

Department of Families, Housing, Community Services and Indigenous Affairs

Internal Audit Review of Affordable Housing Programs December 2009

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1 Executive Summary

Introduction

PricewaterhouseCoopers (PwC) was engaged to undertake a review of specific decisions made in respect of Round 2 of the National Rental Affordability Scheme (NRAS) program. This encompassed reviewing 68 successful applicant files and holding discussions with key officers in order to provide advice on whether the decisions made were based on an appropriate assessment process.

Approach

Our approach to the review involved:

- Gaining a detailed understanding of the program and the application and assessment processes to undertake a specific review of files to determine whether decisions made were based on an appropriate assessment process; and
- Formulating recommendations and actions to address specific issues arising from the file review and general observations of the assessment process.

We also assessed the applicability of specific principles per the Commonwealth Procurement Guidelines to the process as well as the Commonwealth Grants Guidelines and ANAO Better Practice Guide 'Administration of Grants' May 2002.

Summary of Findings

Overall, the review of the application assessment process of the NRAS indicated that decisions have been made on an appropriate assessment process. However, a number of issues were noted in relation to the maintenance of key documentation. Numerous instances were identified from the review of files where final documentation could not be located for stages of the application assessment process. Hardcopy and electronic files were also not in chronological order and various versions of supporting documentation were attached which made it difficult to locate information quickly and easily and follow the decision making trail.

Other key issues included insufficient evidence of quality assurance, breaches of privacy and confidentiality relating to applicant and FaHCSIA information, unsupported requests for additional information, and variations and changes to schedules of incentives offered. These issues are detailed in **Section 3**.

Assessment against Commonwealth Guidelines and ANAO better practice

Overall, the assessment of the application assessment process for Round 2 against Commonwealth Guidelines and the ANAO Better Practice Guide 'Administration of Grants' May 2002 indicated that on a whole, whilst a governance and accountability structure had been set up via an Assessment Plan, Guidelines and Processes, in actual practice these procedures and guidance had not been used consistently throughout the process. Gaps were identified around the elements of record keeping, quality assurance, treatment of confidential information, requests for additional information and variations and changes to schedules of incentives offered. Further detail is provided on these gaps in **Sections 3 and 4**.

Summary of recommendations and agreed management actions

A summary of recommendations and agreed management actions has been provided in the table below.

Ref	Recommendation / Agreed Actions	Risk Rating
3.1	<p>Record Keeping</p> <ul style="list-style-type: none"> • Ensure there is sufficient documentation to provide an understanding of the process that was followed and all relevant decisions, including approvals and authorisations, and the basis of those decisions. This could be achieved via the creation of a checklist for both hardcopy and electronic files listing the documentation required to be filed. • Revisit the current folder and naming structure for electronic files to ensure that adequate and appropriate documentation is kept for each stage of the application process and are able to be easily accessed as needed. Hardcopy files should also be maintained in accordance with FaHCSIA's records management policies and practices. • Revisit the application assessment process to take into account lessons learnt, in particular around templates used for evidencing of actions/ decisions so that processes which did not work can be re-evaluated and the effectiveness and efficiency of the process can be improved. 	High
3.2	<p>Quality Assurance</p> <ul style="list-style-type: none"> • Ensure responsibility for performance of QA checks is clearly communicated and that those involved are adequately trained and provided adequate procedural instructions to ensure results of the QA checks are appropriately documented and filed. • Document clearly on the appropriate assessments justification behind score changes as a result of the QA process. • Revisit the QA checking process to take into account lessons learnt, in particular around QA comments on changes to assessments so that processes which did not work can be re-evaluated and the effectiveness and efficiency of the process can be improved. 	High
3.3	<p>Privacy and Confidentiality of Information</p> <p>The importance of the need to maintain the confidentiality of information should be reinforced with staff involved in the application assessment process. FaHCSIA should also consider on a case by case basis, any requests for the provision of confidential information in line with legislative requirements and be aware of the requirement for the disclosure of information consistent with the <i>Freedom of Information Act 1982</i>.</p>	High

3.4	<p>Review of Additional Information</p> <ul style="list-style-type: none"> Update the application form to include additional supporting documentation/ evidence to be provided with respect to previous common additional information requests. This would help cut down on future additional information requests and improve the effectiveness and efficiency of the application assessment process. Ensure documentation relating to additional requests is appropriately requested and filed in order to ensure additional information provided in respect of assessment criteria is sufficiently evidenced. 	Moderate
3.5	<p>Variations and Changes</p> <p>PwC understands that a policy paper is currently being developed to address approval of requests for changes. This policy is being prepared in collaboration with States and Territories to ensure a consistent approach.</p> <p>In developing a policy and procedures the following should be taken into consideration:</p> <ul style="list-style-type: none"> identify all stakeholders and ensure their input is sought to ensure the policy and procedures meet their needs and a consistent workable approach is developed any best practice guidance practicality of content and implementation consultation and feedback processes training and communication of the approved policy and procedures to relevant staff. 	Moderate
3.6	<p>Commonwealth Guidelines and ANAO Better Practice</p> <p>Review the application process including procedures and guidelines to ensure these reflect key requirements per the CPGs, CGGs and ANAO Better Practice as appropriate particularly, surrounding accountability and transparency and probity requirements to ensure legislative obligations are met.</p>	Moderate

2 Summary of Work Performed

The following table provides an overview of the fieldwork performed.

