tax rebate claims and maintains a database, which the Authority can access.

### Recommendation: OLGR should:

- proactively communicate to all local committees an estimate of funding available under category one
- develop a mechanism for feedback from local committees on tax rebate claims by clubs
- strengthen the tax rebate process to include a timely assessment of tax rebate claims and consideration of any tax rebate information provided by local committees
- include in the annual audit program of registered clubs, a review of category one expenditure and publicise common issues
- consider an annual independent audit of ClubGRANTS expenditure by clubs and a statement be provided to OLGR
- establish and publicise a complaints mechanism for breaches of the ClubGRANTS guidelines
- continue to provide monthly reports on delegated functions relating to category one to the Independent Liquor and Gaming Authority
- work with clubs and benefiting organisations to ensure they publicly report on funding provided under category one in accordance with the ClubGRANTS guidelines
- review the ClubGRANTS scheme to assess whether the scheme is effective and achieving its objectives against the guidelines.

There is a lack of monitoring

### 3. Is category two effectively managed?

There could be significant improvements in the management of category two.

#### 3.1 Does category two have guidelines consistent with the objective of the Act?

**Finding:** Category two provides the highest tax rebate. However, the Act and the guidelines are silent on the administration of these funds.

The guidelines are also vague on what can be funded under category two.

The guidelines are vague on what can be funded under category two

The Act requires that guidelines define the 'terms' of category two projects and services.

The guidelines state that ClubGRANTS category two expenditure is for community development and support activities and projects not listed under category one.

In 2012, the guidelines were amended to include additional expenditure on:

- clubs' core activities (such as sport, returned servicemen's league/veteran welfare, golf course and bowling green maintenance, including for wages paid to staff to carry out the maintenance)
- professional sport purposes including National Rugby League, with the exception of monetary payments to professional or semi-professional sports persons and their coaches and managers.

We found the guidelines are vague on what can be funded under category two.

The Act and the guidelines are silent regarding the administration of category two. They do not outline how:

- funds under this category should be administered
- organisations can apply for the grants
- decisions are made on who receives funding.

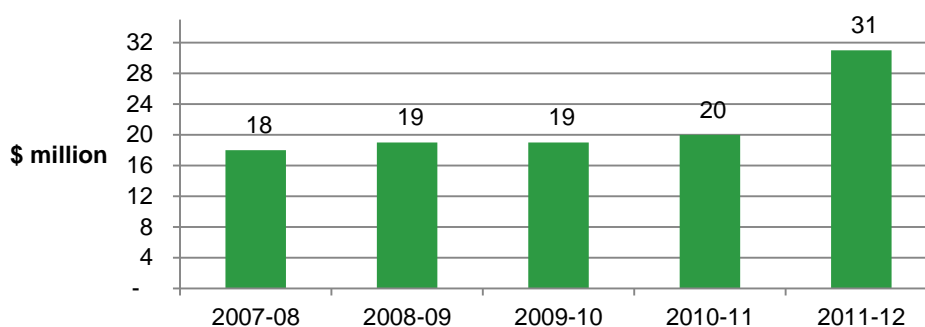
Category two provides the highest tax rebate in the scheme. The tax rebate clubs can claim under this category was increased in 2011 from 0.75 per cent of gaming machine profits over \$1 million to 1.1 per cent.

From 2007–08 to 2011–12 approximately \$107 million was provided as tax rebates to clubs under this category.

Category two provides the highest tax rebate in the scheme

#### Exhibit 18: Tax rebates given to clubs for providing grants under category two

Over the last five years \$107 million was provided as tax rebates to clubs under category two



Source: Office of Liquor, Gaming and Racing.

OLGR advised that the absence of processes for the administration of category two is a matter of government policy and that clubs themselves are best placed to make funding decisions.

Refer also to Appendix 6 for the top ten local government areas receiving funds under category two.

#### Recommendation:

OLGR to develop grants administration guidelines for category two.

### 3.2 Is category two managed to deliver according to policy and guidelines?

**Finding:** Due to the absence of transparent processes for administering category two, there is no assurance that this category is effectively managed.

The guidelines are vague on what can be funded under category two and how it should be administered. As a result, we found that:

- funding decisions for category two are not transparent. Clubs make decisions based on club philosophy, lobbying by potential recipients, projects they would like to fund or have had a history of funding
- there are various types of expenditure claimed as tax rebates and it is unclear whether these are according to the guidelines or not. Refer to Exhibit 19 for some expense claimed.

## Exhibit 19: Types of tax rebate claims submitted by clubs in 2011-12

| Purpose                                                           | Total \$ |
|-------------------------------------------------------------------|----------|
| To upgrade all golf machinery to ensure WHS compliance            | 311,899  |
| To send two delegates to the 2013 State Congress in Coffs Harbour | 7,196    |
| Admin fee Community Development and Support Expenditure           | 400      |
| Anzac Day coffee and lunches                                      | 400      |
| Tourism                                                           | 378      |
| Tattoo expenses                                                   | 2,100    |
| Restoration of RSL cenotaph/ memorial                             | 9,100    |
| Counselling services                                              | 4,320    |
| Problem gambling                                                  | 920      |
| Support local committees                                          | 40       |
| Medical assistance                                                | 250      |
| Subsidised taxi service for members – May 2012                    | 2,346    |
| Pool table/juke box                                               | 10       |

Source: Audit Office research, 2012.

Refer to Appendix 8 for claims submitted under category two in 2011-12 and an analysis of these claims.

The lack of process raises concerns on the transparency and the objectivity of the distribution of category two funds. It also diminishes accountability and raises the risk of this category being open to abuse.

Category one has clear processes around the allocation of funds, however there are none for category two.

ClubsNSW has provided some guidance. Funding decisions by clubs are to consider factors including:

- Has the club supported this project before? If so, has the recipient reported on the previously funded project?
- Does the project historically receive funding from a local club in the area? If so, is continued funding vital for its viability?
- Are other sources of funding available from Federal, state or local government or other funding sources for the project?
- Does the project represent good value for money?
- Does the project duplicate existing services in the same area?

Other States which use gaming revenue to assist community projects have clear standards on the provision of funds. Refer to Appendix 9 for details.

Inadequate processes around grant administration can often lead to:

- potential for applicants and others outside the organisation to challenge decisions as subjective
- perceptions of unfairness and in some instances opportunities for corrupt conduct can be created
- ineffective use of grants
- desired outcomes of the funded program not being achieved.

Category one has clear processes around the allocation of funds, however there are none for category two



The tax rebate approvals are not robust

The tax rebate assessment and approval process for category two is the same as category one. In the absence of a robust tax rebate process, there is limited assurance that tax rebates provided are accurate.

The Act requires that clubs ensure grants provided to benefiting organisations are accounted for. The guidelines state that clubs must keep reports for at least five years in the event of review either of the clubs or the benefiting organisations by the Authority.

However, we found there is a lack of monitoring on the performance of the scheme. Proper monitoring of category two would assist in informing whether:

- it has been managed effectively and its intended objectives are being achieved
- tax rebates claims made by clubs are valid and accurate and grants are accounted for
- the community has benefited from funded programs and services.

Compliance audits were conducted on some individual projects in 2010 on whether funds provided by the clubs are according to the guidelines.

The guidelines state that clubs and benefiting organisations should make every effort to publicise projects and funding under the scheme.

For the clubs we visited, there is no specific public reporting on category two on their websites. Refer to Appendix 7 for details.

During the audit, OLGR advised that approval will be sought in 2013-14 to undertake a review the implementation of the ClubGRANTS guidelines.

