



Annual accountability

Overview and process description

28 June 2022

This document provides an overview of annual accountability for funded contracts, why it's important to the Department of Communities and Justice (DCJ), and how we use the information we collect. It also describes the process: how the service providers we contract report annual accountability, and how our contract managers assess it.

FUNDED CONTRACT MANAGEMENT

For service providers delivering funded contracts

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Annual accountability and its purpose

Annual accountability is a mandatory process that ensures the service providers we contract are accountable for the funding they receive and the services they've agreed to deliver on our behalf.

As the basis of this process, service providers are required to submit information to DCJ to verify:



They used funds as agreed in the contract with us, and can account for that usage



They complied with key elements of the contract



They achieved the performance requirements agreed in the contract



They have relevant practices in place to minimise the risk of instability to, or interruption of the services agreed in the contract

As an annual checkpoint for performance, it's designed to work with the regular performance monitoring that forms part of our ongoing engagement with service providers.

The nature of that engagement is described in the [Charter for working with contracted service providers](#).

In the charter, we commit to working with service providers to achieve the outcomes agreed in contracts. Service providers, in turn, ensure their organisations support stable and outcomes-focused service delivery.

Annual accountability is a practical demonstration of both parties honouring those commitments.

Objectives and outcomes of annual accountability

The annual accountability process, and the information requested from service providers, is designed to achieve four objectives. Importantly, the outcomes of the process — areas for improvement by DCJ, individual service providers and the sector in general — act as risk controls to guarantee service delivery.

<p>OBJECTIVES</p> <p>1</p> <p>Ensure government funds are being used as agreed in contracts</p>	<p>2</p> <p>Identify any issues affecting a service provider’s ability to maintain stable, uninterrupted delivery of services</p>	<p>3</p> <p>Determine whether a service provider continues to have the capacity and capability to deliver better outcomes for our clients</p>	<p>4</p> <p>Reveal trends and common issues across programs and districts</p>
<p>OUTCOMES</p> <p>Report funds usage</p> <p>Recover unspent funds, as required; assist the service provider to address the reason funds weren’t spent, if required</p> <p>Investigate suspected misuse of funds and take necessary action</p>	<p>Work with the service provider to initiate actions necessary to strengthen their governance, financial management and service delivery practices</p>	<p>Acknowledge good service delivery and performance</p> <p>Work with the service provider to put in place a formal plan for service development or performance improvement</p>	<p>Put in place systemic and process improvements, and address program and local issues</p> <p>Target support and assistance to strengthen practices within the sector</p>

The importance of annual accountability, and how it supports our partnerships

Annual accountability enables us to build a detailed picture of the current capacity and performance of each service provider.

This, in turn, gives us a snapshot of the strength and viability of the funded services sector.

Most importantly, the annual accountability process assures us and our service partners that the service sector continues to be capable of delivering better outcomes for our clients.

The process contributes to the continual improvement of performance by DCJ and the service sector.

The information collected and compiled during the process is fed back to programs as part of the commissioning cycle, and enables us to:

- determine ways in which we may better support the sector
- identify ways to improve and innovate at the program and sector levels.

For service providers, it confirms their service is performing as expected, and that they continue to have the required capacity and capability to deliver services as agreed in their contract with us.

For smaller organisations, it's valuable for verifying their governance and financial management practices. This is especially important to ensure their continued viability, as they make an important contribution to the service sector.

To make these outcomes possible, we've designed a one-size-fits-all process that's able to deal with:

- contracts that range in value from several thousand dollars to tens-of-millions
- a broadening range of service providers and an increasing number of commercial players, differing markedly in size and nature, as well as in the number and value of contracts held.

The range of annually funded contracts

There's no typical DCJ-funded contract. Contract values for 2021–22 were spread across a sizeable range, with significant variance in the number and value of contracts held by individual service providers.*