<ul style="list-style-type: none">• Gain a detailed understanding of the program and the application and assessment processes.• Develop expectations of what should be maintained on the assessment files for specific projects through discussion with the key personnel and review of the program guidelines.• Organise meetings with relevant personnel to confirm our understanding.• Develop a detailed work program.
<ul style="list-style-type: none">• Obtained and reviewed the following documents and held discussions with key team members in order to gain a detailed understanding of the processes for application and assessment:<ul style="list-style-type: none">○ Application Assessment Plan○ Assessment Process Flowcharts○ Assessment Tool○ Application Guidelines○ Application Form○ Assessment Process○ Scheme Guidelines○ Information Slides○ Legislation.• Based on review of the above documentation and discussions held developed expectations of what should be maintained on assessment files and confirmed these expectations with key team members.• Developed a detailed work program based on confirmed expectations.
<p>Undertake review of specific files, including the following:</p> <ul style="list-style-type: none">• Assess whether compliance has covered material areas of risk and other critical program issues• Assess whether additional information provided by proponent has materially changed the original bid• Review assessments undertaken by KPMG and WalterTurnbull to ensure that it consistent with the information and data provided in the application• Review decision/advice provided by state Government to ensure that it is consistent with the proposal• Review FaHCSIA assessment and final decision to ensure alignment between original submission, additional information and other assessment processes.• Based on the above steps review the extent of change between original application and final decision, assess:<ul style="list-style-type: none">○ Material change to risk/s○ Documentation and approval of changes○ Integrity of the process• Discuss specific findings and or queries with responsible FaHCSIA personnel.• Assess the applicability of (or specific principles) the Commonwealth Procurement Guidelines to the process. We will also take into account the Commonwealth Grants Guidelines.• Weekly progress report. We will develop a summary 'traffic light' style of report to indicate progress against the review of the specific files and the results of work completed.
<ul style="list-style-type: none">• Obtained a listing of successful applicant files for Round 2 through the NRAS Taskforce team and reviewed the files for the above. Observations noted were discussed with key team members on a daily basis throughout the file review process.• Prepared weekly status reports for the Branch Manager, Affordable Housing.• Assessed the applicability of specific principles per the Commonwealth Procurement Guidelines to the process as well as the Commonwealth Grants Guidelines and ANAO Better Practice Guide 'Administration of Grants' May 2002.

3 Detailed Findings

3.1 Record keeping

Issue

Accountability and transparency are primary considerations per the Commonwealth Procurement Guidelines (CPGs) and in particular, record keeping is a key component of good corporate governance and business practice. Good record keeping assists organisations to meet their corporate accountability obligations and to demonstrate that due process has been followed in actions and decisions.

Review of the 68 successful applicants from Round 2 identified numerous instances where documentation/ evidence of actions and decisions could not be located for stages of the application assessment process (refer to **Appendix C** for an overview of the assessment process).

In particular, the following are of note:

- 26 Initial Consolidated Assessments could not be located on hardcopy file
- 15 signed delegate minutes approving incentives were not on hardcopy file
- 54 signed delegate minutes did not have their supporting attachments scanned in with them on electronic file
- 11 State and Territory joint decision sign-offs could not be located on hard or electronic files
- 64 letters from the Minister could not be located on hard or electronic files
- 19 signed letters of offer could not be located on hard or electronic files
- 3 applicant files had the wrong applicant documentation attached
- 1 compliance checklist was marked as pending/ non compliant and then subsequently marked as compliant without any documentation or evidence provided as to resolution of the non-compliance
- 2 KPMG assessments had email correspondence on file detailing a reassessment was required but no evidence of reassessment could be located
- 1 minute to the delegate had specified approval for 46 dwellings only; however, applicant was offered 103. No further evidence or documentation could be located on file approving the additional 57 dwellings
- 17 offer schedules returned by the applicant as accepted had variations recorded. There is no documentation of the subsequent re-assessment/ approval of these changes
- 1 State and Territory assessment had high scores (greater than 4 on the rating scale) with little commentary provided to substantiate the ratings. These ratings were carried through unchanged to the Final Consolidated Assessment.

Further detail on the above and the full listing of all instances noted is provided in **Appendix B**.

Hardcopy and electronic files were also not in chronological order and various versions of supporting documentation were attached which made it difficult to ascertain the flow of information and the basis of actions/ decisions.

Risk

- appropriate documentation not maintained to support actions and decisions
- policy and legislative obligations not being met with particular regard to accountability and transparency requirements of the CPGs
- criticism that Commonwealth resources are not being used in efficient, effective and ethical manner (i.e. mis-allocation of incentives).

Recommendation:

- Ensure there is sufficient documentation to provide an understanding of the process that was followed and all relevant decisions, including approvals and authorisations, and the basis of those decisions. This could be achieved via the creation of a checklist for both hardcopy and electronic files listing the documentation required to be filed.
- Revisit the current folder and naming structure for electronic files to ensure that adequate and appropriate documentation is kept for each stage of the application process and are able to be easily accessed as needed. Hardcopy files should also be maintained in accordance with FaHCSIA's records management policies and practices.
- Revisit the application assessment process to take into account lessons learnt, in particular around templates used for evidencing of actions/ decisions so that processes which did not work can be re-evaluated and the effectiveness and efficiency of the process can be improved.

Likelihood: Likely

Consequence: Major

Risk Rating: High

3.2 Quality Assurance

Issue

Part of FaHCSIA's application assessment process are the quality assurance (QA) checks which aims to assure the quality of the assessment process in terms of its effectiveness in selecting those applications that best match the objectives of the scheme as expressed in the selection criteria.

The QA check process documented in **Appendix D** details that QA checks are to take place on the FaHCSIA, State & Territory, and Final Consolidated Assessments. Review of the 68 successful applicants from Round 2 found that:

- 16 applicants had no evidence on file of QA over any assessments or reports
- 1 applicant had no evidence on file of QA over FaHCSIA assessments
- 44 applicants had no evidence on file of QA over State and Territory assessments
- 45 applicants had no evidence on file of QA over consolidated assessments (Initial and Final)
- 16 applicants had score changes recommended as part of the QA process on the FaHCSIA assessments but there was no documentation of the reasoning behind these changes on file
- 1 applicant had score changes from the QA not included in the Final Consolidated report on file.

For further detail on the above refer to **Appendix B**.

It was also noted during the review that some minutes to the delegate included a paragraph which asserted that the provided attachments had been through a QA process, however as detailed above evidence of this QA could not be determined in many instances.

Risk

- inconsistent/ inappropriate actions and decisions
- appropriate documentation not maintained to support actions and decisions.