**Recommendation: OLGR should:**

- include in the annual audit program of registered clubs, a review of category two expenditure and publicise common issues
- strengthen the tax rebate process to include a timely assessment of tax rebate claims
- establish and publicise a complaints mechanism for breaches of the ClubGRANTS guidelines
- consider an annual independent audit of ClubGRANTS expenditure by clubs and provide a statement to be provided to OLGR
- continue to provide monthly reports on delegated functions relating to category two to the Independent Liquor and Gaming Authority
- work with clubs and benefiting organisations to ensure they publicly report on funding provided under category two in accordance with the ClubGRANTS guidelines
- review the ClubGRANTS scheme to assess whether the scheme is effective and achieving its objectives against the guidelines.

## 4. Is category three effectively managed?

There could be significant improvements in the management of ClubGRANTS category three.

### 4.1 Does category three have guidelines consistent with the objective of the Act?

**Finding:** The guidelines relevant to category three are consistent with the objectives of the Act and there are processes on the provision of grants.

The Act requires that guidelines define the 'terms' of category three projects and services.

ClubGRANTS category three expenditure is a new category introduced in 2011 under the Act. Category three is 0.4 per cent of registered clubs' gaming machine profits over \$1 million. This is paid into the ClubGRANTS Fund by the NSW Government on behalf of the clubs. These funds are to support and develop large scale projects or services associated with sport, health or community infrastructure.

The ClubGRANTS Fund is administered by the Director-General of the Department of Trade and Investment, Regional Infrastructure and Services. The Minister for Tourism, Major Events, Hospitality and Racing approves expenditure out of this fund.

The ClubGRANTS guidelines state that category three funding should give consideration to projects and services, which will benefit:

- Aboriginal and Torres Strait Islander communities
- regional and remote communities
- disadvantaged communities and culturally and linguistically diverse communities.

Funding under this category can be provided for designing, building, upgrading, renewing, funding or acquiring land or property. Refer to Appendix 4 for projects and services that can be funded under category three. The guidelines state that a ClubGRANTS fund committee would administer grants under this category.

#### Exhibit 20: Provision of grants under category three

The minister is to establish the committee and determine its membership. The committee must include a representative from ClubsNSW.

The Office of Liquor, Gaming and Racing is to publicise on its website the process for applying for category three funds.



A ClubGRANTS fund committee is to:

- consider applications for grants from the ClubGRANTS Fund
- develop mechanisms, including performance indicators to monitor and evaluate the expenditure of funds approved by the minister
- develop a model 'Funding and Performance Agreement' for use in funded projects and services that receive ClubGRANTS funds



The minister approves category three grants.

The committee provides to the minister a report on its operations, and include in that report details of the expenditure of funds.

Source: ClubGRANTS guidelines, 2012.

Category three  
was introduced  
in 2011

In 2011-12, \$9 million of gaming machine profits was transferred into the ClubGRANTS Fund.

## 4.2 Is category three managed to deliver according to policy and guidelines?

**Finding:** The administration of category three can be significantly improved. One year after the introduction of category three, the ClubGRANTS Fund committee, as set out in the guidelines, has yet to be established.

There have been four grants approved and spent under election commitments.

In 2011-12, \$9 million was made available under category three

As set out in the guidelines, the ClubGRANTS Fund committee to administer grants has not been established. This is one year after its introduction. In addition, there were a number of processes developed for the management of category three grants. These processes are yet to be established as well.

### Exhibit 21: Category three processes yet to be established

1. A model 'Funding and Performance Agreement' for use in funded projects and services that receive ClubGRANTS funds
2. Mechanisms, including performance indicators, to monitor and evaluate the expenditure of funds approved by the minister
3. OLGR is to arrange for information to be placed on its website on the process for applying for category three ClubGRANTS funds
4. ClubsNSW to be represented on the committee
5. Reports to the minister on operations or expenditure of funds within three months of the end of gaming machine tax year

Source: ClubGRANTS guidelines, 2012.

Four grants were given out from category three under election commitments.

### Exhibit 22: Grants provided from category three funds

| Date approved | Project                 | Reason                                                                                                                                                                                                 | Amount \$ |
|---------------|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 16 April 2012 | Water Safety Program    | Election commitment identified by the Minister for Tourism, Major Events, Hospitality and Racing. Grant to be actioned by the Ministry of Police and Emergency Services                                | 3m        |
| 16 April 2012 | Youth Off The Streets   | Election commitment identified by the Minister for Tourism, Major Events, Hospitality and Racing. This payment was a reimbursement to the Community Development Fund for funds paid out in August 2011 | 1m        |
| 22 June 2012  | Leichhardt Lambert Park | Request from the Minister for Sport and Recreation to meet election commitment. Funds transferred to the Office of Communities, Sports and Recreation                                                  | 2.2m      |
| 22 June 2012  | Lisarow Plum Park       | Request from the Minister for Sport and Recreation to meet election commitment. Funds transferred to Office of Communities, Sports and Recreation                                                      | 1.8m      |
| <b>Total</b>  |                         |                                                                                                                                                                                                        | <b>8m</b> |

Source: Office of Liquor, Gaming and Racing.

The Fund committee is not yet established

All grants to date have been for election commitments

OLGR informed us that all grants were approved by the Minister for Tourism, Major Events, Hospitality and Racing. The process used is outlined in Appendix 10.

It is common for political parties, ministers and other government candidates to make election commitments to support particular programs or projects. The use of public funds for such commitments should be in accordance with the financial framework that governs the expenditure of such funds being:

- the availability of a valid appropriation at law
- satisfaction of the requirements of relevant legislation governing the expenditure of public money.

### Exhibit 23: Funding election commitments

Election commitments are typically announced in broad terms, and this process will usually involve project proposals being sought from the relevant proponents. Those proposals are then to be assessed against the guidelines in order to determine their suitability for funding approval, including assessing relevant risks to the government in achieving value for money and the extent to which those risks might be able to be treated or mitigated.

The guidelines established for such programs provide the vehicle for advising proponents of election commitment projects:

- that funding can only be approved where the government is satisfied that the project would be an efficient and effective use of public money
- of the factors that will be considered in making that determination (including, as appropriate, the standards their project proposal will need to meet)
- the obligations that proponents of approved projects will be expected to satisfy.

Source: Australian National Audit Office, 2010, Implementing Better Practice Grant Administration.

An important role for agencies in putting election commitment projects forward for funding approval is to ensure ministers are appropriately informed as to the nature of the project and whether it is likely to make proper use of the public money.

We found a lack of information on:

- what basis these grants were given except that it was an election commitment
- details on the project and justification of funding
- breakdown of costs or timeframes
- funding agreements
- performance indicators to assess performance.

OLGR informed us that it undertook the administrative work in support of the minister's decision.

Appendix 11 highlights a Commonwealth Government better practice example for implementing election commitments.

Additionally, the guidelines specify that category three projects and services cannot be funded under category one or category two.

However, contrary to the guidelines, in 2011-12, \$380,776 was given to Youth Off The Streets from categories one and two which also received funding through category three.



Approval will be sought in 2013 to establish the Fund committee

#### Exhibit 24: Funding to Youth Off The Streets

|         | Category one<br>\$ | Category two<br>\$ | Category three<br>\$ | Total<br>\$ |
|---------|--------------------|--------------------|----------------------|-------------|
| 2007-08 | 234,683            | 13,302             | n/a                  | 247,985     |
| 2008-09 | 168,095            | 4,805              | n/a                  | 172,900     |
| 2009-10 | 157,200            | 51,912             | n/a                  | 209,112     |
| 2010-11 | 186,250            | 31,384             | n/a                  | 217,634     |
| 2011-12 | 376,916            | 3,860              | 1 million            | 1,380,776   |

Source: Office of Liquor, Gaming and Racing.