1602
Contracts



862
Service providers



56
Largest number of contracts held by one service provider



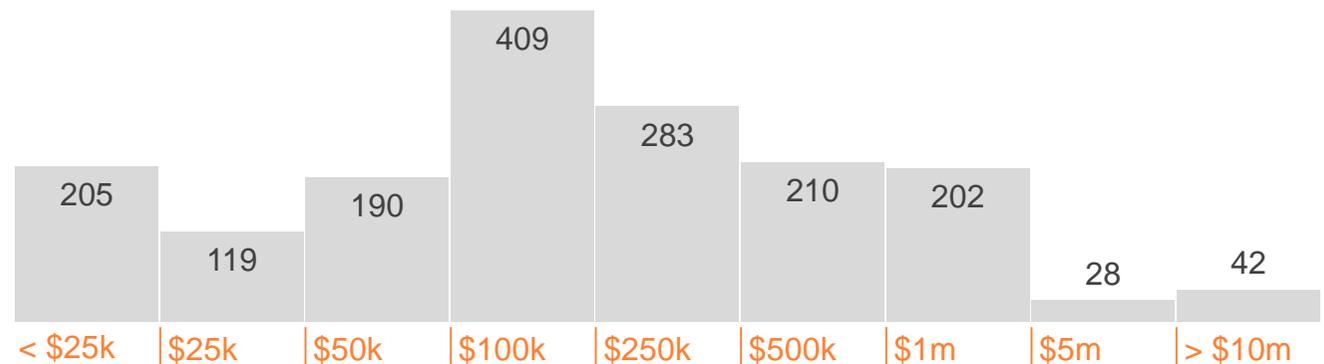
518
Service providers holding one contract

 **\$2,189,756,578**
Funding for 2021–22

 **\$4,102**
Lowest value contract

 **\$108,124,035**
Highest value contract

Number of contracts by annual funding

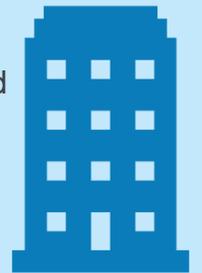


* The figures quoted are as at 22 June 2022, sourced from the Contracting On-line Management System (COMS). The figures don't include any contracts managed outside of COMS, nor payments made to providers by other systems.

Differences in service provider capacity and capability

There's no typical service provider. At the extremes, there are vast differences in capacity and capability.

SMALL COMMUNITY ORGANISATION	LARGE NATIONAL ORGANISATION
One contract with DCJ	Multiple contracts with DCJ
Contracted to deliver services for a single program	Contracted to deliver services for multiple programs
Single funding source (DCJ)	Multiple funding sources (various federal, state and territory agencies, and other sources)
Small number of staff; often reliant on volunteers to assist with service delivery	Large number of staff
Staff do everything to run the business	Staff have specialist duties
Part-time bookkeeper, possibly a volunteer	Dedicated accounts team; well-established financial management practices
Accountable for thousands in funding	Accountable for tens-of-millions in funding
Doesn't require audited financial statements	Requires audited financial statements
Inexperienced governing body, made up of volunteers	Experienced governing body, made up of individuals from varied professions, who are likely AICD-accredited
Basic governance practices; some still being developed	Well-established governance practices
DCJ more likely to deal directly with governing body to resolve issues	DCJ deals with operations staff to resolve issues, and may escalate to COO or CEO if necessary



Balancing the differences in a single process

The annual accountability process takes into account the variances in size of our service providers, the nature of their organisations, the number of contracts they hold and the levels of funding they receive.