Recommendation:

- Ensure responsibility for performance of QA checks is clearly communicated and that those involved are adequately trained and provided adequate procedural instructions to ensure results of the QA checks are appropriately documented and filed.
- Document clearly on the appropriate assessments justification behind score changes as a result of the QA process.
- Revisit the QA checking process to take into account lessons learnt, in particular around QA comments on changes to assessments so that processes which did not work can be re-evaluated and the effectiveness and efficiency of the process can be improved.

Likelihood: Likely

Consequence: Moderate

Risk Rating: High

3.3 Privacy and Confidentiality of Information

Issue

The guidance on confidentiality in procurement states that ‘for probity, agencies must ensure all submissions are treated as confidential for the duration of the procurement process. Similarly, all unsuccessful submissions should be kept confidential until after the award of the contract.’¹

Per the NRAS Application Guidelines for Round 2 any personal information provided by applicants is protected under the *Privacy Act 1988*. The guidelines also state that FaHCSIA will not use any personal information or disclose any personal information to any other organisation unless required by law or the applicant has provided their consent. Review of the 68 successful applicants from Round 2 found that:

- 2 applicants had their information forwarded in error to a third party (another applicant) – breach of *Privacy Act 1988*
- 1 applicant had FaHCSIA comments (technical advisor comments) forwarded to them in error – breach of internal confidentiality policies
- 50 minutes to the delegate covered multiple applicants – potential breach of *Freedom of Information Act 1982* as agency document includes information relating to the approval/disapproval of multiple applicants.

For further detail on the above refer to **Appendix B**.

Risk

- potential reputational damage
- breaches of the *Privacy Act 1988*
- breaches of the *Freedom of Information Act 1982*.

Recommendation:

The importance of the need to maintain the confidentiality of information should be reinforced with staff involved in the application assessment process. FaHCSIA should also consider on a case by case basis, any requests for the provision of confidential information in line with legislative requirements and be aware of the requirement for the disclosure of information consistent with the *Freedom of Information Act 1982*.

Likelihood: Possible

Consequence: Major

Risk Rating: High

¹ Financial Management Guidance No. 3, Guidance on Confidentiality in Procurement, July 2007

3.4 Review of Additional Information

Issue

In accordance with the Commonwealth Procurement Guidelines, in order to maintain consistency across all potential applicants any additional items beyond the scope of the application should not be considered by the assessors. It is however, permissible for the assessors to clarify any errors of form, such as technical omissions, ambiguities and anomalies, in a submission with the applicant. However, this should not extend to a substantial re-tailoring of the application.

In reviewing the 68 successful applicants from Round 2 it was noted that KPMG were consistently requesting additional information in regards to Criterion 5, financial viability assessment. The information commonly requested from applicants was in relation to or for supporting documentation/ evidence to substantiate the following:

- estimated construction costs
- estimated outgoings
- purchase prices
- estimated income and cost growth
- estimated management fees
- estimated capital expenditure
- estimated construction timing
- estimated market rental rates/ assumptions
- financial arrangements
- long term financial arrangements
- vacancy rates and bad debt allowance
- valuation of ILUs upon refurbishment
- estimated costs of capital works and cyclical maintenance
- feasibility of delivery
- debt and equity financing components
- capacity to hold dwellings as an investment
- investor appetite.

It should be noted that the above requests by KPMG followed the documented process per the Application Assessment Plan via the provision of a request for additional information (Application Assessment Plan, Attachment H: Information Sources). This request was emailed to NRAS staff who cleared the request and then emailed the applicant asking them to provide the requested information within a certain timeframe.

With the exception of KPMG, the remainder of additional information requests could not be evidenced via use of the Information Sources request template but were via email trail. Also, any verbal communication undertaken between NRAS and the applicant was difficult to determine as this was not always noted in any records of conversation attached to files (electronic or hardcopy). Attachment G: Record of Conversation per the Application Assessment Plan was designed for this purpose but no evidence of its use could be determined.

Refer to **Appendix E** for an overview of the Additional Information Request Process.

Risk

- re-tailoring of applications to meet assessed criterion
- lack of appropriate documentation not maintained to support actions and decisions.

Recommendation:

- Update the application form to include additional supporting documentation/ evidence to be provided with respect to previous common additional information requests. This would help cut down on future additional information requests and improve the effectiveness and efficiency of the application assessment process.
- Ensure documentation relating to additional requests is appropriately requested and filed in order to ensure additional information provided in respect of assessment criteria is sufficiently evidenced.

Likelihood: Possible

Consequence: Moderate

Risk Rating: Moderate

3.5 Variations and Changes

Issue

NRAS currently has no policy in place which addresses variations, substitutions and extensions to National Rental Incentives and Properties offered to successful applicants. NRAS legislation and regulations only provide for a limited number of consideration of changes to proposals.

Risk

- inconsistent approach to approval of requests for changes which are not covered within the NRAS legislation and regulations
- lack of integrity of assessment and approval processes
- potential criticism from unsuccessful applicants damaging the Department's reputation regarding perceived procedural fairness.

Recommendation:

PwC understands that a policy paper is currently being developed to address approval of requests for changes. This policy is being prepared in collaboration with States and Territories to ensure a consistent approach.

In developing a policy and procedures the following should be taken into consideration:

- identify all stakeholders and ensure their input is sought to ensure the policy and procedures meet their needs and a consistent workable approach is developed
- any best practice guidance
- practicality of content and implementation
- consultation and feedback processes
- training and communication of the approved policy and procedures to relevant staff.

Likelihood: Possible

Consequence: Moderate

Risk Rating: Moderate

3.6 Commonwealth Guidelines and ANAO Better Practice

Issue

An assessment of the applicability of specific principles per the Commonwealth Procurement Guidelines (CPGs), Commonwealth Grants Guidelines (CGGs) and ANAO Better Practice Guide 'Administration of Grants' May 2002 in review of the 68 successful applicants from Round 2 found that:

- appropriate documentation of decisions, treatment of confidential information and consideration of additional information were not in accordance with CPGs; and
- governance and accountability, probity and transparency, and achieving value with public money were not in accordance with CGGs and ANAO Better Practice.

For further detail on the above refer to **Section 4**.

