Internal Audit

Department of Infrastructure, Local Government and Planning

Final Report
Grant Administration

October 2017

Audit reference: DILGP1617-006
## Contents

Summary .................................................................................................. 4  

1. Introduction ..................................................................................... 6  
   1.1 Objective ..................................................................................... 6  
   1.2 Scope .......................................................................................... 6  
   1.3 Out of Scope .............................................................................. 6  
   1.4 Approach ..................................................................................... 6  
   1.5 Consultation ................................................................................ 6  

2. Detailed findings and agreed management actions ..................... 7  
   2.1 Strengths ..................................................................................... 7  
   2.2 Improvement opportunities ......................................................... 7  
   2.3 Low risk finding ........................................................................... 8  

3. Risk rating .......................................................................................... 11  

4. Implementation of recommendations ......................................... 13  
   4.1 Implementation strategy .............................................................. 13
Summary

The Annual Audit Plan 2016-17 for Internal Audit was endorsed by the Audit and Risk Management Committee (ARMC) and approved by the Director-General on 29 June 2016. The Annual Audit Plan 2016-17 includes the audit of Grant Administration.

The objective of the audit was to provide reasonable assurance that the administration of grants is managed effectively and internal control processes are effective and the department is compliant with regulatory obligations contained in the Financial Accountability Act 2009 (the Act), the Financial and Performance Management Standard 2009 (the Standard) and other applicable legislation.

The audit assessed the adequacy of existing controls, processes and procedures employed within the department for effective grant program administration, including the reconciliation with SAP and the methodology used to report grant commitments as part of the end of financial year (EOFY) process.

Based on the scope, approach and sample testing adopted, the departmental policies, procedures and internal control processes in relation to grant administration were found to be satisfactory.

An overall risk rating of low is appropriate for this audit.

The audit identified strengths in relation to the reconciliation of GRaNT data with SAP data that is conducted by Finance and Funding and reviewed by Finance, DILGP monthly. The reconciliation format and process has undertaken continuous improvement through collaboration between Finance and Funding, and Finance, DILGP. Grant commitments were found to be reported accurately and approved appropriately. The methodology used to forecast grant funding for the financial year is continuously being assessed to improve the accuracy for cash flow and budget control. The reporting process is also under continuous assessment to improve effectiveness and accuracy.

Grant reconciliations were examined for the periods April, May and June 2017. The process of reconciliation is undertaken by Finance and Funding and reviewed monthly by Finance, DILGP. This did occur for the periods examined. The process has been updated in recent times with the use of workflows to ensure the reconciliation is prepared, approved and reviewed. Three programs were examined, namely the 2016-17 Works for Queensland (W4Q) program.

There were no issues found.

Grant commitments were examined as part of the review:

- The total grant commitments reported for 2016-17 was $390.467M. This was made up of $282.549M committed not later than one year and $107.918M committed later than one year and not later than five years.

- The test sample totaled $26.538M, across 31 councils and three programs namely the 2016-17 W4Q program.

- All committed amounts within each of the programs that were tested were found to be accurate with appropriately approved supporting documentation. There were no issues found.
The budgets, payments and commitments for each of the three programs were examined; for
detail refer to Table 1 below. The testing confirmed the total amount committed for each
program:

- Total budget for the 2016-17 W4Q program was $200M. When reconciled with SAP
  as at 30 June 2017 the total payments were $119.340M leaving a total of $80.660M
  to be committed. This was confirmed as accurate.

<table>
<thead>
<tr>
<th>Grant program</th>
<th>Budget</th>
<th>Reconciled</th>
<th>Confirmed commitment next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17 W4Q</td>
<td>$200M</td>
<td>$119.34M</td>
<td>$80.66M</td>
</tr>
</tbody>
</table>

The audit has identified one low risk rated finding refer to Table 2 below.