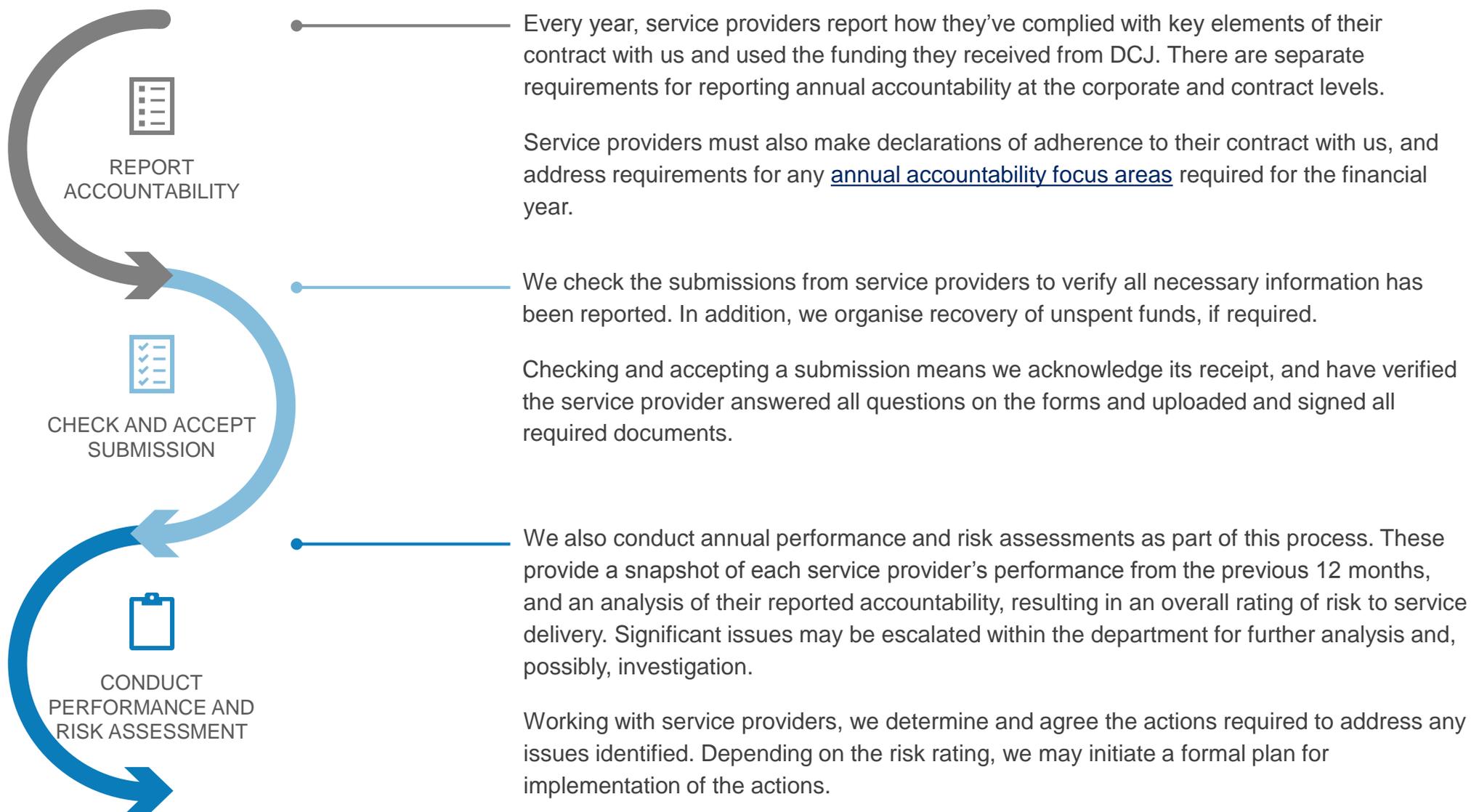
As one of the principal functions of our [Funded Contract Management Framework](#), annual accountability is a robust process of checks and balances, designed to:

- meet the [DCJ objectives](#) for annual accountability
- be suitable to engage with, and to assess and assist each service provider, regardless of the size and nature of the organisation, the number of contracts held, and the level of funding received
- ensure consistency in the way we monitor performance and assess risks to service delivery.

As an annual checkpoint for performance, it's designed to work with the regular performance monitoring by our contract managers as part of their ongoing engagement with service providers.

This is how the process works ...

An overview of the annual accountability process



About the annual accountability focus areas

As part of our commitment to continual improvement of services, we sometimes target particular practices with the annual accountability focus areas.

The focus areas address various aspects of governance, financial management and service delivery. The focus areas change from year to year, and may not be included at all.

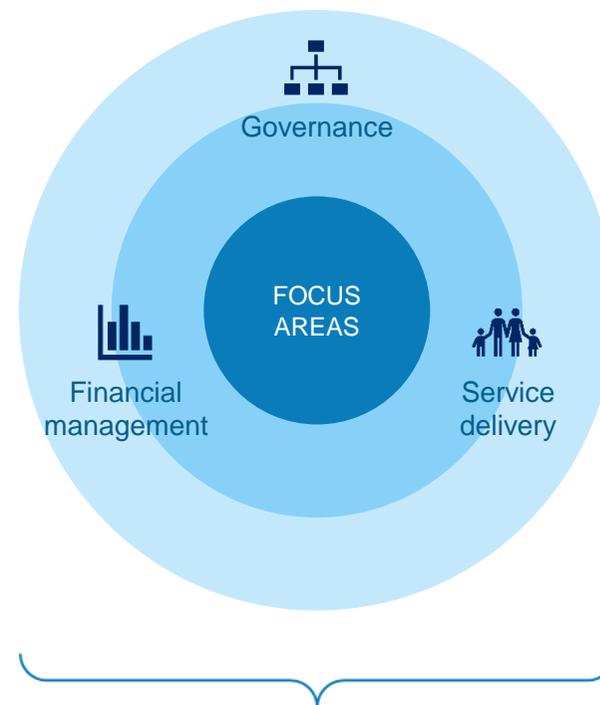
We determine the focus areas (and whether to include them) based on:

- common issues identified during previous annual performance and risk assessments
- significant systemic issues arising during the year
- complaints received about service providers or their staff
- legislative or regulatory requirements that DCJ must comply with.

As part of their corporate-level accountability, service providers are required to:

- respond to questions in relation to the focus areas, if any are included
- submit the documents requested, such as policies and procedures, if any were requested to satisfy us that they have relevant practices in place to minimise the risk of instability to, or interruption of services.