Risk

- policy and legislative obligations not being met with particular regard to accountability and transparency requirements of the CPGs, CGGs and ANAO Better Practice
- perceived lack of procedural fairness and consistency in assessment process
- appropriate documentation not maintained to support actions and decisions
- projects are not selected which represent best value for public money
- breaches of the *Privacy Act 1988* and or *Freedom of Information Act 1982*.

Recommendation:

- Review the application process including procedures and guidelines to ensure these reflect key requirements per the CPGs, CGGs and ANAO Better Practice as appropriate particularly, surrounding accountability and transparency and probity requirements to ensure legislative obligations are met.

Likelihood: Possible

Consequence: Moderate

Risk Rating: Moderate

4 Assessment against Commonwealth Guidelines and ANAO Better Practice

An assessment of the applicability of specific principles per the Commonwealth Procurement Guidelines (CPGs), Commonwealth Grants Guidelines (CGGs) and ANAO Better Practice Guide 'Administration of Grants' May 2002 has been undertaken below.

Commonwealth Procurement Guidelines

There are six major steps that are generally followed in the procurement process per the CPGs:

- planning the procurement
- selecting a procurement process
- preparing to approach the market
- approaching the market
- evaluation submissions
- concluding the process.

Of these steps, the focus of the review centred around the evaluation of submissions.

Evaluating submissions

In evaluating submissions key decisions/ actions are around:

- fairly and impartially evaluating submissions
- appropriately documenting decisions
- advising participants of the decisions.

The review identified that a key risk was in the appropriate documentation of decisions (**Finding 3.1**).

Accountability and transparency are primary considerations per the CPGs in particular; record keeping is a key component of good corporate governance and business practice. Good record keeping assists organisations to meet their corporate accountability obligations and to demonstrate that due process has been followed in actions and decisions.

Review of the 68 successful applicants from Round 2 identified numerous instances where documentation/ evidence of actions and decisions could not be located for stages of the application assessment process. These issues have been detailed in **Findings 3.1, 3.2, 3.5** and **Appendix B**.

Other key considerations of the CPGs are in relation to treatment of confidentiality of information and consideration of additional information beyond the scope of the original request.

Treatment of Confidential Information

The guidance on confidentiality in procurement states that 'for probity, agencies must ensure all submissions are treated as confidential for the duration of the procurement process. Similarly, all unsuccessful submissions should be kept confidential after the award of the contract.'²

Per the NRAS Application Guidelines for Round 2 any personal information provided by applicants is protected under the *Privacy Act 1988*. The guidelines also state that FaHCSIA will not use any personal information or disclose any personal information to any other organisation unless required by law or the

² Financial Management Guidance No. 3, Guidance on Confidentiality in Procurement, July 2007

applicant has provided their consent. Review of the 68 successful applicants from Round 2 found that there were instances where breaches had occurred in the treatment of confidential information; refer to **Finding 3.3** and **Appendix B**.

Consideration of Additional Information

In order to maintain consistency across all potential applicants CPGs detail that any additional items beyond the scope of the application should not be considered by the assessors. It is however, permissible for the assessors to clarify any errors of form, such as technical omissions, ambiguities and anomalies, in a submission with the applicant. However, this should not extend to a substantial re-tailoring of the application. Issues noted in regards to review of additional information are detailed in **Finding 3.4** and **Appendix B**.

Commonwealth Grants Guidelines & ANAO Better Practice Guide 'Administration of Grants' May 2002

Whilst the NRAS scheme is not strictly a grant program per its operation under the NRAS legislation and regulations, the following commentary is still applicable to the management of the application assessment process.

There are seven key principles for grants administration:

- robust planning and design
- an outcome orientation
- proportionality
- collaboration and partnership
- governance and accountability
- probity and transparency
- achieving value with public money.

In particular the last three principles have relevance in the application assessment process.

Governance and accountability

Assessment activities should be underpinned by solid governance structures and clear lines of accountability and those involved in selection processes should be adequately trained and procedural instructions developed and issued prior to commencing the assessment phase.

Record keeping is also a key component of good corporate governance and accountability. Good record keeping assists organisations to meet their corporate accountability obligations and to demonstrate that due process has been followed in actions and decisions.

Evidence could be seen that a governance and accountability structure had been set up on commencement of the Round 2 application process. This structure was detailed in the Application Assessment Plan, Application Guidelines, Assessment Process, Process Flowcharts, Assessment Tool, and NRAS legislation and Regulations. However, the review identified that in practice these procedures and guidance had not been used consistently throughout the process. For example issues were noted in relation to record keeping, quality assurance, treatment of confidential information, requests for additional information and variations and changes to schedules of incentives offered. Refer to **Section 3** and **Appendix B** for further detail.

Probity and transparency

Accountability and transparency are related concepts. Accountability involves agencies and decision makers being able to demonstrate and justify the use of public resources which involves keeping appropriate records.

Transparency relates to the openness of the assessment process to scrutiny i.e. are reasons able to be provided and evidenced for all decisions made to demonstrate policy and legislative obligations are being met.

Probity relates to ethical behaviour i.e. applying and complying with public sector values and duties such as accountability, impartiality, integrity and honesty.

As noted above in Governance and Accountability although checklists, assessment tools, guidelines and processes were prepared and provided to assessors, the consistency of application of these processes could not always be evidenced to relevant supporting documentation on file i.e. QA checks.

Achieving value with public money

Achieving value with public money is concerned with selecting projects/ activities that best represent value for public money in the context of the objectives and outcomes of the scheme. An effective selection process is vital to this.

Again as noted above whilst an Application Process and Guidelines were developed this was not always followed consistently in practice. Hence, appropriate documentation may not have been maintained to support actions and decisions.

Appendix A – Scope of Work

Extract from scope letter from David Murphy to Sue Finnigan dated 6 November 2009.

Management Initiated Review

Thank you for your time on Wednesday to outline your requirements in relation to a review of the Affordable Housing program. I set out below our understanding of your requirements, a proposed approach to the task including nominated consultants, professional fees and the terms of our engagement.

Our understanding of your requirements

The Department is responsible for key elements of delivering the Government's Social Housing Initiative. This has involved a detailed assessment of housing projects proposed by organisations from the various states and territories. Given the nature of the program there is a significant involvement from state and territory governments in recommending suitable projects. Independent consultants are also employed to provide assurance on specific aspects of the proposals and the organisations to be funded.