Table 2. Summary of key findings

<table>
<thead>
<tr>
<th>Finding reference</th>
<th>Finding statement</th>
<th>Risk rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1617-006-002</td>
<td>Effectiveness of W4Q 2016-17 program management</td>
<td>Low</td>
</tr>
</tbody>
</table>
1. Introduction

1.1 Objective

The objective of the audit is to provide reasonable assurance that the administration of grants is managed effectively, internal control processes are effective and the department is compliant with regulatory obligations contained in the Financial Accountability Act 2009 (the Act), the Financial and Performance Management Standard 2009 (the Standard) and other applicable legislation.

1.2 Scope

The scope of the audit is to assess the effectiveness of the control environment for grant program administration, including governance, program management, the reconciliation process between the department's grant management system and SAP, testing of the acquittal process and grant commitments.

The grant programs to be assessed include:
- 2016-17 Works for Queensland Program

1.3 Out of Scope

This audit has not included the W4Q 2017-19 program and is limited to testing the W4Q 2016-17 program.

1.4 Approach

The audit methodology included:
- the assessment of the process for reconciliation of grant funding with SAP, including the review and reporting process
- the examination of a sample of grant commitments and the methodology used to accurately forecast and report as part of the EOFY process; including verification of funding approved, the duration and any variation of time and funding
- the assessment of the effectiveness of program management, reporting and the monitoring process used
- an onsite visit by the engagement team
- interviews and discussion with key stakeholders, documentation gathering, sample control testing and observation.

1.5 Consultation

We would like to acknowledge the contribution and cooperation of the Finance and Funding team and the Finance, DILGP team in the successful completion of this audit.
2. Detailed findings and agreed management actions

2.1 Strengths

The audit identified the following strengths:

- Grant commitments for the department as part of the EOFY process were found to be accurate with appropriately approved supporting documentation.
- Reconciliation with SAP is undertaken by the department and reviewed monthly by Finance, DILGP to ensure the accuracy of programs.
- Management review of the grant programs is ongoing to continuously improve the effectiveness of the administration of all grant programs.

2.2 Improvement opportunities

The review noted the following control and business improvement opportunities:

- That the department considers the benefits to be gained by developing an online portal for reporting purposes with regards to the W4Q program to improve the effectiveness of program management and to better utilise resources.
- That the department considers the benefits to be gained by changing the variation process to only request approval from the Minister for variations when:
  - a project is being discontinued and a new project for the same estimated amount and the same estimated outcome (number of jobs to be created, supported or sustained) is proposed
  - a new project for a changed/different amount or changed/different outcomes (number of jobs to be created, supported or sustained).
2.3 Low risk finding

<table>
<thead>
<tr>
<th>Finding - 1617-015-02</th>
<th>Effectiveness of 2016-17 W4Q program management</th>
<th>Consequence</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Insignificant</td>
<td>Likely</td>
</tr>
</tbody>
</table>

**Context**
In 2016 the W4Q program was approved by CBRC for $200M for the 2016-17 financial year. The program was approved to support regional councils outside south east Queensland to undertake job-creating maintenance and minor infrastructure projects. The audit provides the following observations:

- In total, there are 65 councils participating in this program.
- There are 731 projects that have been assessed and approved by the Minister. These projects are an estimated cost with an estimated outcome – number of jobs that will be created, supported or sustained by undertaking these projects.
- The published agreed completion date is 30 November 2017.
- The program is an allocation funding program based on each council receiving $1M plus an amount calculated on population size and percentage of unemployment. As at 30 June 2017 the department had made payments to councils totaling $119.34M with reported commitments for 2017-18 of $80.66M.
- The program reporting and data collection process is manual. Councils are required to report on progress and status of their approved projects to the department each month by way of an excel spreadsheet. A dedicated DILGP resource transfers and summarises the data manually. This manual process is undertaken as GRaNT, the department’s grants management system, does not have the capability of administering this program.
- To address manual processing, consideration should be given to the development of an online secure environment for each council to update the progress and status of projects and that is accessible using a password. Once updated by council the data can be linked to a summary for reporting purposes. This was discussed with Finance and Funding and advised that this type of development is consistent with a planned upgrade to GRaNT at the end of 2018.
- The process used to undertake changes to the funding amounts applied to projects is called a variation. Councils are required to make submission to the department for these variations to be approved by the Minister. There are two types of variation, an internal variation and a major variation:
  - an internal variation, where:
    - there is movement of funding between the approved projects nominated by each council that does not affect the total amount of funding allocated and does not lower the number of jobs to be created, supported or sustained (the outcome)
  - a major variation where:
    - a project is ceased and the funding is moved to a new project that does not change the outcome and the total amount of funding allocated, or
    - there is a change of scope to a project and the outcome is changed (lower number of jobs created, supported or sustained).
- 165 variations from the Northern Region for the 2016-17 program were submitted to the Minister for approval; of these 95 or 60% were for the movement of funding from one project to another and with all 95 variation transactions, the total allocation of funding remained the same and the total estimated number of jobs to be created, supported or sustained (the outcome) remained the same.

