

Department of Infrastructure, Transport, Regional Development and Local Government

Internal Audit Review of Grants Administration

April 2009

This report and PricewaterhouseCoopers deliverables are intended solely for the Department of Infrastructure, Transport, Regional Development and Local Government's internal use and benefit and may not be relied on by any other party. This report may not be distributed to, discussed with, or otherwise disclosed to any other party without PricewaterhouseCoopers' prior written consent. PricewaterhouseCoopers accept no liability or responsibility to any other party who gains access to this report.

Liability limited by a scheme approved under Professional Standards Legislation

Contents

Executive Summary	2
Background	5
Summary of Recommendations and Agreed Management Actions	7
Summary of Work Performed	9
Detailed Findings	11
Appendix A – Summary of known work being completed in relation to the Administration of Grants within the Department	15
Appendix B - Statement of Work	18
Appendix C – List of Key Contacts for Review	19
Appendix D – Classification of Findings	20

Executive Summary

Introduction

As part of the 2008/09 Internal Audit Work Plan, PricewaterhouseCoopers (PwC) has undertaken a review of grant administration within the Department, focusing on whether there are systemic improvements that can be made to the Department's grants administration process.

The Department administers in excess of \$5 billion in grant funding across a number of major business divisions. Each individual grant program is discrete, with the objectives and requirements to be met being governed by either legislation (non-discretionary grants) or the Department (discretionary grants).

The use and management of Grants within the Department continues to grow in importance for the Federal Government, with large new programs and extensions of programs announced during the course of the audit. It is therefore of high importance to the Department that these programs are managed as efficiently and effectively as possible and ensure that Government Policy has been implemented in a timely manner.

In addition to the public emphasis of grants administration, the 2008/09 ANAO planned work program noted that the ANAO have an ongoing performance audit program examining the funding and delivery of transport infrastructure. The ANAO stated that administration of grants programs in the Infrastructure, Transport, Regional Development and Local Government portfolio remains an important issue in the wake of the Regional Partnerships report and due to the number and size of grants programs that are administered.

For a Commonwealth agency to effectively manage grant programs it is a generally accepted principle that a set of guidelines, rules and processes must be established, to enable flexibility, efficiency and consistency in the administration of the programs, while still meeting the requirements of the FMA Act and associated Government legislation.

Review Objective & Scope

The objective of the review was to identify possible improvements to current practices and procedures appropriate to a governance framework for the management of grants within the Department.

Our review has involved interviews with relevant areas; detailed review of policies, procedures and relevant legislation; and comparison with better practice. We have not undertaken detailed sample testing of compliance with the policy and procedures within the programs.

During the time the audit has been undertaken (December 2008 to March 2009) the Department has commissioned a number of concurrent reviews on aspects of the administration of grants. Where appropriate we have been provided with the scope of work that has been undertaken and in some cases copies of the draft findings. A summary of the known issues has been noted within this report and our review has not duplicated this work.

Summary of Findings

The Nation Building – Infrastructure Investment Division (NB-IID) and the Local Government and Regional Development Division (LGRDD) manage the vast majority of grants within the Department and they are actively improving the administration of grants within the respective Divisions.

It has been evident during the course of the review that the administration of grants within the Department has been and is undergoing significant changes, with a number of initiatives in place to improve the administration of grants. These changes include, but are not limited to:

-
- the establishment of the **Nation Building Project Board**, whose purpose is “to promote the effective implementation of the Nation Building Package by ensuring strategic level business alignment, clear lines of responsibility, accountability and reporting and proactive issues management.
 - The establishment of the **Regional Development Programs Board**, whose purpose is “to oversee and improve performance of regional development programs including through consistent reporting, flexible allocation of resources and rapid decision making”.
 - the **redesign of the policy and procedures** manuals in line with ANAO requirements for the Local Government and Regional Development Grant Programs.
 - the development of working groups and **process improvement areas** within the Divisions.
 - significant **new grant programs**, in excess of \$500 million & the establishment of the Community Infrastructure Program Board.
 - the **redesign of the Notes on Administration and Program management framework** in line with ANAO recommendations and to demonstrate and manage the complex and varied programs in place in the NB-IDD.
 - an increased focus on **accountability and reporting**.