We understand that the complexities of the program mean that from the point of an application being lodged through to the final decision that there may be numerous clarifications sought from proponents and in some instances the original proposal may end up changing significantly. The Department is concerned that there may be instances where a decision may have been made to fund a project where there has been a material change to the original submission and that these changes have not been appropriately addressed through the assessment process i.e. a material change may impact both viability assessment of the project and the provider.

The Department has requested the assistance of PricewaterhouseCoopers to review specific decisions (approximately 50 files) and provide advice on whether the decisions have been made based on an appropriate assessment process.

Our approach

We have determined our approach based on our discussions earlier this week. We have outlined below the three phases of our approach to this review. We anticipate defining our work plan in conjunction with you during the planning phase including ensuring the review is completed within the allocated days.

Planning

- Gain a detailed understanding of the program and the application and assessment processes.
- Develop expectations of what should be maintained on the assessment files for specific projects through discussion with the key personnel and review of the program guidelines.
- Organise meetings with relevant personnel to confirm our understanding.
- Develop a detailed work program.

Execution

- Undertake review of specific files. The work program will include the following:
 - Assess whether compliance has covered material areas of risk and other critical program issues
 - Assess whether additional information provided by proponent has materially changed the original bid

-
- Review assessments undertaken by KPMG and WalterTurnbull to ensure that it consistent with the information and data provided in the application
 - Review decision/advice provided by state Government to ensure that it is consistent with the proposal
 - Review FaHCSIA assessment and final decision to ensure alignment between original submission, additional information and other assessment processes.
 - Based on the above steps review the extent of change between original application and final decision, assess:
 - Material change to risk/s
 - Documentation and approval of changes
 - Integrity of the process
 - Discuss specific findings and or queries with responsible FaHCSIA personnel.
 - Assess the applicability of (or specific principles) the Commonwealth Procurement Guidelines to the process. We will also take into account the Commonwealth Grants Guidelines.
 - Weekly progress report. We will develop a summary 'traffic light' style of report to indicate progress against the review of the specific files and the results of work completed.

Reporting

- Formulate draft recommendations and actions to address specific issues arising from the file review and general observations of assessment process.
- Confirm the facts underlying any process and procedure improvement recommendations and document initial responses.
- Circulate draft recommendations and actions across nominated stakeholders.
- Finalise report.

Use of our report

The deliverables outlined in this letter will be prepared for the Department for its sole purpose in the context of assisting management in managing the Affordable Housing Program. These deliverables should not be used for any other purpose or without the express written permission of PricewaterhouseCoopers.

Appendix B – Summary of Issues

FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
					68 Successful Applicant Files reviewed	
Application						
1				Signed copy of main application not on electronic file	1	1%
Compliance Checklist						
2				Compliance checklist not on electronic file	8	12%
3				Compliance checklist not on hard copy file	2	3%
4				No copy of ABN search printout on file	6	9%
5				Compliance checklist marked as complete despite not having letter of offer from Financiers	3	4%
6				Applicant originally marked as pending or non-compliant, and subsequently marked as Compliant without documentation or evidence of resolution of issues	1	1%
FaHCSIA Assessment						
7				FaHCSIA assessment not on electronic file	1	1%
8				FaHCSIA assessment not on hard copy file	2	3%
9				No evidence of FaHCSIA assessment being signed off as checked by Assessment Team Manager in hard copy file	3	4%
10				No evidence of FaHCSIA assessment being signed off by Quality Assurance Officer in hard copy file	4	6%
State and Territory Assessment						
11				State and Territory Assessment not on electronic or hard copy file	3	4%
12				State and Territory Assessment not on electronic file (but on hard copy file)	1	1%
13				State and Territory Assessment not on hard copy file (but on electronic file)	1	1%
14				High scores (> 4) given from S&T assessment with limited comments and included in Final Report without alteration to comments. Scores not appropriately substantiated.	1	1%

FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
					68 Successful Applicant Files reviewed	
KPMG Assessment						
15				Email correspondence on file detailing reassessment required, however no evidence of reassessment being performed	2	3%
WalterTurnbull Assessment						
16				WalterTurnbull assessment not electronic file	1	1%
Initial Consolidated Assessment						
17				Initial consolidated report not on hard copy file	26	38%
Final Consolidated Assessment						
18				No evidence of final consolidated report being completed (i.e. not on either file)	3	4%
19				Final consolidated report not on hard copy file (but on electronic file)	5	7%
Quality Assurance						
20				No evidence of QA over ANY assessments or reports	16	24%
21				No evidence of QA over FaHCSIA assessment	1	1%

FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
					68 Successful Applicant Files reviewed	
22				No evidence of QA over State and Territory Assessment	44	65%
23				No evidence of QA over Initial consolidated report	45	66%
24				Score changes recommended by QA without appropriate reasons	16	24%
25				Score changes from QA not included in Final Consolidated Report	1	1%
Minute to Delegate						
26				Signed minute to Delegate approving incentives not on electronic file	8	12%
27				Signed minute to Delegate approving incentives not on hard copy file	15	22%

FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
68 Successful Applicant Files reviewed						
28				Minute on hard copy file missing pages (Note: all listed except for 1-4XWZC7 are also missing signature page)	4	6%
29				Minute to Delegate covers multiple applicants	50	74%
30				Attachments not scanned in to electronic file with minute	54	79%
31				Minute to Delegate approving incentives hard copy file is missing some or all attachments	16	24%
32				Initial Consolidated Report attached to Minute instead of Final Consolidated Report	4	6%
33B				KPMG original assessment attached to Minute to Delegate despite reassessment being performed	1	1%