- To improve this process consider changing the approver for variations that are classified as internal variations from the Minister to the department. The level of departmental delegation required can be either the Director-General or the Deputy Director-General. This would maintain the management of these variations and lower the requirement for the Minister to approve. The approver of variations classified as major would remain with the Minister. Should this occur, the department’s delegations would need to be amended.

**Implication**

Currently there is a risk of inaccurate data being reported, loss of data through manual input and delay in processing approvals due to the unavailability of an approver, which all may impact on project delivery and outcome.

**Recommendation**

1. It is recommended that the A/Director, Finance and Funding considers:

   a) the benefits to be gained by developing an online portal for reporting purposes for the W4Q program to improve the effectiveness of program management and to better utilise resources

   b) the benefits to be gained by changing the process for the approval of variations to two classifications

      o an internal variation (approved by the department) for movement of funding between projects where the total allocation of funding remains the same and the total estimated number of jobs to be created, supported or sustained (the outcome) remains the same

      o a major variation (approved by the Minister) where:

         ▪ a project is ceased and the funding is moved to a new project that does not change the outcome and the total amount of funding allocated, or

         ▪ there is a change of scope and the outcome is changed (lower the number of jobs created, supported or sustained).
Management Comments and Actions

Recommendations accepted.

Actions to be taken include:

<table>
<thead>
<tr>
<th>Action</th>
<th>Responsibility</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>A/Director Finance and funding</td>
<td>30 June 2018</td>
</tr>
<tr>
<td>b)</td>
<td>A/Director Finance and funding</td>
<td>31 December 2017</td>
</tr>
</tbody>
</table>

- a) Work with ePlanning to create an online portal for reporting purposes for W4Q (and other relevant programs) to improve the effectiveness and efficiency of program management; in particular, to support local government and LGRS reporting requirements.
- b) Seek consideration of an amendment to, and updating of, the approval process and related delegations for variations for the Works for Queensland program. This would be intended to clarify the two types of variations, minor and major, and the respective approvals to streamline the variation process for local governments and the department.
3. Risk rating

A risk rating has been assigned to each finding identified in the course of this internal audit. These ratings are based on the department’s internal audit risk rating criteria detailed below:

**Risk likelihood of occurring**

<table>
<thead>
<tr>
<th>Likelihood of occurrence</th>
<th>Definition (Rate of occurrence)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Almost certain</strong></td>
<td>Several times within the next year, or over 90% probability</td>
</tr>
<tr>
<td><strong>Likely</strong></td>
<td>Once within the next year, or 70% − 90% probability</td>
</tr>
<tr>
<td><strong>Possible</strong></td>
<td>At least once within the next 1 − 5 years, or 30% − 70% probability</td>
</tr>
<tr>
<td><strong>Unlikely</strong></td>
<td>Once within the next 5 − 10 years, or 10% − 30% probability</td>
</tr>
<tr>
<td><strong>Rare</strong></td>
<td>Less than once in the next 10 − 20 years, or less than 10% probability</td>
</tr>
</tbody>
</table>