During the audit, OLGR advised that approval will be sought in 2013 to establish the ClubGRANTS Fund committee.

Local committees and clubs we visited also raised concerns around the transparency of category three including:

- how projects for funding are identified
- how an application for funds can be made
- how funds are being allocated
- where funds are being spent
- the decision making process.

#### Recommendation: OLGR should:

- establish the ClubGRANTS Fund committee under category three
- develop grant management processes for the provision of grants under category three and publicise the application process
- establish and publicise a complaints mechanism for breaches of the ClubGRANTS guidelines
- publicly report on category three funding provided including information on the recipients and the purpose of the grants.

# Appendices

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## Appendix 1: About the audit

### Audit objective

This audit examined whether the ClubGRANTS scheme is effectively managed by the Office of Liquor Gaming and Racing.

### Audit lines of inquiry and criteria

In answering the audit objective, we addressed the following questions:

- Are there guidelines consistent with the objectives of the *Gaming Machine Tax Act 2001*?
- Is the scheme managed to deliver according to policy and guidelines?

### Audit scope

This audit was limited to the Office of Liquor, Gaming and Racing's role in the development of the guidelines and the management of the ClubGRANTS scheme. The ClubGRANTS scheme is limited to taxes covering electronic gaming machine revenue generated by registered clubs participating in the ClubGRANTS scheme.

The administration, provision and monitoring of grants to recipients for category one and category two grants is undertaken by registered clubs and relevant local committees. We did not audit this process as auditing of registered clubs is beyond the Audit Office jurisdiction. However, OLGR is required to review and audit the process to ensure clubs are providing grants in accordance with the ClubGRANTS guidelines. This audit focused on the monitoring role of OLGR.

OLGR manages the grant administration process for category three grants. Grants under this category are approved by the minister. We focused on the administration and management of this.

This audit did **not** focus on:

- grant administration process undertaken by clubs
- impact of electronic gaming machine on problem gambling
- online gambling
- federal reforms proposing mandatory pre-commitment on poker machines
- problem gambling
- other forms of gaming revenue including wagering, lotteries and casino gaming.

### Audit approach

We acquired subject matter expertise through:

- interviews and examination of relevant documents including policies, legislation, guidelines, reports, strategies and reviews relating to the ClubGRANTS guidelines
- discussions with relevant staff at the Office of Liquor, Gaming and Racing, Independent Liquor and Gaming Authority, NSW Treasury and the Office of State Revenue
- discussions with representatives of key stakeholders including ClubsNSW, Council of Social Services of NSW, local councils, local committees, Department of Family and Community Services, registered clubs, other key non-government organisations
- discussions with and/or examination of relevant publication by agencies and committees including Productivity Commission, IPART, KPMG, Deloitte, and Australian Bureau of Statistics
- relevant grant administration and tax rebate models, and better practice guidelines.

Interstate and overseas jurisdictions we examined for comparison of similar strategies include:

- Victoria
- Queensland
- Tasmania

### **Fieldwork visits**

We had discussions with relevant registered clubs and local committees in eight local government areas:

- Bankstown
- Blacktown
- Fairfield
- Liverpool
- Penrith
- Randwick
- Tweed
- Wyong.

We visited these local government areas around the state to better understand how the ClubGRANTS scheme works in the respective regions.

### **Audit selection**

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

### **Audit methodology**

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing, and to reflect current thinking on performance auditing practices. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

### **Acknowledgements**

We gratefully acknowledge the cooperation and assistance provided by the Office of Liquor, Gaming and Racing and the Independent Liquor Gaming Authority. In particular we wish to thank our liaison officer and staff who participated in interviews and provided material relevant to the audit.

We would also like to acknowledge the assistance provided by a range of stakeholders including:

- ClubsNSW
- Council of Social Service of New South Wales
- registered clubs and other not-for-profit organisations
- local councils
- Department of Family and Community Services.

### **Audit team**

Our team leader for the performance audit was Angelina Pillay, assisted by Mai-Ann Nguyen. Sean Crumlin provided direction and quality assurance.

### **Audit cost**

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$250,021.

## Appendix 2: ClubGRANTS legislative requirements under the Gaming Machine Tax Act 2001

| Section                                         | Part 4 – Rebate of tax levied on registered clubs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>16 ClubGRANTS</b>                            | <p>(1) The Minister administering the <i>Registered Clubs Act 1976</i> may from time to time, after consultation with Clubs NSW, publish guidelines (the "<b>ClubGRANTS guidelines</b>") that determine what constitutes the "<b>application of profits to community development and support</b>" for the purposes of this Part.</p> <p>(2) The ClubGRANTS guidelines must provide for the matters mentioned in Schedule 1.</p> <p>(3) Provisions of the ClubGRANTS guidelines that from time to time define the terms "<b>Category 1 projects and services</b>" and "<b>Category 2 projects and services</b>" for the purposes of Schedule 1 are to be settled in consultation with Clubs NSW and the Council of Social Service of New South Wales.</p> <p>(3A) Provisions of the ClubGRANTS guidelines that from time to time define the terms "<b>Category 3 projects and services</b>" for the purposes of section 17A are to be settled in consultation with Clubs NSW.</p> <p>(4) Part 6 of the <i>Interpretation Act 1987</i> (sections 39, 42 and 43 excepted) applies to the ClubGRANTS guidelines.</p>                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>17 Tax rebate for ClubGRANTS expenditure</b> | <p>(1) If the Authority is satisfied, on such evidence as the Authority may require, that a proportion of prescribed profits has been applied by a registered club to community development and support, the amount of tax payable by the club under section 14 (3), (5), (6), (7) or (8) is by this section reduced by an amount equal to the amount so applied, except as provided by subsection (2).</p> <p>(2) The amount by which tax payable under section 14 (3), (5), (6), (7) or (8) is reduced by this section cannot exceed an amount equal to 1.85% of the prescribed profits. The combined effect of this subsection and the operation of section 17A (5) (that forwards 0.4% of the prescribed profits of each registered club to the ClubGRANTS Fund on behalf of clubs) is that the effective tax rebate rate is 2.25%.</p> <p>(3) However, the amount of tax payable under section 14 (3), (5), (6), (7) or (8) is not to be reduced by this section if the Authority is satisfied, on the information provided by a ClubGRANTS Local Committee in accordance with the ClubGRANTS guidelines, that the registered club claiming the reduction has not complied with the ClubGRANTS guidelines.</p> <p>(4) In this section: "ClubGRANTS Local Committee" means a committee established under the ClubGRANTS guidelines." prescribed profits" means so much of the profits from gaming machines kept on the premises of a registered club during a tax year as exceeds \$1,000,000.</p> |
| <b>17A ClubGRANTS Fund</b>                      | <p>(1) There is established in the Special Deposits Account an account to be called the ClubGRANTS Fund ("<b>the Fund</b>").</p> <p>(2) The Fund is to be administered by the Director-General of the Department of Trade and Investment, Regional Infrastructure and Services.</p> <p>(3) The following is to be paid into the Fund:</p> <ul style="list-style-type: none"> <li>(a) money paid into the Fund under subsections (5) and (6),</li> <li>(b) money advanced to the Fund by the Treasurer,</li> <li>(c) the interest and any other amounts from time to time accruing from the investments of the Fund,</li> <li>(d) other money required or permitted to be paid into the Fund by or under this or any other Act.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                                 | <p>(4) There is payable from the Fund:</p> <ul style="list-style-type: none"> <li>(a) expenditure approved by the Minister administering the <i>Registered Clubs Act 1976</i> to support and develop, by way of grant, large scale projects or services associated with sport, health or community infrastructure that are defined in the ClubGRANTS guidelines as Category 3 projects and services,</li> <li>(b) administrative expenses incurred in relation to the Fund,</li> <li>(c) money that is directed to be paid from the Fund by or under this or any other Act.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |



| Section | Part 4 – Rebate of tax levied on registered clubs                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | <p>(5) There is to be paid, without further appropriation than this Act, into the Fund out of the Consolidated Fund, within 1 month after the end of each tax year for registered clubs, an amount equal to 0.4% of the prescribed profits of each registered club during the tax year.</p> <p>(6) A registered club may pay amounts of money into the Fund.</p> <p>(7) In this section, "<b>prescribed profits</b>" has the same meaning as in section 17.</p> |

| Schedule 1 | Mandatory provisions for ClubGRANTS guidelines                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|            | <p><b>1 Minimum proportion of profits to be expended on Category 1 projects and services</b></p> <p>Of the funds claimed by a registered club to have been applied to community development and support:</p> <p>(a) amounts of not less than 0.75% of prescribed profits (within the meaning of section 17) must have been applied to Category 1 projects and services that comprise community welfare and social services, community development, community health services and employment assistance activities, and</p> <p>(b) the balance may be applied to Category 2 projects and services.</p> <p>The effect of section 17 (2) of the Act and this clause is that a registered club may not claim a tax rebate for amounts applied to Category 2 projects and services that exceed 1.1% of the prescribed profits of the club.</p> <p><b>2 Repealed</b></p> <p><b>3 Community priorities identified by ClubGRANTS Local Committees</b></p> <p>The ClubGRANTS Local Committee for each area of the State in which such a committee is established is to identify the community social expenditure priorities for that area and make the information available to registered clubs (either directly or by furnishing it to Clubs NSW) so that clubs may determine their expenditure with respect to Category 1 projects and services.</p> <p><b>4 Availability of registered clubs' assistance to be published</b></p> <p>Clubs NSW is to be required to advertise, at times to be prescribed by the ClubGRANTS guidelines, in a newspaper circulating throughout the State and in newspapers circulating in regions of the State, that registered clubs are seeking applications for community development and support projects.</p> <p><b>5 Grants to be accounted for</b></p> <p>A registered club claiming a reduction under Part 4 must:</p> <p>(a) take such steps as the ClubGRANTS guidelines may prescribe to ascertain, from the recipients of any money applied by the club to community development and support projects, the manner in which the money was applied, and</p> <p>(b) verify, by statutory declaration of some appropriate person or in such other manner as the ClubGRANTS guidelines may prescribe, all information supporting its claim and the measures taken by it in compliance with paragraph (a).</p> |

Source: Gaming Machine Tax Act 2001.

### Appendix 3: Amendments to ClubGRANTS guidelines in 2011-12

1. Change of the scheme name from the Community Development Support Expenditure (CDSE) to the ClubGRANTS Scheme
2. Category two increased tax rebate rate from 0.75 per cent to 1.1 per cent
3. Inclusion of veteran welfare services under category one – Community Welfare and Social Services
4. Inclusion of art therapy under category one – Community Health Services
5. Treatment of expenditure in-kind at market value for categories one and two
6. Inclusion of recommendation to clubs to allocate a minimum of 75 per cent of category one funds in accordance with local committees' recommendations
7. Inclusion of expenditure in category two to include core club activities (such as sport, returned servicemen's league/veteran welfare, golf course and bowling green maintenance, including wages paid to staff to carry out the maintenance)
8. Inclusion of category two expenditure allocation towards professional sport purposes including National Rugby League with the exception of monetary payments to professional or semi-professional sports persons and their coaches and managers
9. Clarification of capital expenditure funding under category two to include upgrading buildings, improving access to buildings, or upgrading communications technology or connections to utilities for club facilities, provided that the building or facility is not primarily commercial in nature, is not related to gaming and is not operated on a profit basis
10. Inclusion of category one and category two expenditure as an allowable administration cost incurred by organisations providing administrative support to a local committee, capped at \$1,000 per club or ten per cent of available combined category one and category two funds
11. Exclusion of Problem Gambling Counselling Projects and Services as an allowable expense
12. Treatment of Club Bingo as a disallowable expenditure under categories one and two
13. Treatment of Charity Housie as an allowable in-kind expenditure where it satisfies certain requirements
14. Inclusion of expenditure to assist victims of interstate or international natural or other disasters as an allowable expenditure, provided certain conditions are satisfied
15. Requirement for clubs to maintain their reports for at least five years in the event of later review either of the club or of the benefiting organisation by the Independent Liquor and Gaming Authority
16. Specific requirement for clubs and benefiting organisations to publicise approved projects and maintain on a publicly accessible website, a list of all programs or services for which funding has been provided in the current and previous gaming machine tax year. The list should include:
  - name of the benefiting organisation
  - name of the program, project or service funded
  - the total amount of the grant
  - whether the expenditure was category one or two
  - whether the funding was cash or in-kind
  - for in-kind expenditure, the nature and value of each type of expenditure (removed as a requirement as at November 2012)
  - for category one expenditure, the subcategory of expenditure (removed as a requirement as at November 2012)
17. Inclusion of the requirement for clubs to advise the local committee of the URL of the webpage which contains their list of ClubGRANTS
18. Inclusion of a new category three and a requirement to establish a ClubGRANTS fund committee. Rate of contribution to the NSW ClubGRANTS Fund is 0.4 per cent of a club's gaming machine profits over \$1 million for funding towards large scale projects or services associated with sport, health or community infrastructure
19. A requirement for local committees to meet at least four times per year as at 1 September 2012. However, as at November 2012, this requirement is two times per year.

Source: Audit Office research, 2012.

## Appendix 4: Projects and services that can be funded under the guidelines for category one and category three

### Category one

| Community Welfare and Social Services                                                                                                                                                                                                                                                                                                                                                                                              | Community Development                                                                                                                                                                                                                                                                                                                             | Community Health Services                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Employment Assistance Activities                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>family support</li> <li>supported emergency or low cost accommodation</li> <li>counselling services</li> <li>childcare and child protection</li> <li>aged, disability or youth services</li> <li>veteran welfare services</li> <li>services to victims of natural or other disasters 1,2</li> <li>volunteer emergency services, such as surf life-saving and rural fire services</li> </ul> | <ul style="list-style-type: none"> <li>neighbourhood centre activities</li> <li>community education programs</li> <li>youth drop-in facilities</li> <li>community transport services</li> <li>tenants' services</li> <li>Statewide or regional services developing social policies and providing advocacy for local community services</li> </ul> | <ul style="list-style-type: none"> <li>early childhood health</li> <li>child and family services</li> <li>community nursing</li> <li>therapy, including art therapy</li> <li>community mental health services</li> <li>health promotion initiatives</li> <li>drug and alcohol services</li> <li>palliative care/women's health/dental/disability services</li> <li>Aboriginal and Torres Strait Islander health services</li> <li>home and community care services</li> </ul> | <ul style="list-style-type: none"> <li>employment placement services</li> <li>group training</li> <li>employment advocacy</li> <li>community enterprises</li> <li>local job creation schemes</li> </ul> |

Source: ClubGRANTS guidelines, May 2012.