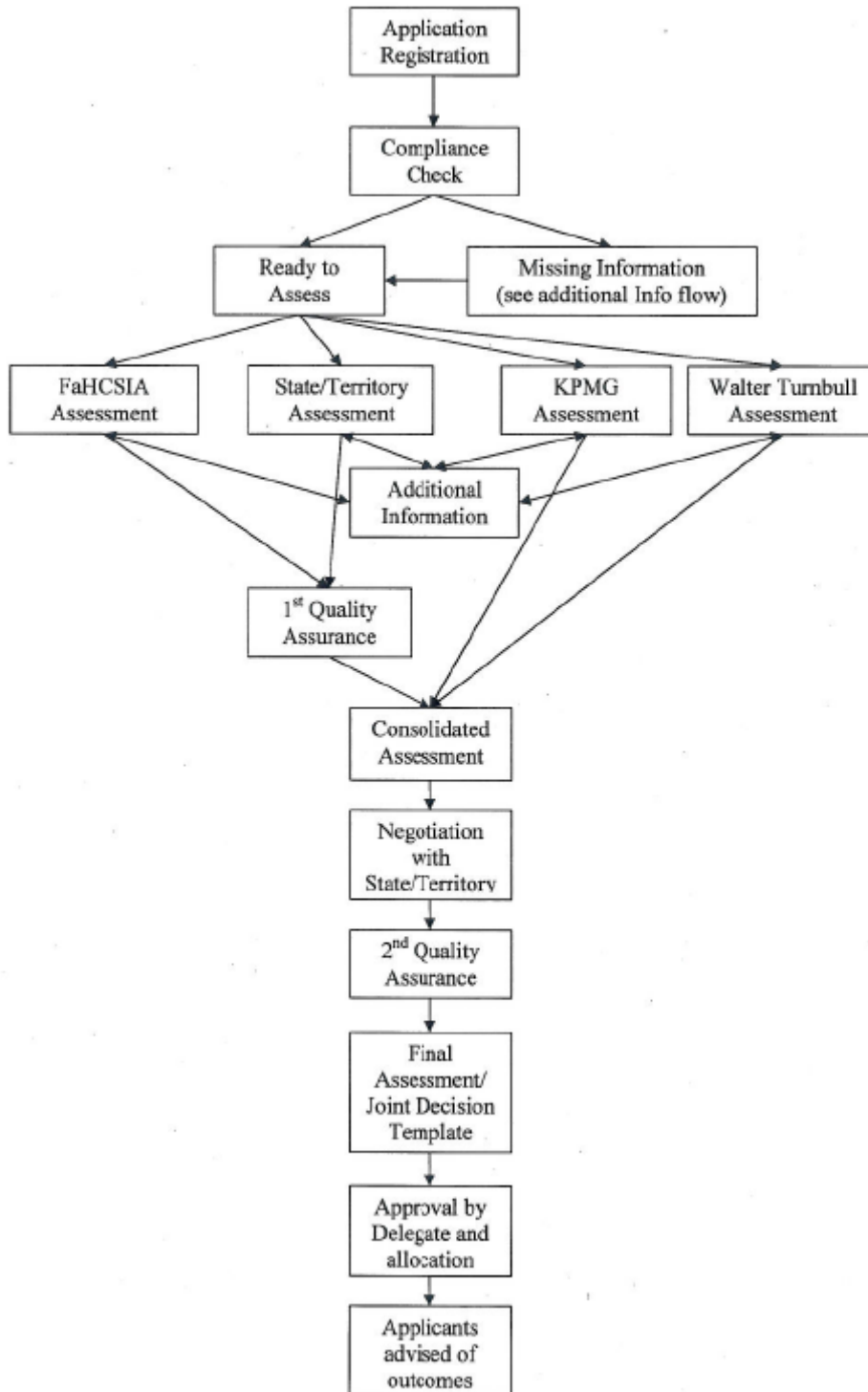
FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
					68 Successful Applicant Files reviewed	
34				Per Final Consolidated Report attached to Minute, delegate has specified approval for 46 dwellings only; however, applicant was offered 103. There is no further evidence or documentation on file approving the additional 57 dwellings	1	1%
Joint Decision/State and Territory Sign-off						
35				No evidence of State and Territory approval on hard copy file or elec file	11	16%
36				No evidence of State and Territory approval on electronic file (but on hard copy file)	5	7%
37				No evidence of State and Territory approval on hard copy file (but on elec file)	44	65%
38				State and Territory approval is in electronic format only and unsigned	13	19%
39				State and Territory approval not in Joint Decision Template	35	51%
Letter from Minister						

FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
					68 Successful Applicant Files reviewed	
40				Signed letter from Minister not on electronic file (but on hard copy file)	1	1%
41				Unable to locate signed letter from Minister on hard copy or electronic file	64	94%
Letter of Offer and Acceptance						
42				Signed letter of offer not on electronic file (but on hard copy file)	12	18%
43				Signed letter of offer not on hard copy file (but on electronic file)	12	18%
44				Unable to locate signed letter of offer on hard copy or electronic file	19	28%
45				Signed letter of acceptance not on electronic file (but on hard copy file)	9	13%
46				Signed letter of acceptance not on hard copy file (but on electronic file)	12	18%

FOFMS ID		FINDING			NO. OF NON-COMPLIANT FILES	% OF NON-COMPLIANT
					68 Successful Applicant Files reviewed	
47				Unable to locate signed letter of acceptance on hard copy or electronic file	19	28%
48				Schedule attached to of offer and acceptance returned by successful applicant altered to schedule offered without documented approval of changes	8	12%
49				Letter of offer and acceptance returned by successful applicant altered to letter offered without documented approval of changes. Unsigned by FaHCSIA. Change was requested by applicant and legal advice was sought by FaHCSIA, however no further resolution/documentation on file regarding	1	1%
50				Schedule not scanned in or attached to returned acceptance on electronic or hard copy file	3	4%
51				Applicant requested changes to letter of offer and acceptance, however no further evidence on file of correspondence or resolution	1	1%
52				Email on file states a Minute is required to amend an error in Schedule B sent to applicant with Letter of Offer, however unable to locate minute on file	1	1%
Other Issues Noted						
53				Wrong applicants documentation attached to elec file	3	4%
54				Privacy issue - applicant information forwarded to a third party (another applicant)	2	3%
55				Privacy issue - technical advisor comments forwarded to the applicant	1	1%
56				State and Territory minute on file requesting State reassessment of applicant projects. Minute states that FaHCSIA has performed a reassessment, however, no results/evidence of reassessment on file. Letter dated 11/11/09. No further evidence of reassessment occurring, or correspondence regarding	1	1%
57				KPMG assessments performed over 7 projects for applicant, and Final Consolidated Report specifies seven projects, however, Schedule of offer contains an 8th project for which no assessment appears to have been performed	1	1%