While it was noted that each area involved in managing grants has policies and procedures in place to manage grants and that significant changes/improvements have been made to these processes, the Department as a whole could benefit from the development of a more clearly defined framework for the administration of grants.

Given the size and range of grant programs that the Department administers and the profile of those grants we have recommended that a framework (or policy) which outlines the key requirements in relation to the administration of grants is developed and promulgated within the Department. This framework should build upon the knowledge and work being undertaken in the NB-IID and LGRDD and lessons learnt from prior programs.

The framework would provide high level minimum requirements in relation to at least the following key areas:

- Governance
- Program establishment
- Financial accountability requirements
- Grant Management including selection of grant recipients, payments and acquittal process
- Ongoing compliance monitoring
- Evaluation and Closure.

The framework would continue to allow processes and procedures to be tailored in accordance with the program and based on the relevant risk, while demonstrating consistency against the framework and ensuring that processes remain as streamlined and efficient as possible.

The benefits of the framework would be:

- improve staff awareness of requirements and responsibilities

-
- enable the Executive within the Department to gain greater confidence that they are not unduly exposed to risks in managing the grants
 - improve the Departments compliance monitoring processes over grants
 - reduce the time and effort spent administering grant programs

Key strengths identified in our review

The review highlighted the following strengths in controls and processes:

- Documented policies and procedures are in place at the program level to manage the grant programs.
- Interviews with key personnel demonstrated a high level of awareness of grant administration responsibilities and a cultural openness to constantly improve practices
- The Department is undertaking a series of initiatives aimed at improving the efficiency and effectiveness of grant administration.
- The NB-IID is well progressed in implementing changes to their processes to ensure more consistency, risk-based and streamlined processes, and improved governance and reporting mechanisms are in place.
- The LGRDD has put in place a program of improvements which have been designed to address the concerns of the previous ANAO audits and are looking to further enhance the policy and procedures.

Areas for development noted

- The Department as a whole could benefit from the development of a framework or policy which more clearly defines the minimum requirements that should be considered when developing a grants program and which enables Divisions to demonstrate their effectiveness in meeting these requirements.
- A forum for areas within the Department to discuss common problems, initiatives, share lessons learnt and ensure consistent processes would improve level of knowledge exchange and improve the efficiency of managing grant programs.

The Federal Government is developing a whole-of-government policy in relation to grants and it is expected to release this in mid-2009. Any recommendations implemented by the Department in relation to the administration of grants should be considered in this context.

A summary of the Recommendations and Agreed Management Action is provided below. Section 5 of this report provides further detail on our understanding of each of the issues and the associated risks and recommendations.



Partner

PricewaterhouseCoopers

Background

The grant programs administered by the Department and their corresponding value is detailed in the table below:

Department of Infrastructure, Transport, Regional Development and Local Government (as at 11 December 2008)		
	Budget 08-09 \$'000	% of Total Administered Grants
Administered Grants		
Total Auslink Investment	2,017,225	
Total Auslink Black Spots Projects	50,500	
Total Auslink Roads to Recovery	355,579	
Total Auslink Strategic Regional	124,730	
Total Auslink Strategic Regional - Supplementary	79,088	
Total Auslink Improving the National Network	858,543	
Total Auslink Improving Local Roads	83,752	
Total Auslink Other Projects	749	
Total Auslink Projects	3,570,166	64.17%
Total Local Government Financial Assistance Grants	1,871,601	33.64%
Total Better Regions	34,526	0.62%
Total Regional Partnerships	56,647	1.02%
Total Supplementary funding to SA councils for local roads	14,267	0.26%
Total Sustainable Regions	433	0.01%
LGRDD	1,942,948	34.92%
Total Remote Aerodrome Safety Program	7,000	0.13%
Total Seatbelts on Regional School Buses	9,375	0.17%
Total Aviation Security Enhancements	15,878	0.29%
Total Area Consultative Committees	17,861	0.32%
Total Administered Grants	5,563,228	100.00%
Total Departmental Grants	95	
Total Departmental and Administered Grants	5,563,323	

*The information above was provided by the CFO Unit on the 11th of December 2008. Additional programs have been added since that time but do not materially effect the distribution of grants within the Department.