Note 1: This provision commenced on 10 February 2012.

Note 2: Paragraph 2.3.4 of the guidelines states 'Expenditure Outside of New South Wales' - expenditure on community development and support outside New South Wales is only recognised if it is made to locally based activities that are of a genuine cross-border nature or to nationally operating organisations with a presence in New South Wales or expenditure in accordance with 2.3.6 of the guidelines.

Funding for buildings and equipment for in-patient care may be recognised as category one expenditure in certain limited circumstances, so long as the expenditure is identified by the ClubGRANTS local committee to be of very considerable potential importance and value to the local community. Otherwise, such grants will only be recognised as category two expenditure. Funding for medical research is not eligible as category one expenditure.

### Category three

| Sport                                                                                                                                                                                                                             | Health                                                                                                                                                                                                                                                                                   | Community infrastructure                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>sports venues</li> <li>sports facilities</li> <li>sporting fields and grandstands</li> <li>sports services and programs</li> <li>recreational services, programs and facilities</li> </ul> | <ul style="list-style-type: none"> <li>hospitals</li> <li>health services and facilities including community health</li> <li>mental health services and facilities</li> <li>healthy lifestyle projects and services</li> <li>projects and services designed to reduce obesity</li> </ul> | <ul style="list-style-type: none"> <li>youth facilities</li> <li>childcare facilities</li> <li>aged-care facilities</li> <li>educational facilities</li> <li>emergency services facilities</li> <li>facilities for parks and recreation</li> <li>community housing</li> <li>community transport</li> </ul> |

Source: ClubGRANTS guidelines, May 2012.

Funding can also be provided to support other projects or services associated with sport, health or community infrastructure as determined by the minister in consultation with ClubsNSW.

## Appendix 5: Key roles of a local committee

1. Determine the proportion of category one expenditure that should be allocated in accordance with the local committee's recommendations
2. Identify the community service priorities for category one expenditure in their LGA based on evidence provided by local government social plans and the Department of Family and Community Services advice on regional and whole-of-government community service priorities
3. Advise qualifying clubs in their local government area of the identified community service priorities for category one expenditure
4. Assess category one applications received by the local committee as to whether they align with the identified community service priorities
5. Inform qualifying clubs in their local government area of the outcomes of the assessment of category one applications
6. In the case of category one applications forwarded directly to a club without referral to the local committee and subsequently funded by that club, review the evidence received from clubs as to whether such applications align with the identified community service priorities and whether clubs are working in the spirit and intent of the guidelines so as to ensure that there is no duplication of funding, and that a club's funding priorities are based on what are known needs in the community
7. If requested by any qualifying club/s, determine a priority listing of category one applications received by the local committee to assist those clubs requiring additional information to determine which projects to fund
8. Obtain written reports from local qualifying clubs listing the category one projects funded by them, together with evidence from clubs as to whether these aligned with the community service priorities identified by the local committee
9. Provide each qualifying club with a certificate of attendance, signed by the local committee convenor, indicating their attendance or otherwise at local committee meetings, for forwarding with their annual return to the Authority at the end of the tax year
10. Organise local promotion of ClubGRANTS, in conjunction with Statewide and regional advertising of the scheme by ClubsNSW
11. Encourage clubs to publicise and disseminate information on ClubGRANTS funded projects within the local community
12. Distribute standard application forms and take enquiries about ClubGRANTS activities
13. Discuss and review on an annual basis the operation and impacts of ClubGRANTS within the local government area.

## Appendix 6: Top ten local government areas receiving funding for 2006–07 to 2011–12

| Category one | 2006-07   | 2007-08   | 2008-09   | 2009-10   | 2010-11   | 2011-12   |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|
| LGA          | \$        | \$        | \$        | \$        | \$        | \$        |
| Fairfield    | 1,853,380 | 1,784,628 | 1,901,812 | 1,895,533 | 2,025,160 | 2,133,922 |
| Bankstown    | 932,173   | 878,602   | 926,228   | 931,791   | 960,549   | 981,979   |
| Blacktown    | 930,756   | 839,582   | 886,935   | 869,745   | 908,901   | 933,486   |
| Canterbury   | 822,468   | 737,538   | 772,189   | 826,734   | 934,033   | 1,003,276 |
| Penrith      | 778,363   | 675,295   | 706,678   | 698,792   | 728,841   | 735,120   |
| Wyong        | 679,552   | 595,864   | 630,643   | 622,313   | 671,098   | 711,861   |
| Parramatta   | 634,624   | 553,070   | 593,068   | 575,922   | 587,923   | 575,848   |
| Wollongong   | 616,610   | 534,535   | 569,281   | 565,238   | 598,707   | 628,510   |
| Newcastle    | 582,031   | 503,381   | 542,348   | 561,927   | 601,704   | 635,908   |
| Tweed        | 591,251   | 535,835   | 545,484   | 529,295   | 533,467   | 534,362   |

Source: Office of Liquor, Gaming and Racing.

| Category two | 2006-07   | 2007-08   | 2008-09   | 2009-10   | 2010-11   | 2011-12   |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|
| LGA          | \$        | \$        | \$        | \$        | \$        | \$        |
| Fairfield    | 1,853,380 | 1,784,628 | 1,901,812 | 1,895,533 | 2,025,160 | 3,129,753 |
| Bankstown    | 932,173   | 878,602   | 926,228   | 931,791   | 960,549   | 1,440,236 |
| Blacktown    | 930,756   | 839,582   | 886,935   | 869,745   | 908,901   | 1,369,113 |
| Canterbury   | 822,468   | 737,538   | 772,189   | 826,734   | 934,033   | 1,471,471 |
| Penrith      | 778,363   | 675,295   | 706,678   | 698,792   | 728,841   | 1,078,176 |
| Wyong        | 679,552   | 595,864   | 630,643   | 622,313   | 671,098   | 1,044,062 |
| Parramatta   | 634,624   | 553,070   | 593,068   | 575,922   | 587,923   | 844,576   |
| Wollongong   | 616,610   | 534,535   | 569,281   | 565,238   | 598,707   | 921,815   |
| Newcastle    | 582,031   | 503,381   | 542,348   | 561,927   | 601,704   | 932,665   |
| Tweed        | 591,251   | 535,835   | 545,484   | 529,295   | 533,467   | 783,731   |

Source: Office of Liquor, Gaming and Racing.



## Appendix 7: Public reporting on the ClubGRANTS scheme by clubs we visited

| Clubs    | Public reporting |    | What is reported on website                                                                                                                       |
|----------|------------------|----|---------------------------------------------------------------------------------------------------------------------------------------------------|
|          | Yes              | No |                                                                                                                                                   |
| <b>A</b> | ✓                |    | Total amount of grants provided and the number of recipients. It does not specify which category of the scheme these grants are for.              |
| <b>B</b> |                  | ✓  | Brief mention of the ClubGRANTS scheme and category one application contact person                                                                |
| <b>C</b> |                  | ✓  | No information                                                                                                                                    |
| <b>D</b> |                  | ✓  | No information                                                                                                                                    |
| <b>E</b> |                  | ✓  | No information                                                                                                                                    |
| <b>F</b> |                  | ✓  | No information                                                                                                                                    |
| <b>G</b> |                  | ✓  | No information                                                                                                                                    |
| <b>H</b> |                  | ✓  | No information                                                                                                                                    |
| <b>I</b> | ✓                |    | Total amount of grants funded in the year and the names of the recipients. It does not specify which category of the scheme these grants are for. |
| <b>J</b> | ✓                |    | Total amount of grants funded in the year and the names of the recipients under category one and two.                                             |
| <b>K</b> |                  | ✓  | Brief mention of the ClubGRANTS scheme                                                                                                            |
| <b>L</b> |                  | ✓  | Brief mention of the ClubGRANTS scheme                                                                                                            |
| <b>M</b> |                  | ✓  | No information                                                                                                                                    |

Source: Audit Office research, 2012.