Appendix

C – Assessment Process Overview

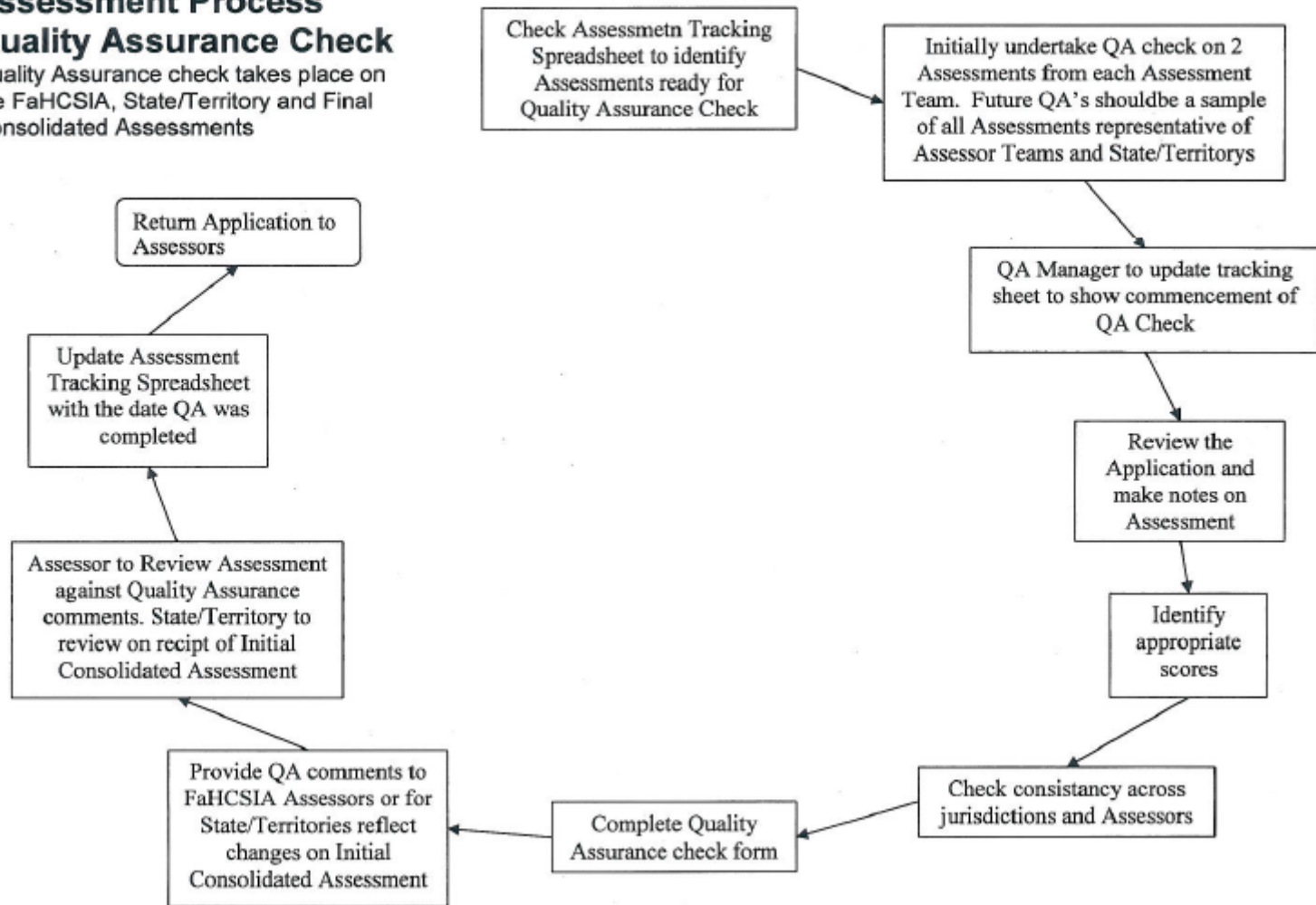


Source: NRAS Process Documentation

Appendix D – QA Process

Assessment Process Quality Assurance Check

Quality Assurance check takes place on the FaHCSIA, State/Territory and Final Consolidated Assessments

