

DIRECTOR-GENERAL – BRIEF FOR NOTING

ESU

Date: 2 January 2018

SUBJECT: Internal Audit - Final report for the audit of Grant Administration

NOTED or APPROVED / NOT APPROVED

RECOMMENDATION:

That you **note** the final report for the internal audit of Grant Administration (**Attachment 1**).

BACKGROUND:

The audit of Grant Administration was undertaken as part of the Internal Audit Annual Audit Plan 2016-17.

In accordance with the *Financial and Performance Management Standard 2009* – section 32(2)(a), the internal audit function must give the final report to the then Department of Infrastructure, Local Government and Planning's (DILGP) accountable officer and its audit committee.

KEY ISSUES:

The objective of the audit was to assess the adequacy of existing controls, processes and procedures employed within DILGP 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 process.

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

The audit examined three programs, namely the 2016-17 Works for Queensland (W4Q) program, the 2016-17 State Government Financial Aid program and the 2016-17 Grants and Subsidies Programs. There were no issues found.

The audit identified strengths in relation to the reconciliation of GRaNT data with SAP data that is conducted by Finance and Funding and reviewed monthly by Finance, DILGP. The reconciliation format and process have been continuously improved 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 reviewed to improve the accuracy for cash flow and budget control. The reporting process is also assessed regularly to improve effectiveness and accuracy.

The total grant commitments reported for 2016-17 was \$390.467 million, consisting of \$282.549 million committed not later than one year, and \$107.918 million committed later than one year and not later than five years. The test sample totalled \$26.538 million, across 31 councils and three programs. All committed amounts within each of the programs tested were found to be accurate, with appropriately approved supporting documentation.

The audit noted one low rated finding for control and business improvement for the W4Q program regarding streamlining the project variation approval process, and the development of an online portal for reporting purposes, to facilitate better program management and resource utilisation.

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RESULTS OF CONSULTATION:

Finance and Funding has accepted the recommendations provided in the report and management actions have been agreed. Internal Audit is satisfied with the approach being taken by management to address the issues identified. The implementation status is being tracked by Internal Audit and will be reported to the Audit and Risk Management Committee.

RIGHT TO INFORMATION: Contents/attachments suitable for publication Yes No

Does this support a media opportunity for the Minister's Office? Yes No

Internal Audit

Department of Infrastructure, Local Government and Planning

Final Report Grant Administration

October 2017

Audit reference: DILGP1617-006

The Department of State Development

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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, the 2016-17 State Government Financial Aid (SGFA) program and the 2016-17 Grants and Subsidies Programs (GSP) incorporating the Community Resilience Fund (CRF), the Local Government Grants and Subsidies Program (LGGSP) and the Natural Disaster Resilience Program (NDRP). 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, the 2016-17 SGFA program and the GSP incorporating the CRF, the LGGSP and the NDRP.
- 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.
- Total budget for the 2016-17 SGFA program was \$30.334M. When reconciled with SAP as at 30 June 2017 the total payments were \$30.334M, with all funding reconciled.
- Total budget for the 2016-17 GSP incorporating the CRF, the LGGSP and the NDRP was \$70.481M. When reconciled with SAP as at 30 June 2017 the total payments were \$25.912M, leaving a total of \$44.569M to be committed. All committed amounts were confirmed.

Table 1. Budgets, payments and commitments

Grant program	Budget	Reconciled	Confirmed commitment next 12 months
2016-17 W4Q	\$200M	\$119.34M	\$80.66M
2016-17 SGFA	\$30.334M	\$30.334M	Nil
2016-17 GSP (CRF/LGGSP/NDRP)	\$70.481M	\$25.912M	\$44.569M

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

Table 2. Summary of key findings

Finding reference	Finding statement	Risk rating
1617-006-002	Effectiveness of W4Q 2016-17 program management	Low

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
- 2016-17 State Government Financial Aid Program
- 2016-17 Grants and Subsidies Programs incorporating the Community Resilience fund, the Local Government Grants and Subsidies Program and the Natural Disaster Resilience 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/s 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:
 - o 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
 - o 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

Finding - 1617-015-02			
Effectiveness of 2016-17 W4Q program management	Consequence	Likelihood	Low
	Insignificant	Likely	
Context			
<p>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:</p> <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> o an internal variation, where: <ul style="list-style-type: none"> ▪ 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) o a major variation where: <ul style="list-style-type: none"> ▪ 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
 - 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
 - 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	Responsibility	Due Date
Recommendations accepted.	A/Director Finance and funding	
Actions to be taken include:		
<ul style="list-style-type: none"> a) work with ePlanning to create an on-line 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 		30 June 2018
<ul style="list-style-type: none"> 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. 		31 December 2017