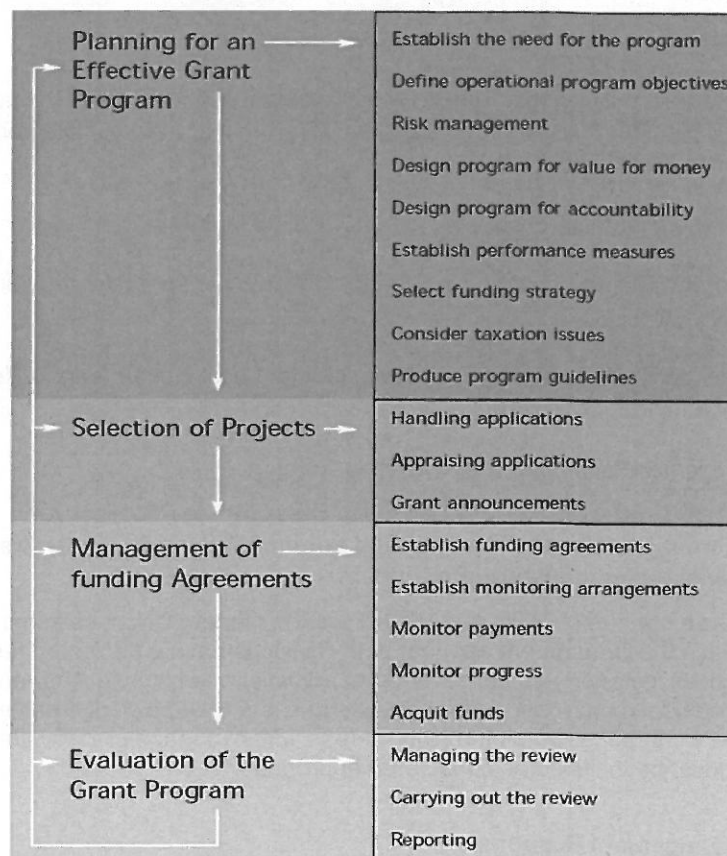
ANAO Better Practice

As the management of large scale grant programs within Government is a relatively common occurrence, with grant funding being one of the major ways in which Government objectives are achieved, the ANAO has released a better practice guide to the administration of grant programs to help Departments' manage their grant programs. The ANAO's guide forms the basis for better practice administration of grants within the Commonwealth and we have used the ANAO's framework to review the Department's current arrangements and provide suggestions for improvement where relevant.

We note that a variety of state governments and other countries, including Canada and the UK, have produced equivalent guides. Our review of these guides indicate, a similar framework and associated better practices consisting of planning, project selection, management and review was noted - with each element of the framework designed to address key areas of risk, ensuring efficient and effective processes are in place.

Within the better practice guide, the ANAO have developed a better practice framework for grant administration which can be used to inform Department's development of policy and procedures. The key elements of the framework used, *Administration of Grants – Better Practice Guide (ANAO)*, are detailed in the diagram below:

Steps in the administration of grant programs



Source: Australian National Audit Office Administration of Grants Better Practice Guide May 2002

This review has recommended that the Department develop a framework for the administration of grants which is flexible enough for use by the different areas within the Department but which incorporates the key requirements that each grant program must have.

Summary of Recommendations and Agreed Management Actions

Ref	Recommended Actions	Priority
1.	<p>Develop an overall framework for the administration of Grants</p> <p>A top-down framework for the administration of grants should be developed to help the Department ensure that grants are being managed efficiently and provide greater confidence to the executive that all key requirements and responsibilities have been clearly articulated and followed. The work already undertaken within the NB-IID and LGRDD should be used as the basis for this framework, including lessons learnt from previous programs.</p> <p>The framework should be flexible and responsive to the different programs/projects that the Department funds and should consider elements that should be addressed to mitigate risks as a result of managing the program funds and non-compliance with policy and procedural requirements.</p> <p>Management Response</p> <p>Agreed.</p> <p>The Nation Building – Infrastructure Investment Division and the Local Government and Regional Development Division will work together to implement the above recommendation.</p> <p><i>Responsibility:</i></p> <p style="padding-left: 40px;">Executive Director Nation Building – Infrastructure Investment Division</p> <p style="padding-left: 40px;">Acting Executive Director Local Government & Regional Development Division</p> <p><i>Implementation date: 30 September 2009</i></p>	CR2
2.	<p>Increase knowledge sharing and communication between Branches and Divisions administering grants</p> <p>Given that the LGRDD and NB-IID are the primary Divisions administering grants within the Department and that both Divisions have a dedicated resources reviewing processes and procedures for grant administration, it is recommended that the two areas develop closer and formal ties to share the knowledge gained and examples of the work being completed. Other areas which manage grants within the Department should be included as considered appropriate.</p> <p>Management Response</p> <p>Agreed.</p> <p>The Nation Building – Infrastructure Investment Division and the Local Government and Regional Development Division will work together to implement the above</p>	CR2