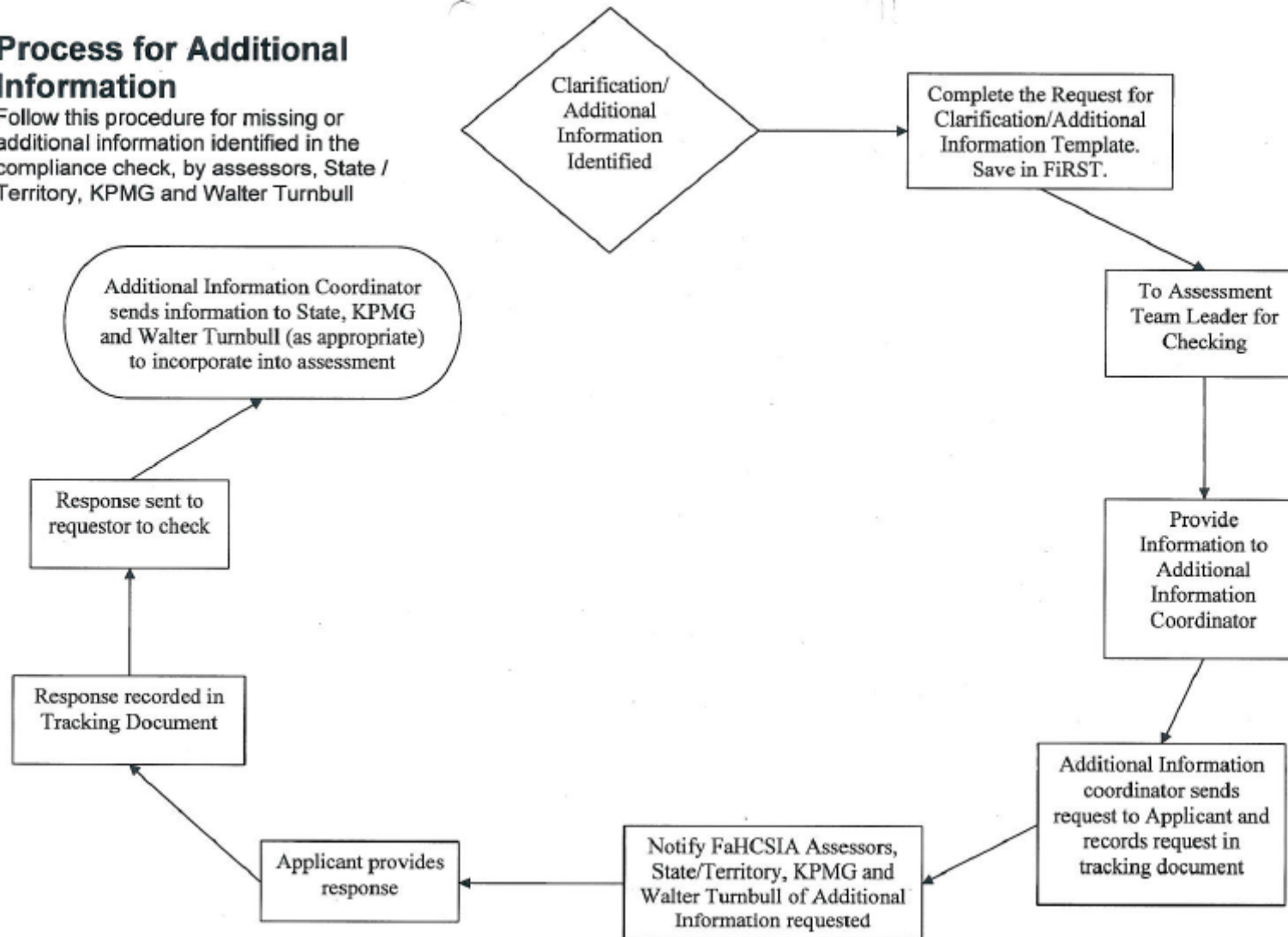


Source: NRAS Process Documentation

Appendix E – Additional Information Request Process

Process for Additional Information

Follow this procedure for missing or additional information identified in the compliance check, by assessors, State / Territory, KPMG and Walter Turnbull



Source: NRAS Process Documentation

Appendix F - Risk Rating Framework

Risk ratings contained in this report are based on the FaHCSIA’s risk consequence and likelihood definitions as endorsed by the Executive Management Group as follows.

Risk Matrix:

Risk levels

- L = Low
- M = Moderate
- H = High
- E = Extreme

Consequence					
People	Minor skills impact	Minor impact to capability	Unavailability of core skills affecting services	Unavailability of critical skills or personnel	Protracted lack of critical skills/people
	Minor injury	Medical Treatment	Major Injury	Death	Multiple Deaths
Financial	Less than marginal chance of material affect on value of financial assets.	Limited reduction in value of small proportion of financial assets.	Loss of financial assets/temporary reduction in value of significant proportion of financial assets.	Loss of significant proportion of financial assets/significant reduction in value of financial assets.	Total loss of financial assets/permanent reduction in value of financial assets.
Reputation	Internal dissent/criticism	Criticism from minor community segment. Adverse press coverage.	Criticism from the Government and Public Service.	Local public outrage/condemnation and high level political criticism.	National public outrage/condemnation and high level political criticism.
Business process and systems	Minimal impact on non-core business operations. Impact can be dealt with by routine operations.	Some impact on business areas able to be dealt with at operational level.	Impact on business resulting in reduced performance. Targets are not met. Activity not threatened, but may be subject to significant review or changed operations.	Breakdown of key activities leading to reduction in business performance. Survival of activity threatened.	Critical business failure, preventing performance of core activities. Impact threatens not only the survival of the activity, but FaHCSIA itself.

Likelihood	Likelihood/-Historical Probability		□	Insignificant	Minor	Moderate	Major	Extreme
	Is expected to occur in most circumstances	Has occurred on an annual basis in FaHCSIA in the past or circumstances are in train that will cause it to happen.	Almost certain	La	Ma	Ha	Ea	Ea
	Will probably occur in most circumstances	Has occurred in the last few years in FaHCSIA or has occurred recently in similar agencies or circumstances have occurred that will cause it to happen in the next few years.	Likely	La	Ma	Ha	Ha	Ea
	Might occur at some time	Has occurred at least once in the history of FaHCSIA or is considered to have a limited chance of occurring in the next few years.	Possible	La	Ma	Ma	Ha	Ha
	Could occur at some time	Has never occurred in FaHCSIA but has occurred infrequently in similar agencies or is considered to have a marginal chance of occurring in the next few years.	Unlikely	La	La	Ma	Ma	Ha
	May occur only in exceptional circumstances	Is possible but has not occurred to date in any similar agency and is considered to have very much less than a marginal chance of occurring in the short term.	Rare	La	La	La	Ma	Ma

Appendix G – Risk Rating Matrix

Key risks identified by PwC during the course of the audit are illustrated in the risk matrix below.

Consequence/ Likelihood	Insignificant	Minor	Moderate	Major	Extreme	Risk Key
Almost Certain	L	M	H	E	E	
Likely	L	M	H 3.1	H	E	High Risk
Possible	L	M	M 3.3, 3.4	H 3.2, 3.3	H	Moderate Risk
Unlikely	L	L	M	M	H	
Rare	L	L	L	M	M	

Planned risk rating after the implementation of audit recommendations as agreed between Internal Audit and the business owners.

Consequence/ Likelihood	Insignificant	Minor	Moderate	Major	Extreme	Risk Key
Almost Certain	L	M	H	E	E	
Likely	L	M	H	H	E	High Risk
Possible	L	M	M	H	H	Moderate Risk
Unlikely	L	L	M	M	H	
Rare	L	L	L	M	M	