## Appendix 8: Analysis of category two tax rebate claims

To get a better understanding of the type of expenditure incurred in this category, an analysis of category two tax rebates claims was carried out. We found that when claiming tax rebates under this category, clubs submit numerous expenses they have incurred which may or may not be allowable expenditure.

### Total claims submitted by clubs for category two tax rebates in 2011-12

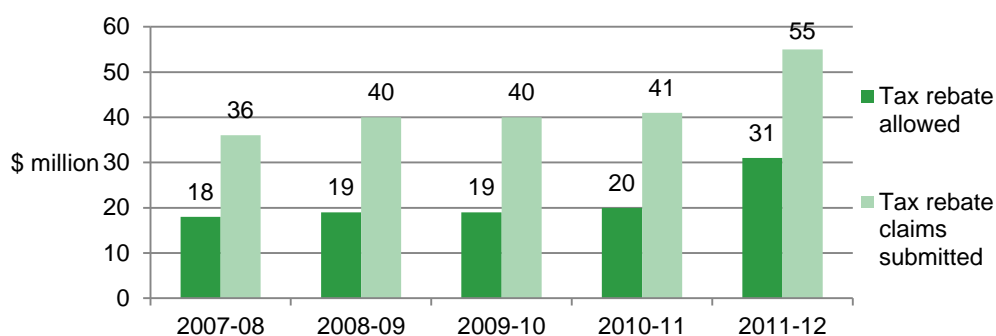
| Purpose of Recipient | Amount \$         |
|----------------------|-------------------|
| Sport                | 37,898,962        |
| Community Activities | 7,134,006         |
| Club Facilities      | 3,405,262         |
| Education            | 2,472,262         |
| Other                | 1,604,579         |
| Health               | 912,984           |
| Local Committees     | 669,784           |
| Cultural Activities  | 346,823           |
| Medical Research     | 211,236           |
| Problem Gambling     | 49,340            |
| <b>Total</b>         | <b>54,705,237</b> |

Source: Office of Liquor, Gaming and Racing.

Most expenditure is on sports activities with a few payments high as \$2 million. There are many small payments as low as \$10 for community activities.

Tax rebate claims made by clubs are at least 50 per cent more in value than the total tax rebate allowed under this category. It is up to OLGR to determine which claims meet the requirements of allowable expenditure under category two.

### Tax rebate claims submitted and tax rebates allowed



Source: Office of Liquor, Gaming and Racing.

Claim for tax rebates for expenses towards core club activities are allowable expenditure from 2012. However, clubs have made several claims over the years under category two for these expenses.

### Approximate tax rebate claims on club's core activities

| Year    | Amount \$ |
|---------|-----------|
| 2011-12 | 6,859,084 |
| 2010-11 | 2,680,913 |
| 2009-10 | 2,952,550 |
| 2008-09 | 2,892,392 |

Source: Office of Liquor, Gaming and Racing.

## Appendix 9: Interstate comparisons

**Victoria** – the *Gambling Regulation Act 2003* requires each gaming revenue operator to lodge an audited community benefit statement every year regarding the application of gaming machine revenue to community purposes. The Community Benefit Statement states the percentage of gaming machine revenue applied to community purposes, and the value of any non-financial contribution to community purposes by or on behalf of the venue operator. The Statement must also show whether these expenditures are less, equal to or greater than the required community benefit contribution. The required community benefit contribution is 8.3 per cent of gaming revenue.

Clubs must show that they gave the equivalent of at least 8.3 per cent of the venue's gaming revenue to approved community purposes or activities. If an audited statement shows that a venue gave less than the required community benefit contribution, the club must pay an amount equal to the difference between the required 8.3 per cent community benefit contributions and the benefit stated in the statement.

Failure to lodge an audited statement may result in disciplinary action against a club by the Victorian Commission for Gambling and Liquor Regulation.

One of the purposes of the statement is to ensure that clubs provide the equivalent of the 8.3 per cent of gaming machine revenue that hotel gaming venues pay into the Community Support Fund. It is to let the community know the benefits that gaming machine revenue provides to the community.

**Queensland** – the Queensland Government established the Gambling Community Benefit Fund in 1994 to provide funding to community groups in Queensland. The fund receives money from taxes on Golden Casket lotteries, wagering, keno and gaming machines. It distributes these funds to not-for-profit community groups on a quarterly basis. The fund is one way the government returns taxes received from gambling activities and plays an important role in ensuring, on balance, the whole State benefits from gambling in Queensland.

A Gambling Community Benefit Committee reviews eligible funding applications and makes recommendations to the minister on allocations from the fund.

An application to the fund must demonstrate a benefit to the Queensland community. One-off grants of up to \$35,000 are allocated to approved not-for-profit organisations to help them provide community services or activities that benefit the community. Grants of more than \$35,000 are considered for more complex applications which have significant community benefit.

Applications must be from Queensland-based organisations. The majority of Queensland not-for-profit community organisations are eligible to apply for a grant, either in their own right (if incorporated) or through a sponsor (if not incorporated).

**Tasmania** – under the *Gaming Control Act 1993* a gaming machine operator within a Tasmanian hotel or club must, from the gross profits derived from gaming machine games in each month, pay to the Treasurer a community support levy. The levy is four per cent of monthly gross profits. The Treasurer must distribute the total community support levy as follows:

- a) 25 per cent for the benefit of sport and recreation clubs
- b) 25 per cent for the benefit of charitable organisations
- c) 50 per cent for the provision of: research into gambling, services for the prevention of compulsive gambling, treatment or rehabilitation of compulsive gamblers, community education concerning gambling and other health services.

The community support levy is primarily administered by the Departments of Health and Human Services, and Economic Development and Tourism. Funding provided under the levy programs are required to be approved by the responsible minister.

Source: Audit Office research, 2012.

## Appendix 10: Approval process adopted for election commitments under category three

### Election commitment: Leichhardt Lambert Park

| Date          | Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15 March 2012 | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Treasurer to advance \$9 million to the ClubGRANTS Fund to enable key commitments to be met in 2011-12. Lambert Park Leichhardt was identified for funding of \$2.2 million.                                                                                                                                                                             |
| 23 March 2012 | Letter from the Treasurer to the Minister for Tourism, Major Events, Hospitality and Racing approving the release of \$9 million for 2011-12 for the ClubGRANTS Fund to the Department of Trade and Investment, Regional Infrastructure and Services.                                                                                                                                                                                      |
| 29 March 2012 | Letter from the Minister for Sport and Recreation to the Minister for Tourism, Major Events, Hospitality and Racing outlining Lambert Park election commitment of \$2.2 million as a first priority for funding in 2011-12 from the ClubGRANTS Fund.                                                                                                                                                                                       |
| 5 June 2012   | Letter from the Minister for Sport and Recreation to the Minister for Tourism, Major Events, Hospitality and Racing, referencing the letter sent on 23 March 2012 and reiterating funding commitments. The letter also references to an attached invoice from the Office of Communities Sport and Recreation to the Office of Liquor Gaming and Racing, for a transfer of \$2.2 million to the Office of Communities Sport and Recreation. |
| 21 June 2012  | Tax invoice sent from the Office of Communities Sports and Recreation requesting the Office of Liquor Gaming and Racing transfer \$2.2 million to the Office of Communities Sports and Recreation.                                                                                                                                                                                                                                         |
| 22 June 2012  | Ministerial Briefing<br>Minister for Tourism, Major Events, Hospitality and Racing approval of \$2.2 million expenditure from the ClubGRANTS Fund to the Department of Education and Communities Account for the Lambert Park election commitment.                                                                                                                                                                                         |
| 22 June 2012  | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Minister for Sport and Recreation approving \$2.2 million for the payment of Lambert Park in Leichhardt.                                                                                                                                                                                                                                                 |
| 27 June 2012  | Media Release 'Lambert Park scores a winning goal'<br>NSW Government honours \$2.2 million funding towards the major upgrade of Lambert Park at Leichhardt.                                                                                                                                                                                                                                                                                |
| 6 August 2012 | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Minister for Sport and Recreation advising approval of the payment of \$2.2 million from the ClubGRANTS Fund and noting the payment was made.                                                                                                                                                                                                            |