Ref	Recommended Actions	Priority
	<p>recommendation.</p> <p><i>Responsibility:</i></p> <p>, Executive Director Nation Building – Infrastructure Investment Division</p> <p>Acting Executive Director Local Government & Regional Development Division</p> <p><i>Implementation date: 30 September 2009</i></p>	

Summary of Work Performed

The following table provides an overview of the fieldwork performed.

Audit Discovery Phase	
Audit Scope	<ul style="list-style-type: none"> ○ Determine the areas of greatest risk to grants administration within the Department through consultation with Senior Management ○ Identify all Grant Programs within the Department ○ Undertake discussions with key grant administration stakeholders within the Department, including a sample of Executive Directors and Branch Heads ○ Develop and agree a detailed work program with reference to the above and Better Practice Guidance on the Administration of Grants
	<ul style="list-style-type: none"> • The Executive Directors for the NB-IID & the LGRDD and the CFO were consulted. • A listing of all Grants within the Department was obtained from the CFO and the Departments Annual Report review. Over \$5 Billion of Grants under management across more than 11 programs were identified (with a number of programs have sub parts i.e. Auslink) • The Executive Directors and a sample of Branch Heads and their staff were consulted in December 2008 to gain an understanding of the programs identified and how they were being managed. • A review of Better Practice for Grant Administration was undertaken including guides from the Australian, Canadian and United Kingdom's audit offices. • A detailed audit work program was developed and agree with the Governance and Risk Section.
Audit Evaluation Phase	
Audit Scope	<ul style="list-style-type: none"> ○ Evaluate the Governance arrangements and policy & procedures for the administration of the Grants within the Department. ○ Develop recommendations for improvement to the current framework for the improvement of grant administration in the Department through consultation with Management and prepare a report for discussion and agreement with Management and Internal Audit.
	<ul style="list-style-type: none"> • Held interviews with a selection of Branches responsible for managing a number of grant programs within the Infrastructure Investment and LGRDD. This involved gaining an understanding of the grant projects at a high level to understand practices in planning, project selection, management, review and reporting. • Interviews were held with the Nation Building – Infrastructure Investment Implementation Coordination Branch and the Regional Development Programs Program Policy and Compliance Section to gain an understanding of the changes being implemented to the administration of grants within both Divisions. • Review of appropriate documentation to determine current practices, procedures and differences between programs and systems. • Discussion with key stakeholders to discuss the current practices, risks and potential improvements to the processes in place • Review and comparison of current practices with the ANAO Better Practice guide to form views on current practices and proposed improvements.

-
- Review of the scope of work and draft reports concurrent reviews in relation to Grant Administration within the Department.
 - Detailed testing of the compliance of the administration of the grant programs was not undertaken. The Department has commissioned further Internal Audits of compliance in two grant programs within the LGRDD. In addition the ANAO has recently undertaken a performance audit within the NB-IID.

Our work was limited to that described in this report and was performed in accordance with International Standards for the Professional Practice of Internal Auditing from the Institute of Internal Auditors. It did not constitute an examination or a review in accordance with generally accepted auditing standards or assurance standards. Accordingly, we provide no opinion or other form of assurance with regard to our work or the information upon which our work was based. We did not audit or otherwise verify the information supplied to us in connections with this engagement, except to the extent specified in this report or our approved objectives and scope.

Detailed Findings

5.1 The development of an overall framework for the administration of Grants would bring benefits to the Department

Issue

All grant programs reviewed have detailed policies and procedures in place to manage the administration of the programs. Each Division, and in some cases Branch, develops, maintains and ensures compliance with its own policies and procedures. The policies and procedures include Legislation and associated Notes on Administration, Internal Operating Procedures and detailed program manuals.