We use this information during the [annual performance and risk assessment process](#).



ENSURE CONTROLS ARE IN PLACE
FOR STABLE, UNINTERRUPTED
DELIVERY OF SERVICES



How we use the information submitted by service providers

The information collected from service providers enables DCJ to meet various responsibilities during and after the annual accountability process.

For planning and continual improvement

Insight gained from the information feeds into the commissioning cycle to assist with planning for programs and services.

This insight also provides useful information to inform policies and processes, and how positive outcomes can be built upon.

The information is a key input to the annual performance and risk assessments.

For performance and risk assessments

It enables us to verify funds are being used as agreed in the contract, key elements of the contract are being complied with, and performance requirements are being met.

For enquiries and investigations

The information may be used to investigate significant issues, complaints and allegations of misconduct.

It also provides us with relevant information when we're required to respond to requests from regulators, report to Government, or answer questions from the mainstream media.

How annual accountability assists us to meet our obligations

Service providers are asked to submit comprehensive information to us in their annual accountability reporting.

We do our best to balance the need to be rigorous without being onerous.

While we may sometimes err on the side of rigour, it's because we have our own accountabilities: to Government, regulators and, ultimately, the people of NSW.

The DCJ Partnerships directorate, which has responsibility for the Funded Contract Management Framework, is subject to:

- internal audit by the DCJ Governance and Audit Branch
- reporting requirements of the NSW Ombudsman, the NSW Police Force and the Independent Commission Against Corruption (ICAC)
- annual review of financial and performance management systems by the NSW Auditor-General to confirm we're managing risks to the service system.

The annual accountability process, and the information collected, plays a significant role in being able to meet our obligations. It also gives us the information we need to support service providers and ensure everything is on track to achieve the outcomes agreed in contracts.

The information collected mostly tells a positive story about service providers meeting these outcomes.

However, sometimes concerns emerge.

If a contentious matter arises with a funded service, we engage with our regulatory partners to ensure the service providers involved are held accountable to the public of NSW.

This has led to cases being reported to the ICAC and NSW Police.

Fortunately, most of our service providers do the right thing.

However, when required to investigate and report allegations of fraud or other financial misconduct, we start with the information we hold about service providers; especially information collected during the annual accountability process.

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How service providers report their annual accountability

Reporting corporate-level accountability

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Reporting contract-level accountability

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Reporting corporate-level accountability

Corporate-level accountability requires service providers to report financial health at the whole-of-organisation level, and declare compliance with their ongoing responsibilities and contractual obligations.

Service providers report corporate-level accountability using the form allocated to them in the Contracting Portal to:

- provide details of the organisation's financial position
- upload the organisation's financial statements
- meet the requirements for the specified annual accountability focus areas, if any are included
- verify that we have up-to-date details about the organisation
- fill in, sign and upload the *Service provider declaration for corporate-level accountability*. This is a certified statement confirming that the organisation:
 - complies with its ongoing responsibilities and contractual obligations (subject to any noted exceptions and reasons for them)
 - is a going concern and has the ability to meet its debts
 - has submitted all information and documents requested by us.

Service providers report corporate-level accountability using the Contracting Portal to ...



Fill in the corporate-level accountability form



Upload financial statements



Upload documents related to annual accountability focus areas, if requested



Upload the completed and signed *Service provider declaration for corporate-level accountability*

Reporting contract-level accountability

Contract-level accountability requires service providers to report income and expenditure against the funding received from DCJ, declare unspent funds, and certify they met the financial responsibilities and contractual obligations for the reported financial year.

Service providers report contract-level accountability* using the form allocated to them in the Contracting Portal to:

- show that funding was spent as agreed in the contract with us
- upload a certified income and expenditure statement
- identify any unspent funds
- fill in, sign and upload the *Annual accountability certification for contract-level accountability*. This certifies that the service provider met the financial responsibilities and contractual obligations for the reported financial year (subject to any noted exceptions and reasons for them), including that they:
 - provided services as agreed in the contract
 - complied with the activities and performance requirements stated in the applicable *Program Guidelines* or *Program Specifications*, and achieved the results required
 - have the ability to return any unspent funds, if required
 - collected and provided the data and information required.

* For contracts less than \$25,000, the only requirement is a completed *Annual accountability certification for contract-level accountability*.

Service providers report contract-level accountability using the Contracting Portal to ...



Fill in the contract-level accountability form



Upload a certified income and expenditure statement



Upload the completed and signed *Annual accountability certification for contract-level accountability*

03

How we check and accept submissions

Checking and accepting submissions

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Dealing with unspent funds

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Checking and accepting submissions

Once annual accountability has been reported by service providers, we check the submissions.