3. Risk rating

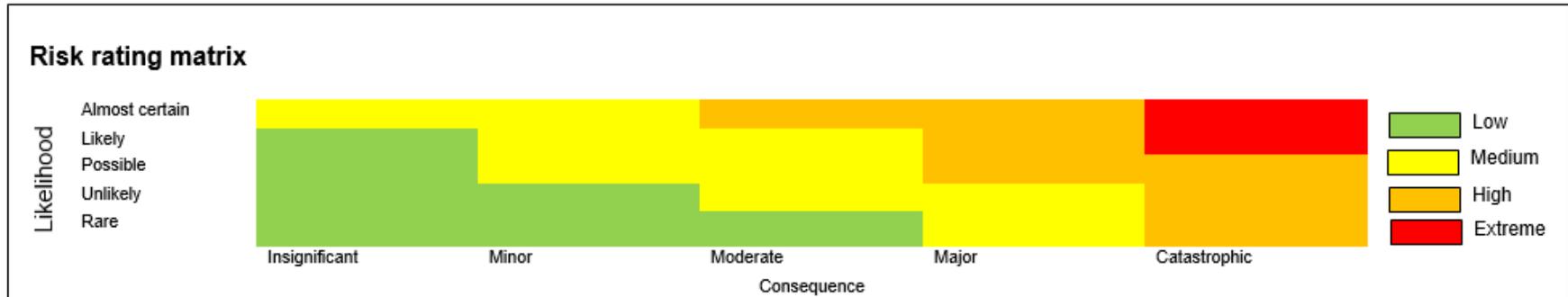
A risk rating has been assigned to each finding identified in the course of this internal audit. These ratings are based on the department’s internal audit risk rating criteria detailed below:

Risk likelihood of occurring¶

Likelihood of occurrence¶	Definition (Rate of occurrence)¶
Almost certain¶	Several times within the next year, or over 90% probability¶
Likely¶	Once within the next year, or 70%–90% probability¶
Possible¶	At least once within the next 1–5 years, or 30%–70% probability¶
Unlikely¶	Once within the next 5–10 years, or 10%–30% probability¶
Rare¶	Less than once in the next 10–20 years, or less than 10% probability¶

Risk consequence level definitions

Level	Categories of consequence						
	Financial and budgetary impacts	Health and safety	Reputation and integrity	Natural environment impacts	Legal concerns	ICT capability	Restrictions on operations
Catastrophic (5)		Loss of life					
Major (4)	Extensive financial loss leading to loss of program or business operation	Permanent injury	Prolonged public and/or media concern and/or long-term reputation damage	Long-term impairment of infrastructure or natural environment – extensive remediation necessary			Inability to achieve objective/s in the medium to long-term
Moderate (3)	Long-term financial loss with considerable impact on operations	Hospital treatment required	Significant adverse publicity (national and/or state) and/or loss of external stakeholder support	Impairment of infrastructure or natural environment – moderate remediation required	Extensive litigation through class action and/or criminal claim against department	Loss of critical functions, long-term outage; extensive ICT remediation required	Unexpected loss of essential personnel with extensive delay for replacements
Minor (2)	Significant financial loss requiring alteration to program or business operations	First aid and/or medical treatment required	Media and/or local community concern for the short-term	Medium-term environmental impact – some remediation required	Major litigation against the department or serious breach of legislation	Significant outage in multiple areas, substantial ICT remediation required	Short-term objective/s cannot be achieved
Insignificant (1)	Minor financial loss including loss of demand for service	WH&S incident report only	Internal reputational damage (within department or Queensland Government)	Short-term environmental impact – minimal remediation required	Minor non-compliance with legislation and regulatory requirements	Minor outage in single area, standard ICT action required	Slight effect on operation/project capability; loss of key personnel



An overall risk rating of **low** is appropriate for this review.

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

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

Title	Name
Deputy Director-General, Strategy, Governance and Engagement (for recommendation 1 (b))	Kathy Parton
Deputy Director-General Local Government and Regional Services (for recommendations 1 (a) and 1 (b))	Paul Carlson
A/Director Finance and Funding (for recommendations 1 (a) and 1 (b))	Kim Mahoney
Implementation date and update report due	As per report recommendations