It is recognised that projects may vary in nature and complexity, however there are common core elements within each grant program that are required, with varying degrees of complexity. It is evident that the Department could benefit from the development of a more clearly defined framework for the administration of Grants. The framework would be aimed at increasing the effectiveness and accountability of grant administration, while ensuring that processes remain as streamlined, risk-based and efficient as possible.

In the last 12 to 18 months significant work has been undertaken in both Divisions, and the Department to improve the administration of grants including, but not limited to the following:

- The LGRDD policies and procedures have been re-written and processes re-engineered to improve the level of accountability and compliance for the grant programs. In addition a review of the current Information Technology system is being undertaken to determine its appropriateness.
- The Nation Building and Infrastructure Investment Division has applied significant resources to risk-assess and simplify processes and ensure consistency across the programs within the Division. Specifically, a number of the improvements include:
 - o development of a program managers tool-box to promote requirements and better practice
 - o streamlining processes and procedures, increasing the risk-based assessment of practices
 - o development of a Divisional Skills Development program
 - o design and review of a Program Management Framework (working with APIS Consulting)
 - o revise the Note on Administration and the program risk management strategy (working with Ernst and Young)
 - o setting up a Business Improvement Branch.

The development of a Department Framework should build upon the work undertaken in both divisions and we note that a number of the areas of risk have already been addressed by the divisions.

The benefit of designing a framework to clearly communicate the requirements for managers administering grant programs was noted by the majority of staff interviewed during the course of the audit. The two main divisions within the Department had already identified the need for consistent process and procedures within the Divisions.

The benefits of the framework would include:

- improved staff awareness of requirements and responsibilities

- ability for the Executive within the Department to gain greater confidence that they were not unduly exposed to risks in managing the grants
- improved ability to monitor compliance
- reduce the time and effort spent administering grant programs.

Risk

A departmental framework/policy for the administration of grants would reduce the risk of:

- non-compliance with key requirements and policies & procedures
- duplication of effort and cost in the management of grants
- staff being unaware of their responsibilities and requirements
- reputational damage to the Department in relation to the above.

Recommendation:

A top-down framework for the administration of grants should be developed to help the Department ensure that grants are being managed efficiently and provide greater confidence to the executive that all key requirements and responsibilities have been clearly articulated and followed. The work already undertaken within the NB-IID and LGRDD should be used as the basis for this framework, including lessons learnt from previous programs.

The framework should be flexible and responsive to the different programs/projects that the Department funds and should consider elements that should be addressed to mitigate risks as a result of managing the program funds and non-compliance with policy and procedural requirements.

This framework would provide high level minimum requirements in relation to at least the following key areas, with examples of the considerations for each noted:

- Governance
 - o Accountability (defined responsibilities and delegations)
 - o Transparency (documentation and records)
 - o Culture/Tone at the Top (a clear statement by Senior Executive on their expectations)
- Program establishment
 - o Clear and defined requirements (legislation, government policy, etc)
 - o Risk assessment, including fraud (explicit consideration of risks and mitigations)
 - o Policies and procedures mapped to program needs (using prior knowledge and programs)
 - o Consider program evaluation requirements (noting some programs are directly related to Government policy)
- Financial accountability requirements
 - o Value for Money (consideration of efficient and effective use of public money)
 - o Delegation and approvals (FMA Act, Reg 9, Reg 10 etc)
 - o Funding agreements

- Grant Management including selection of grant recipients, payments and acquittal process
 - o Risk Management
 - o Sustained application of policies and procedures
 - o Appropriate record keeping
 - o Regular reporting (review and ongoing management of risk)
 - o Issues identification and escalation
- Ongoing compliance monitoring
 - o Internal review (ongoing supervisor/delegate review)
 - o Peer reviews of compliance (where appropriate)
 - o Internal Audit (periodic audits of compliance)
- Evaluation and Closure
 - o Ongoing evaluation of program against objectives (including assessment of compliance with framework)
 - o Communication of lessons learnt.