The priority is to verify that service providers have answered all questions on the forms and uploaded all required documents.

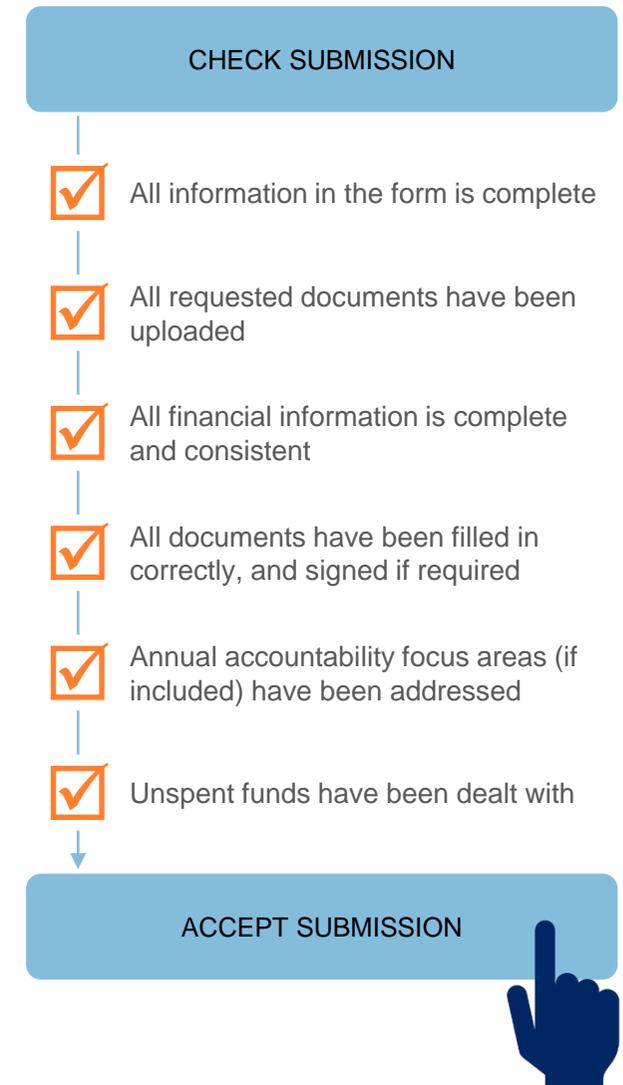
This includes performing a preliminary review and crosscheck of the financial information to ensure it's been reported as required, and to address any inconsistencies as soon as possible.

During this step, we may contact service providers to discuss:

- incomplete or missing information on a form
- documents that haven't been filled in correctly, or haven't been signed or uploaded
- incomplete or inconsistent financial information; for example, figures typed in the contract-level accountability form in the Contracting Portal don't agree with figures in the submitted income and expenditure statement.

In addition, we organise to recover unspent funds from service providers, when required.

Once this initial review is completed, we notify service providers. The next step in the accountability process is the annual performance and risk assessments. We may ask service providers to provide further information during this part of the assessment process.



Dealing with unspent funds

Before accepting annual accountability submissions, we organise to recover unspent funds from service providers, when required.

As a general rule, service providers must return unspent funds to DCJ, as agreed in the contract with us, for return to NSW Treasury.

This approach enables us to:

- reduce the level of unspent funds across programs, so that funding is directed to deliver the services for which it's been allocated
- pool funding at the program level to:
 - better address strategic priorities
 - generate greater purchasing power and capacity to respond to those priorities.

There may be circumstances when this general rule doesn't apply, as each DCJ program has its own requirements in relation to unspent funds.

These requirements guide whether service providers may retain and use unspent funds for the program services. We notify service providers of these requirements as part of their annual accountability information pack.

We won't recover unspent funds if:

- the contract stipulates that unspent funds may be retained, or
- DCJ has paid the funds in advance.

For example, Permanency Support Program contracts allow service providers to retain unspent funds for future use with the program.

If funds are to be recovered, we notify the service provider of the amount, the method and the date the funds are to be recovered, in writing.

We may negotiate the method and timing of recovery at the service provider's request, if exceptional circumstances warrant it.

Generally, we recover funds by withholding the amount to be repaid from the next quarterly payment or over several quarterly payments, depending on the amount.

If a service provider has no current contract with DCJ, they may return the funds by cheque or electronic funds transfer.

04

How we assess performance and risk

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Conducting annual performance and risk assessments

DCJ reviews the performance of service providers by completing annual performance and risk assessments at the corporate and contract levels.