### Election commitment: Water Safety Program

| Date          | Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15 March 2012 | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Treasurer to advance \$9 million to the ClubGRANTS Fund to enable key commitments to be met in 2011-12. Water Safety Program was identified for funding of \$3 million.                                                                                                                                                                                                                            |
| 23 March 2012 | Letter from the Treasurer to the Minister for Tourism, Major Events, Hospitality and Racing approving the release of \$9 million for 2011-12 for the ClubGRANTS Fund to the Department of Trade and Investment, Regional Infrastructure and Services.<br><br>The Treasurer also requested that the Minister for Tourism, Major Events, Hospitality and Racing liaise with the Minister for Police and Emergency Services regarding funding for the Water Safety election commitment. |
| 16 April 2012 | Ministerial Briefing<br>Request for the Minister for Tourism, Major Events, Hospitality and Racing to approve \$3 million expenditure from the ClubGRANTS Fund for the Water Safety program election commitment.                                                                                                                                                                                                                                                                     |
| 17 April 2012 | Tax invoice requesting the Office of Liquor, Gaming and Racing transfer \$3 million to the Ministry for Police and Emergency Services for funding for the Water Safety Program.                                                                                                                                                                                                                                                                                                      |

### Election commitment: Youth Off The Streets

| Date                 | Chronology                                                                                                                                                                                                                                                                                                                                                  |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>15 March 2012</b> | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Treasurer to advance \$9 million to the ClubGRANTS Fund to enable key commitments to be met in 2011-12. Youth Off The Streets was identified as a commitment. \$1 million was paid out in August 2011 from the Community Development Fund, which needed to be reimbursed. |
| <b>16 April 2012</b> | Ministerial Briefing<br>Request for the Minister for Tourism, Major Events, Hospitality and Racing to approve \$1 million expenditure from the ClubGRANTS Fund to reimburse the August 2011 payment made to Youth Off The Streets.                                                                                                                          |

### Election commitment: Lisarow Plum Park

| Date                 | Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>15 March 2012</b> | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Treasurer to advance \$9 million to the ClubGRANTS Fund to enable key commitments to be met in 2011-12. Lisarow Plum Park was identified for funding of \$3 million.                                                                                                                                                                                                                                                                                |
| <b>23 March 2012</b> | Letter from the Treasurer to the Minister for Tourism, Major Events, Hospitality and Racing approving the release of \$9 million for 2011-12 for the ClubGRANTS Fund to the Department of Trade and Investment, Regional Infrastructure and Services.                                                                                                                                                                                                                                                                                 |
| <b>29 March 2012</b> | Letter from the Minister for Sport and Recreation to the Minister for Tourism, Major Events, Hospitality and Racing outlining Plum Park election commitment of \$3 million as a second funding priority for 2011-12, following Leichhardt Lambert Park.                                                                                                                                                                                                                                                                               |
| <b>5 June 2012</b>   | Letter from the Minister for Sport and Recreation to the Minister for Tourism, Major Events, Hospitality and Racing referencing the letter sent on 23 March 2012 and reiterating funding commitments. The letter advises first funding priority for Lambert Park in Leichhardt and a part payment towards the Plum Park election commitment in 2011-12 should funding be available.                                                                                                                                                   |
| <b>19 June 2012</b>  | Letter from the Minister for Sport and Recreation to the Minister for Tourism, Major Events, Hospitality and Racing advising the transfer of \$1.8 million to Sport and Recreation for part payment of the Plum Park election commitment.                                                                                                                                                                                                                                                                                             |
| <b>21 June 2012</b>  | Tax invoice sent from the Office of Communities Sports and Recreation requesting the Office of Liquor Gaming and Racing transfer \$1.8 million to the Office of Communities Sports and Recreation.                                                                                                                                                                                                                                                                                                                                    |
| <b>22 June 2012</b>  | Ministerial Briefing<br>Request for the Minister for Tourism, Major Events, Hospitality and Racing to approve \$1.8 million expenditure from the ClubGRANTS Fund to the Department of Education and Communities Account for part payment of the Plum Park election commitment.                                                                                                                                                                                                                                                        |
| <b>22 June 2012</b>  | Letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Minister for Sport and Recreation approving \$1.8 million for part payment of the Plum Park election commitment.                                                                                                                                                                                                                                                                                                                                    |
| <b>6 August 2012</b> | Ministerial Briefing<br>Recognising the letter from the Minister for Tourism, Major Events, Hospitality and Racing to the Minister for Sport and Recreation recognising: <ul style="list-style-type: none"> <li>• payment of \$1.8 million to the Department of Education and Communities from the ClubGRANTS Fund for Plum Park on 27 June 2012</li> <li>• the Department of Education and Communities responsibility for the allocation, monitoring and evaluation of expenditure for the Plum Park election commitment.</li> </ul> |
| <b>16 May 2012</b>   | Letter from the Treasurer to the Minister for Trade and Investment and the Minister for Regional Infrastructure and Services advising of category three forward estimates of club contributions under the ClubGRANTS Scheme for 2011-12 to 2015-16. These are \$8 million in 2011-12, \$12 million in 2012-13, \$13 million in 2013-14 and 2014-15, and \$14 million in 2015-16.                                                                                                                                                      |

Source: Office of Liquor, Gaming and Racing.



## Appendix 11: Better practice – establishing a grant program for implementing election commitments: Better Regions Program

During the 2007 Federal election campaign, the then Opposition announced commitments to fund a number of regional projects should it be elected to government. Funding of \$176 million over four years was subsequently announced in the 2008–09 Budget to implement the government's regional election commitments through the Better Regions Program.

Program Guidelines were published in August 2008 after consideration by the Expenditure Review Committee, with the responsible minister noting the guidelines reflected the fact that the projects to be considered had already been identified, but also addressed issues such as:

- program criteria, including assessment criteria
- process issues, such as the application, assessment and decision-making processes, including the roles of ministers and officials in decision making and
- administration issues, including payment and acquittals processes, timelines and milestones.

The guidelines advised that proponents would need to provide information including details of:

- the proponent's organisation and any related entities in the corporate group
- the project, including funding arrangements
- financial information including quotations, cost estimates and budgets
- project timeframes
- project delivery information including project and business plans
- all statutory and other approvals required if relevant for the project.

Based on the information provided, the department would undertake a risk analysis which would analyse: anticipated project results (which needed to be consistent with those identified in the election commitment); proponent viability; and project viability.