An initial assessment of the management of grants within the Divisions reviewed, noted that for each aspect of the framework current practices vary in their maturity but would address the majority of the above requirements, or that management was actively considering the activity.

Risk Rating: CR2

Management Response

Agreed.

The Nation Building – Infrastructure Investment Division and the Local Government and Regional Development Division will work together to implement the above recommendation.

Responsibility:



Executive Director Nation Building – Infrastructure Investment Division

Acting Executive Director Local Government & Regional Development Division

Implementation date: 30 September 2009

5.2 Knowledge sharing and communication between Branches and Divisions administering grants

The administration of grant programmes across the department have many similarities and the lessons learnt, experience and knowledge that exist within the Department in relation to the administration of grants is considerable. There are limited opportunities between Divisions within the Department to share this knowledge and benefit from it, other than ad-hoc discussions, personal relationships and the movement of staff between areas.

As a result the Department is not benefiting as much as it could from the leveraging of knowledge and better practices from each grant program. To illustrate this it was noted during the review that both LGRDD and NB-IID have set up internal working groups to develop improved grant administration processes. The similarities include the development of streamlined processes, building on lessons learnt from prior ANAO audits, improved reporting and the use of consultants to advise on aspects of the programs.

Risk:

Increased communication and knowledge sharing could reduce the risk of duplication of effort due and the potential inefficient use of public monies.

Recommendation:

Given that the LGRDD and NB-IID are the main areas administering grants within the Department and that both Divisions have a dedicated area reviewing processes and procedures for grant administration, it is recommended that the two areas develop closer ties to share the knowledge gained and examples of the work being completed. Other areas which manage grants within the Department should be included as considered appropriate.

Risk Rating: CR2

Management Response

Agreed.

The Nation Building – Infrastructure Investment Division and the Local Government and Regional Development Division will work together to implement the above recommendation.

Responsibility:

Executive Director Nation Building – Infrastructure Investment Division

Acting Executive Director Local Government & Regional Development Division

Implementation date: 30 September 2009

Appendix A – Summary of known work being completed in relation to the Administration of Grants within the Department

Consultant	Summary of work
APIS Consulting Group	<p>Review of Business Processes – Nation Building – Infrastructure Investment Division</p> <p>Objective</p> <p>This review examined existing processes and systems that govern the series of programs under administrative management of the Infrastructure Investment Division. The report aims to provide advice on improvement to funding administration activities across Land Transport Programs.</p> <p>Key Findings</p> <ul style="list-style-type: none"> - Establish a Program Administration Framework - Establish a Governance Framework for implementation of programs - Improve management of Internal Operating Procedures - Produce a common format for Notes on Administration
Ernst and Young	<p>Assistance with Risk Assessment Processes and Review of Notes on Administration</p> <p>1. Risk Assessment</p> <p>Key Activities:</p> <ul style="list-style-type: none"> - Validate and further develop the initial program risk assessment - Develop a 'decision tree' to guide selection of a management approach for programs and projects within Nation Building - Document existing and proposed controls and provide a preliminary assessment of residual program risks - Draft recommendations as to where the control environment could be strengthened including risk mitigation strategies <p>2. Notes on Administration (National Projects in the Nation Building program)</p> <p>Key Activities:</p> <ul style="list-style-type: none"> - Update the draft Notes on Administration for National Projects to reflect the revised approach to program risk management, including incorporation of the decision tree to guide appropriate information requirements and controls for each project or program - Revise Notes on Administration for National Projects as appropriate to reflect the recent ANAO recommendations - Review all sections of Notes on Administration for National Projects with a view to determining if the content is required, if it should apply to all projects and the basis for this determination
WalterTurnbull	<p>Annual audits undertaken on sample of LGAs to assess their FMIS and the accuracy of the financial information provided in the quarterly and annual</p>