We've defined a set of criteria as the basis for the assessments. Each criterion addresses an aspect of governance, financial management or service delivery.

The criteria may change from year to year.

The assessments are designed to build a snapshot of a service provider's performance over the previous 12 months, analyse their reported accountability, and rate the risk to service delivery.

DCJ program areas may give instructions to pay particular attention to certain criteria if there are known issues across programs.

ASSESSMENT CRITERIA



Governance

Establish that the service provider:

- is adhering to all applicable laws, regulations and obligations
- has a strong and accountable governing body



Financial management

Establish that the service provider:

- has good financial health
- is using DCJ funding as agreed in the contract, and can account for that usage



Service delivery

Establish that the service provider:

- is delivering services as agreed in the contract
- is responsive to the needs of DCJ clients

Corporate-level assessment criteria

The corporate-level assessment criteria assist DCJ to determine whether service providers are in a strong position to continue delivering services on our behalf.

Service providers are required to submit financial statements as part of corporate-level accountability, and we may request other documents from time to time.

Financial statements give us an indication of a service provider's general financial health. This information is used when we rate the financial management criteria. The ongoing viability of an organisation is important to us because we want to maintain stable service delivery.

If focus areas are included, we review any material submitted, if it was requested by us. Our interest in this material is to verify its currency and to satisfy us that relevant practices are in place to minimise the risk of instability to, or interruption of services. It isn't DCJ's role to endorse this material or the practices described in it.

Currently, there are 11 base criteria for the corporate-level assessment. The number of focus area criteria, if any, varies from year to year.

1. Accreditation or other recognition by a regulator	2. Systems to support working with children and young people	3. Involvement in a merger, acquisition or amalgamation	4. Negative media attention
5. Complaints	6. Improvement plan	7. Performance audit or review	8. Governance, in general
9. Exceptions in the <i>Service provider declaration for corporate-level accountability</i>	10. Audit report includes a qualified audit opinion or emphasis of matter	11. Financial position	Focus area #1 (if included)
Focus area #2 (if included)	Focus area #3 (if included)		

Contract-level assessment criteria

The contract-level assessment criteria enable DCJ to determine whether service providers are delivering services and using funds as agreed in the contract.

Service providers are required to submit an income and expenditure statement as part of contract-level accountability.

We use the income and expenditure statement to determine how the funds have been spent, in response to the assessment criteria.

This includes checking that:

- all expenses, including indirect costs such as contract administration costs, have been correctly apportioned and aren't disproportionately high compared to the level of funding
- large fluctuations in expenses compared to the previous year can be explained
- indicators of performance issues or other service delivery problems, such as unspent funds or deficits, can be explained.

Currently, there are nine criteria for the contract-level assessment. Additional criteria may be included to address program-specific performance.

1. Improvement plan	2. Subcontracting the services we fund	3. Timeliness and veracity of quarterly (or agreed freq.) performance reporting	4. Service delivery, in general
5. Exceptions in the <i>Annual accountability certification for contract-level accountability</i>	6. Indirect costs	7. Surplus/ (deficit)	8. Capital expenditure
9. Fluctuations in expense items compared to last year	Program-specific performance criterion #1 (if included)	Program-specific performance criterion #2 (if included)	