The guidelines further advised that:

- following an assessment by the department to ensure that the project was ready for funding, approval would be sought from the responsible minister for the release of funds
- the minister would consider whether the project will make efficient and effective use of public money as required by Commonwealth legislation and whether any risk management strategies would need to be imposed as a condition of funding and
- for approved projects, the proponent would need to enter into a Funding Agreement before any Better Regions funding could be paid.

In recognition of the need for grant proposals in relation to election commitments to be considered in accordance with the financial framework, the guidelines further advised that:

Proponents should not make financial commitments based on receiving funding from The Australian Government until the Funding Agreement (contract) has been executed.

The program guidelines also advised proponents that, for approved projects:

The Department will work with the proponent with the aim of finalising the Funding Agreement (contract) within 16 weeks of the project being approved by the [minister]. The offer of funding may be withdrawn if the proponent cannot meet the timeframe, has not obtained agreement from the Department to obtain an extension to this timeframe or if there are significant reasons as to why the project cannot commence.

Source: Implementing Better Practice Grant Administration, Australian National Audit Office.

# Performance auditing

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## What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

## Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

## What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

## Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

## Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice. We are also subject to independent audits of our quality management system to maintain certification under ISO 9001.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every three years. The review's report is tabled in parliament and available on its website.

## Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.

## Performance audit reports

| No  | Agency or Issues Examined                                                                                                                                 | Title of Performance Audit Report or Publication                                                                                        | Date Tabled in Parliament or Published |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| 229 | Department of Trade and Investment, Regional Infrastructure and Services – Office of Liquor, Gaming and Racing<br>Independent Liquor and Gaming Authority | <i>Management of the ClubGRANTS scheme</i>                                                                                              | 2 May 2013                             |
| 228 | Department of Planning and Infrastructure<br>Environment Protection Authority<br>Transport for NSW<br>WorkCover Authority                                 | <i>Managing gifts and benefits</i>                                                                                                      | 27 March 2013                          |
| 227 | NSW Police Force                                                                                                                                          | <i>Managing drug exhibits and other high profile goods</i>                                                                              | 28 February 2013                       |
| 226 | Department of Education and Communities                                                                                                                   | <i>Impact of the raised school leaving age</i>                                                                                          | 1 November 2012                        |
| 225 | Department of Premier and Cabinet<br>Division of Local Government                                                                                         | <i>Monitoring Local Government</i>                                                                                                      | 26 September 2012                      |
| 224 | Department of Education and Communities                                                                                                                   | <i>Improving the literacy of Aboriginal students in NSW public schools</i>                                                              | 8 August 2012                          |
| 223 | Rail Corporation NSW<br>Roads and Maritime Services                                                                                                       | <i>Managing overtime</i>                                                                                                                | 20 June 2012                           |
| 222 | Department of Education and Communities                                                                                                                   | <i>Physical activity in government primary schools</i>                                                                                  | 13 June 2012                           |
| 221 | Community Relations Commission For a multicultural NSW<br>Department of Premier and Cabinet                                                               | <i>Settling humanitarian entrants in NSW: services to permanent residents who come to NSW through the humanitarian migration stream</i> | 23 May 2012                            |
| 220 | Department of Finance and Services<br>NSW Ministry of Health<br>NSW Police Force                                                                          | <i>Managing IT Services Contracts</i>                                                                                                   | 1 February 2012                        |
| 219 | NSW Health                                                                                                                                                | <i>Visiting Medical Officers and Staff Specialists</i>                                                                                  | 14 December 2011                       |
| 218 | Department of Family and Community Services<br>Department of Attorney General and Justice<br>Ministry of Health<br>NSW Police Force                       | <i>Responding to Domestic and Family Violence</i>                                                                                       | 8 November 2011                        |
| 217 | Roads and Traffic Authority                                                                                                                               | <i>Improving Road Safety: Young Drivers</i>                                                                                             | 19 October 2011                        |
| 216 | Department of Premier and Cabinet<br>Department of Finance and Services                                                                                   | <i>Prequalification Scheme: Performance and Management Services</i>                                                                     | 25 September 2011                      |
| 215 | Roads and Traffic Authority                                                                                                                               | <i>Improving Road Safety: Speed Cameras</i>                                                                                             | 27 July 2011                           |
| 214 | Barangaroo Delivery Authority<br>Department of Transport<br>NSW Treasury                                                                                  | <i>Government Expenditure and Transport Planning in relation to implementing Barangaroo</i>                                             | 15 June 2011                           |
| 213 | Aboriginal Affairs NSW<br>Department of Premier and Cabinet                                                                                               | <i>Two Ways Together - NSW Aboriginal Affairs Plan</i>                                                                                  | 18 May 2011                            |
| 212 | Office of Environment and Heritage<br>WorkCover NSW                                                                                                       | <i>Transport of Dangerous Goods</i>                                                                                                     | 10 May 2011                            |

| No  | Agency or Issues Examined                                                  | Title of Performance Audit Report or Publication                         | Date Tabled in Parliament or Published |
|-----|----------------------------------------------------------------------------|--------------------------------------------------------------------------|----------------------------------------|
| 211 | NSW Police Force<br>NSW Health                                             | <i>The Effectiveness of Cautioning for Minor Cannabis Offences</i>       | 7 April 2011                           |
| 210 | NSW Health                                                                 | <i>Mental Health Workforce</i>                                           | 16 December 2010                       |
| 209 | Department of Premier and Cabinet                                          | <i>Sick leave</i>                                                        | 8 December 2010                        |
| 208 | Department of Industry and Investment                                      | <i>Coal Mining Royalties</i>                                             | 30 November 2010                       |
| 207 | Whole of Government electronic information security                        | <i>Electronic Information Security</i>                                   | 20 October 2010                        |
| 206 | NSW Health<br>NSW Ambulance Service                                        | <i>Helicopter Emergency Medical Service Contract</i>                     | 22 September 2010                      |
| 205 | Department of Environment, Climate Change and Water                        | <i>Protecting the Environment: Pollution Incidents</i>                   | 15 September 2010                      |
| 204 | Corrective Services NSW                                                    | <i>Home Detention</i>                                                    | 8 September 2010                       |
| 203 | Australian Museum                                                          | <i>Knowing the Collections</i>                                           | 1 September 2010                       |
| 202 | Industry & Investment NSW<br>Homebush Motor Racing Authority<br>Events NSW | <i>Government Investment in V8 Supercar Races at Sydney Olympic Park</i> | 23 June 2010                           |
| 201 | Department of Premier and Cabinet                                          | <i>Severance Payments to Special Temporary Employees</i>                 | 16 June 2010                           |
| 200 | Department of Human Services - Ageing, Disability and Home Care            | <i>Access to Overnight Centre-Based Disability Respite</i>               | 5 May 2010                             |
| 199 | Department of Premier and Cabinet<br>NSW Treasury<br>WorkCover NSW         | <i>Injury Management in the NSW Public Sector</i>                        | 31 March 2010                          |
| 198 | NSW Transport and Infrastructure                                           | <i>Improving the performance of Metropolitan Bus Services</i>            | 10 March 2010                          |
| 197 | Roads and Traffic Authority of NSW                                         | <i>Improving Road Safety: School Zones</i>                               | 25 February 2010                       |
| 196 | NSW Commission for Children and Young People                               | <i>Working with Children Check</i>                                       | 24 February 2010                       |
| 195 | NSW Police Force<br>NSW Department of Health                               | <i>Managing Forensic Analysis – Fingerprints and DNA</i>                 | 10 February 2010                       |

### Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au).

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