Consultant	Summary of work
	reports.
KPMG	<p>Review of Better Regions – Audit Scheduled to be completed in April 2009</p> <p>Objective</p> <p>The key objectives of this internal audit are to determine whether:</p> <ul style="list-style-type: none"> - there is an appropriate record keeping practices in place to support decisions made in relation to the Better Regions Program; and - The Department is complying with key guidelines and procedures in relation to the Better Regions program. <p>Evaluation and Testing</p> <ul style="list-style-type: none"> - Identify and documents the key business process and practices relevant to the Better Regions Program - Conduct testing on projects that have been approved for the release of fund to confirm compliance with key elements of the Better Regions Guidelines, procedures and delegations - Assess whether the documentation provided to the Parliamentary Secretary is consistent with the information provided by the proponent organisation and the Departments analysis of the projects - Determine if appropriate practices are in place to manage contracts and - Obtain and consider records support key decisions made in relation to the programs <p>Review of Community Infrastructure Program</p> <p>An audit with a similar scope to above will be conducted in April 2009.</p>
ANAO – Audits in Progress	<p>Delivery of Projects on the AusLink National Network</p> <p>The objective of this performance audit is to assess the effectiveness of the administration of construction projects on the AusLink National Network in delivering the outcomes expected by the Government and the broader community.</p> <p>Management of the AusLink Strategic Regional Program</p> <p>The audit is to form an opinion as to whether the AusLink Strategic Regional Program has been effectively administered including: the processes by which projects have been assessed and approved for funding; the development and management of funding agreements with project proponents; the extent to which program funds have been paid in a way that reflects principles of sound cash management and risk management; the implementation of project monitoring, acquittal and accountability arrangements that promote the timely and cost-effective delivery of funded projects; and the monitoring and</p>

Consultant	Summary of work
	<p>assessment of project and program outcomes.</p> <p>Management of the Auslink Roads to Recovery Program</p> <p>The initial Roads to Recovery Programme (R2R Programme) ran from February 2001 to June 2005. Nearly \$1.2 billion was paid to local government for road works under the provisions of the Roads to Recovery Act 2000. A performance audit of the R2R Programme was completed by ANAO in 2005–06.</p> <p>The proposed audit would examine the management of the core Programme as well as the implementation of agreed recommendations made by ANAO in its audit of the initial R2R.</p>
Other	<p>The Nation Building - Infrastructure Investment Division has had a number of reviews over aspects of the APMS (the system used to administer grants within the Division). These reviews have looked at the technical specifications, usability and whether it is 'fit for purpose'.</p>

Appendix B - Statement of Work

Internal Audit Review of Grants Administration

Audit Objective

The objective of this audit is to identify possible improvements to current practices and procedures appropriate to a governance framework for the management of grants within the Department.

Audit Discovery Phase

To enable an effective and efficient process we will undertake a discovery phase of the review where we will:

- i) Consult with Senior Management in the Department and seek their views of the areas of greatest risk to grants administration and areas of focus for the audit
- ii) Identify areas within the Department which have significant involvement in the administration of grants
- iii) Undertake discussions with key grant administration stakeholders within the Department, including a sample of Executive Directors and Branch Heads
- iv) Develop and agree a detailed work program for the evaluation phase, with reference to:
 - Australian National Audit Office (ANAO) Better Practice Guide – Administration of Grants
 - Recent ANAO Audit Report's
 - PricewaterhouseCoopers Global Best Practices and industry knowledge.

Audit Evaluation Phase

The Evaluation phase of the audit will involve:

- i) Evaluating the Governance arrangements, policy and procedures for the administration of the Grants within the Department including:
 - Reviewing a selection of grant projects at a high level to understand practices in planning, project selection, management, review and reporting
 - Holding a workshop with key stakeholders to discuss the current practices, risks and potential improvements to the processes in place
 - Liaison with the ANAO to seek their views on current practices and proposed improvements.
- ii) Develop recommendations for improvement to the current framework for the improvement of grant administration in the Department through consultation with Management and prepare a report for discussion and agreement with Management and Internal Audit.

Appendix C – List of Key Contacts for Review

Interviewees	Division	Branch
	Nation Building – Infrastructure Investment	
	Local Government and Regional Development	
	Corporate Services	Financial Services
	Nation Building – Infrastructure Investment	Nation Building Implementation Coordination
	Local Government and Regional Development	Regional Development Programs
	Governance and Reporting	Governance and Reporting
	Nation Building – Infrastructure Investment	Programs & Support
	Nation Building – Infrastructure Investment	Nation Building Implementation Coordination
	Local Government and Regional Development	Regional Development Programs
	Local Government and Regional Development	Regional Development Programs
	Local Government and Regional Development	Regional Development Programs
	Nation Building – Infrastructure Investment	Vic/Tas & Strategic Projects
	Nation Building – Infrastructure Investment	NSW Roads Branch
	Nation Building – Infrastructure Investment	Rails
	Nation Building – Infrastructure Investment	Black spot and R2R
	Corporate Services	Financial Services
	Corporate Services	Financial Services
	Nation Building – Infrastructure Investment	
	Local Government and Regional Development	Local Government Programs

Appendix D – Classification of Findings

Assigning a category to an internal audit finding is one of professional judgement. There are various factors that will be considered when an internal auditor assigns a category classification.