Assessing performance and risk to service delivery

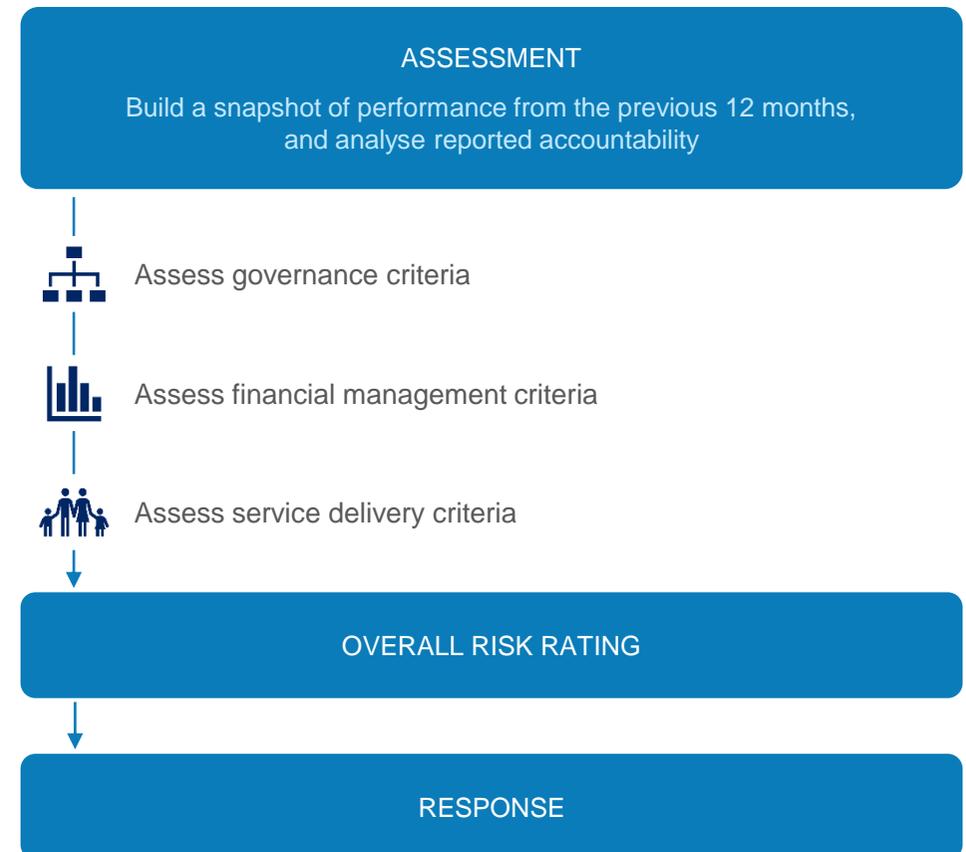
For each assessment criterion, we determine whether the service provider has issues which may affect their ability to deliver services to our clients.

To do this, we:

- review the documents and data reports submitted by the service provider as part of their regular performance reporting over the previous 12 months
- refer to other information DCJ has gathered about the service provider over the previous 12 months
- review and analyse the information submitted by the service provider as part of their accountability reporting, including the annual accountability focus areas if any were included
- use our general knowledge of the service provider, as well as consider communication and engagement with them over the previous 12 months.

If issues are identified, we rate their severity.

We do this using the annual performance and risk assessment tool in the Contracting Portal.



Rating the severity of performance issues and rating the overall risk

If we identify a performance issue for an assessment criterion, we rate the severity of the issue.

Once all criteria are assessed, the annual performance and risk assessment tool automatically calculates an overall risk rating.

The severity ratings for performance issues are:

- significant
- moderate
- minor.

If there's no issue or a criterion isn't applicable to a service provider, the rating given is 'No issue or not applicable'.

We state the reason for the severity rating given and, if necessary, provide evidence to support that reasoning.

While assessing criteria, we may contact service providers with questions or to request further information before we apply a rating.

Significant issues related to the financial management and focus area criteria (if included) are escalated within DCJ for further analysis and, if necessary, investigation.

Once all criteria have been assessed, the assessment tool rates the overall risk, at the corporate and contract levels, based on the number and severity of performance issues.

The risk ratings are:

- low
- medium
- high
- very high.

If there's no risk, the assessment tool assigns the default rating of 'low' risk.

We can override the risk rating that's automatically assigned by the tool. However, this requires providing a justification for the decision and the new rating assigned.

Initiating actions in response to any issues

We notify service providers when their performance and risk assessments have been completed.

If any performance issues were identified during the assessment, we ask to meet with the service provider to discuss the issues and plan a course of action to address them.

This meeting ensures transparency of the accountability process and its outcome, and provides the opportunity to:

- clarify the situation
- establish awareness of an issue
- discuss any measures already being taken to address an issue
- work collaboratively to resolve matters.

Together, the parties determine whether the service provider:

- can resolve the issue using its own resources or by changing its practices
- requires the support of our assigned contract manager, who may direct the service provider to other resources available to assist them.

If a service provider is uncooperative or reluctant to address an issue, we escalate the matter to specialist teams within DCJ for further action.

At completion of the annual performance and risk assessment, we ...



Notify the service provider of completion

If any performance issues were identified during the assessment, we ...



Request a meeting to discuss the issues



Meet with the service provider to determine how best to resolve the issues, and together plan a course of action



Escalate the matter if the service provider is uncooperative or reluctant to address an issue