**Risk consequence level definitions**

<table>
<thead>
<tr>
<th>Level</th>
<th>Financial and budgetary impacts</th>
<th>Health and safety</th>
<th>Reputation and integrity</th>
<th>Natural environment impacts</th>
<th>Legal concerns</th>
<th>ICT capability</th>
<th>Restrictions on operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Catastrophic (5)</strong></td>
<td>Loss of life</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Major (4)</strong></td>
<td>Extensive financial loss requiring alteration to program or business operations</td>
<td>Permanent injury</td>
<td>Prolonged public and/or media concern and/or loss of key personnel</td>
<td>Long-term impact of infrastructure or natural environment − extensive remediation required</td>
<td>Extensive litigation through class action and/or criminal claim against department</td>
<td>Loss of critical functions, long-term outage; extensive ICT remediation required</td>
<td>Inability to achieve objectives in the medium to long-term</td>
</tr>
<tr>
<td><strong>Moderate (3)</strong></td>
<td>Long-term financial loss with considerable impact on operations</td>
<td>Hospital treatment required</td>
<td>Significant adverse publicity (national and/or state) and/or loss of key financial partners</td>
<td>Impact on infrastructure or natural environment − moderate remediation required</td>
<td>Extensive litigation through class action and/or criminal claim against department</td>
<td>Major litigation against the department or serious breach of legislation</td>
<td>Unexpected loss of essential personnel with extensive delay for replacements</td>
</tr>
<tr>
<td><strong>Minor (2)</strong></td>
<td>Significant financial loss, including loss of demand for service</td>
<td>First aid and/or medical treatment required</td>
<td>Media and/or local community concern for the short-term</td>
<td>Medium-term environmental impact − some remediation required</td>
<td>Major litigation against the department or serious breach of legislation</td>
<td>Significant outage in multiple areas, substantial ICT remediation required</td>
<td>Short-term objective cannot be achieved</td>
</tr>
<tr>
<td><strong>Insignificant (1)</strong></td>
<td>Minor financial loss, including loss of demand for service</td>
<td>WITS incident report only</td>
<td>Internal reputational damage (within department or Queensland Government)</td>
<td>Short-term environmental impact − minimal remediation required</td>
<td>Minor non-compliance with legislation and regulatory requirements</td>
<td>Minor outage in single area, standard ICT action required</td>
<td>Slight effect on operation/project capability; loss of key personnel</td>
</tr>
</tbody>
</table>
An overall risk rating of low is appropriate for this review.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant</td>
<td>Represents combined risks that could have a material impact on the department's business operations. Significant remedial action is required.</td>
</tr>
<tr>
<td>High</td>
<td>Significant control weaknesses exist. Significant improvements in efficiency and/or effectiveness could be made. Requires immediate management action.</td>
</tr>
<tr>
<td>Medium</td>
<td>Some control weaknesses exist. Improvements in efficiency and/or effectiveness could be made.</td>
</tr>
<tr>
<td>Low</td>
<td>No major control weaknesses. Scope for some efficiencies to be implemented.</td>
</tr>
</tbody>
</table>
4. Implementation of recommendations

An update should be provided to Internal Audit on the status of the agreed management actions, supported by key documentation evidencing the implementation process.

4.1 Implementation strategy

Responsible Officers

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deputy Director-General, Strategy, Governance and Engagement</td>
<td>Kathy Parrant</td>
</tr>
<tr>
<td>(for recommendation 1 (b))</td>
<td></td>
</tr>
<tr>
<td>Deputy Director-General Local Government and Regional Services</td>
<td>Paul Carlson</td>
</tr>
<tr>
<td>(for recommendations 1 (a) and 1 (b))</td>
<td></td>
</tr>
<tr>
<td>A/Director Finance and Funding</td>
<td>Kim Mahoney</td>
</tr>
<tr>
<td>(for recommendations 1 (a) and 1 (b))</td>
<td></td>
</tr>
<tr>
<td>Implementation date and update report due</td>
<td>As per report recommendations</td>
</tr>
</tbody>
</table>