The purpose of assigning a classification to a finding is to communicate the importance of that finding with the audit committee, management and staff of the Department of Infrastructure, Transport, Regional Development and Local Government. This communication plays an important part in interpreting the internal auditor's opinion with respect to what priority a finding and its associated recommendation should be given.

In the table below are a number of the factors an internal auditor considers when assigning category classifications.

It is important to note that an internal auditor will assign a category classification with the best interests of the 'organisation as a whole' in mind.

<i>Factors considered when categorising findings</i>	CR1 Finding	CR2 Finding	CR3 Finding
<i>Priority of attention required (Who)</i>	[Executive Director / FAS and above]	[General Manager / Branch Manager and below]	[Director / Section Head]
<i>Priority of attention required (timeliness of action required)</i>	Immediate commencement of corrective action	As soon as practical within the next 3 – 6 months.	When resources permit at the discretion of the organisation.

The purpose of assigning a classification to a finding is to communicate the importance of that finding with the audit committee, management and staff of the Department of Infrastructure, Transport, Regional Development and Local Government.

Factors considered when categorising findings	CR1 Finding	CR2 Finding	CR3 Finding
<i>Likelihood or impact of the uncontrolled risk</i>	Catastrophic / Major The likelihood/impact of the uncontrolled business or financial risk may threaten either the operation of the Department of Infrastructure, Transport, Regional Development and Local Government or the effective function of a critical/ significant project and/or have a severe impact on the Department's reputation and credibility.	Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations.	Insignificant The likelihood/ impact of the uncontrolled business or financial risk is not considered of serious consequence.
<i>Suitability of the policies and/or procedures</i>	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a significant risk or function of the organisation.	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a core business risk or routine function.	Policies and/or procedures are appropriate but out of date (the effect is not considered of serious consequence).
<i>Compliance with documented procedures and policies</i>	Policies and/or procedures are not being complied with.	Policies and/or procedures are not being complied with consistently (frequency and quality). Documentation does not reflect proper compliance with procedures and policies	Infrequent instances of non-compliance with policies and procedures were identified.
<i>Breach of delegations (financial and non-</i>	Any one of the following individually or in combination.	Any one of the following individually or in combination:	Any one of the following individually or in combination:

Factors considered when categorising findings	CR1 Finding	CR2 Finding	CR3 Finding
<i>financial)</i>	<p>Dollar values:</p> <ul style="list-style-type: none"> • Large <p>Frequency of breaches:</p> <ul style="list-style-type: none"> • Regular <p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> • Does not exist <p>What/how:</p> <ul style="list-style-type: none"> • Breach of delegation exercised by General Manager and/or above 	<p>Dollar values:</p> <ul style="list-style-type: none"> • Medium <p>Frequency of breaches:</p> <ul style="list-style-type: none"> • Periodic <p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> • Not adequate <p>What/how:</p> <ul style="list-style-type: none"> • Breach of delegation by middle management 	<p>Dollar values:</p> <ul style="list-style-type: none"> • Small <p>Frequency of breaches:</p> <ul style="list-style-type: none"> • Isolated <p>Documentation to support exercise of delegation:</p> <ul style="list-style-type: none"> • Could be improved <p>What/how:</p> <ul style="list-style-type: none"> • Breach of delegation reflecting ignorance
<i>Fraud</i>	All fraud or corrupt conduct identified is reported as CR1	N/A	N/A

BIR Business Improvement Recommendation - Arises where the internal auditor considers that the recommendation, if implemented, would result in a benefit accruing to the organisation (for example, through more efficient and/or cost effective processes, a reduction of expenditure or an increase in revenue)