Planning for issue resolution

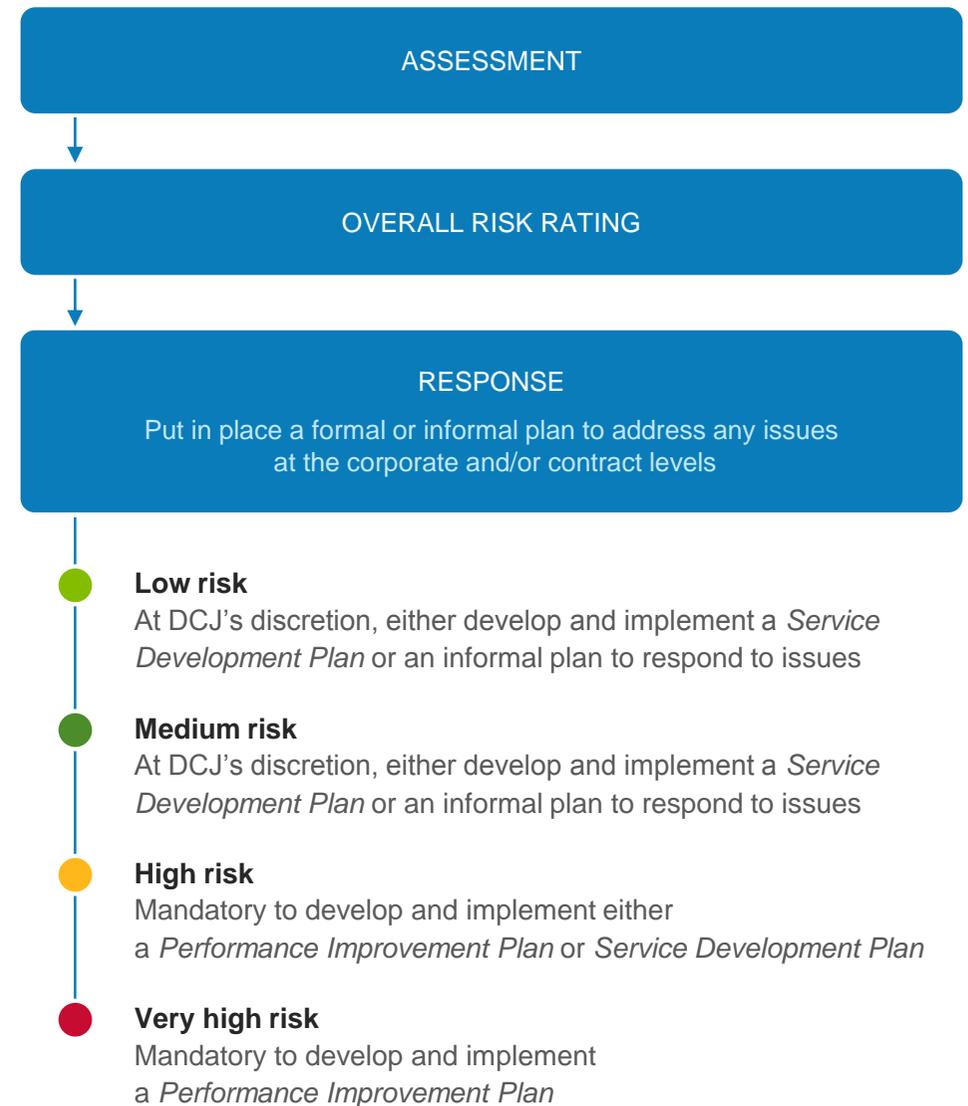
We put in place a formal or informal plan to ensure issues are resolved.

We may prepare a formal *Performance Improvement Plan* or *Service Development Plan*, depending on the overall risk rating assigned to the performance and risk assessment. If it's required, a formal plan is:

- developed in collaboration with the service provider
- endorsed by representatives of DCJ and the service provider, as a means of affirming that:
 - the issues, and actions to resolve them, are agreed
 - the service provider's governing body commits to the issues being resolved.

If not using a formal plan, our contract managers work with their service providers to develop and implement an informal plan to resolve issues, agreeing the actions to be taken and timeframes for their completion.

Once the plan is agreed, our standard procedures for responding to contracting issues and managing improvement plans take over. Under these procedures, if a service provider isn't adequately addressing issues within the agreed timeframe, their contract manager will escalate the matter.



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Additional information, support and assistance

Additional information, support and assistance for service providers

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Additional information for other interested parties

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Additional information, support and assistance for service providers

If you require support or assistance with any aspect of the annual accountability process, **contact your DCJ contract manager.**

The guide to *Reporting annual accountability* [for the applicable financial year] explains important information for service providers about the annual accountability process for the applicable financial year. It includes information about:

- the annual accountability focus areas, if any
- returning and retaining unspent funds
- the annual accountability forms to be submitted in the Contracting Portal
- the documents to be uploaded to the Contracting Portal.

[The guide is available from the DCJ website.](#)

For more information about funded contract management and the Funded Contract Management Framework, refer to the [Funded contract management overview](#) available from the DCJ website.

Additional information for other interested parties

If you have any questions about the annual accountability process or want to find out more about the Funded Contract Management Framework, send an email to capabilityandpractice@fac.s.nsw.gov.au