



**Significant Community
Based
Projects Fund
Site Visit and Verification
Stage Independent
Assessment Methodology
For the
2006/07 Funding Round**

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1 Background

This document follows on from the Significant Community Based Projects Fund Recommendations Stages Independent Assessment Methodology for 2006/07 Funding Round which provided the scope and approach for performing Phases 1-3 (outlined in the table below). As a result of these phases, the Interdepartmental Advisory Group (IAG) made its recommendations on applications to the 2006/07 funding round.

This document outlines the methodology that will be adopted in relation to the site visits to be performed during **Phase 3: Eligibility Assessment Part 2** and the verification of information and the final funding level to be performed during **Phase 5: Contract Management and Monitoring (Verification of Information and Final Funding Recommendation)**. The following table sets out the phases for the overall Fund process.

Phase	Approach	Outputs
Phase 1- Pre Assessment	Pre-assessment and screening of applications	Those applications to be assessed in Phase 2
Phase 2- Eligibility Assessment Part 1	Risk based assessments performed on those applications recommended by the IAG.	A final report was produced for IAG consideration
Phase 3- Eligibility Assessment Part 2	Site visits performed as determined by IAG IAG assess the regional outcomes and ability to implement and deliver the project	Addendum reports to provide updated information and assessment from site visits Final applications recommended to receive funding from SCBPF.
Phase 4- Assessment and Recommendations	IAG make recommendations to Cabinet. The Independent Assessment Team (IAT) are not involved in any activities during this phase.	Cabinet paper recommending successful applicants and the amount to receive
Phase 5- Contract Management and Monitoring (Verification and Final Funding Recommendation)	Independent verification and assessment of additional information and recommendation of the final funding amount	Site visits to successful applicants Final Funding Recommendation Report Funding Schedule

2 Overview of Independent Assessment Approach

This methodology aligns with previous activities performed and provides further details of the approach to be undertaken by the Independent Assessment Team (IAT) for site visits during Phase 3 and verification and assessment of information during Phase 5.

2.1 Objectives

The objectives of the phases 3 and 5 are as follows:

Phase 3: The purpose of the **site visits** is to provide further assurance to the IAG regarding areas of concern, risk or where further information is required identified during Phase 2 Eligibility Assessments. This will contribute to the IAG's decision making process in Phase 4.

Phase 5: The purpose of the **verification phase** is to:

- independently verify any subsequent information identified since the previous assessment and to ensure that there have been no changes to the assessment of risk;
- determine the final funding level/amount the applicant should receive; and
- create the schedules for milestone payments for Funding Agreements.

3 Phase 3: Eligibility Assessment Part 2

Phase 3 comprises 2 stages 1) IAG recommendations of applications proceeding to Phase 4 and 2) Site visits performed by the IAT as determined by the IAG. This section covers the site visits performed by the IAT.

3.1 Objective

The purpose of the **site visits** is to provide further assurance to the IAG regarding areas of concern, risk or where further information is required identified during Phase 2 Eligibility Assessments. This will contribute to the IAG’s decision making process in Phase 4.

During this phase, site visits to the applicants determined by the IAG will be undertaken.

Independent Assessment Steps Performed

	W/P Reference	Initials/ Date	QA Initials/ Date
<p>1 Site Visit: Planning and Preparation</p> <ul style="list-style-type: none"> Identify the areas that need further follow up and discussion Identify appropriate people to meet with and set up time to meet Identify any further information that is required and communicate this to the applicant in advance 			
<p>2 Onsite Visit</p> <p>Conduct an opening interview and walk through the processes and site documentation. Conduct a close out meeting.</p>			
<p>2.1 Opening Interview</p> <p>Conduct an opening interview The opening interview should include:</p> <p>An agenda; including</p> <ul style="list-style-type: none"> Date and time of interview People present Introductions Overview of objectives, scope and approach Summarise the approach (methods and 			

	W/P Reference	Initials/ Date	QA Initials/ Date
<p>procedures) to be used</p> <ul style="list-style-type: none"> Establish communication links between the team and the staff Clarify any potential misunderstandings <p>Minutes of the meeting, including a record of those present, are taken by (or on behalf of) the Lead Auditor and placed on the audit file.</p>			
<p>2.2 Walkthrough and Document</p> <p>Where appropriate walkthrough the process and ensure the issue that has been identified is thoroughly understood.</p> <p>Document results and findings which clearly show:</p> <ul style="list-style-type: none"> what the issue is why it's occurring the risk and its significance to the process <p>Ensure there is appropriate evidence to support the findings.</p> <p>In most instances the IAT will be accessing additional information to confirm the risk rating or to update it.</p>			
<p>2.3 Closing Meeting</p> <p>A close out meeting should be held with the applicant to discuss any findings from the review process and the process going forward.</p>			
<p>3 Report</p> <p>An addendum to the initial Independent Assessment Report should be prepared which addresses the risks areas identified by the IAG and any other issues. As a result the IAT will reassess the risk level. Refer Appendix 1.</p>			

4 Phase 5: Contract Management and Monitoring (Verification of Information and Final Funding Recommendation)

This section outlines the approach to be undertaken by the IAT during Phase 5 which comprises 3 Stages 1) Verification of information 2) Final Funding Recommendation Report 3) Funding Agreement implementation and monitoring.

4.1 Objectives

The objectives of Phase 5 are to:

- 1 Independently assess any subsequent information identified since the first independent assessment and confirm or update the risk assessments;
- 2 Determine the final funding amount/level the applicant should receive; and
- 3 Create the Funding Agreement schedules for the milestone payments.

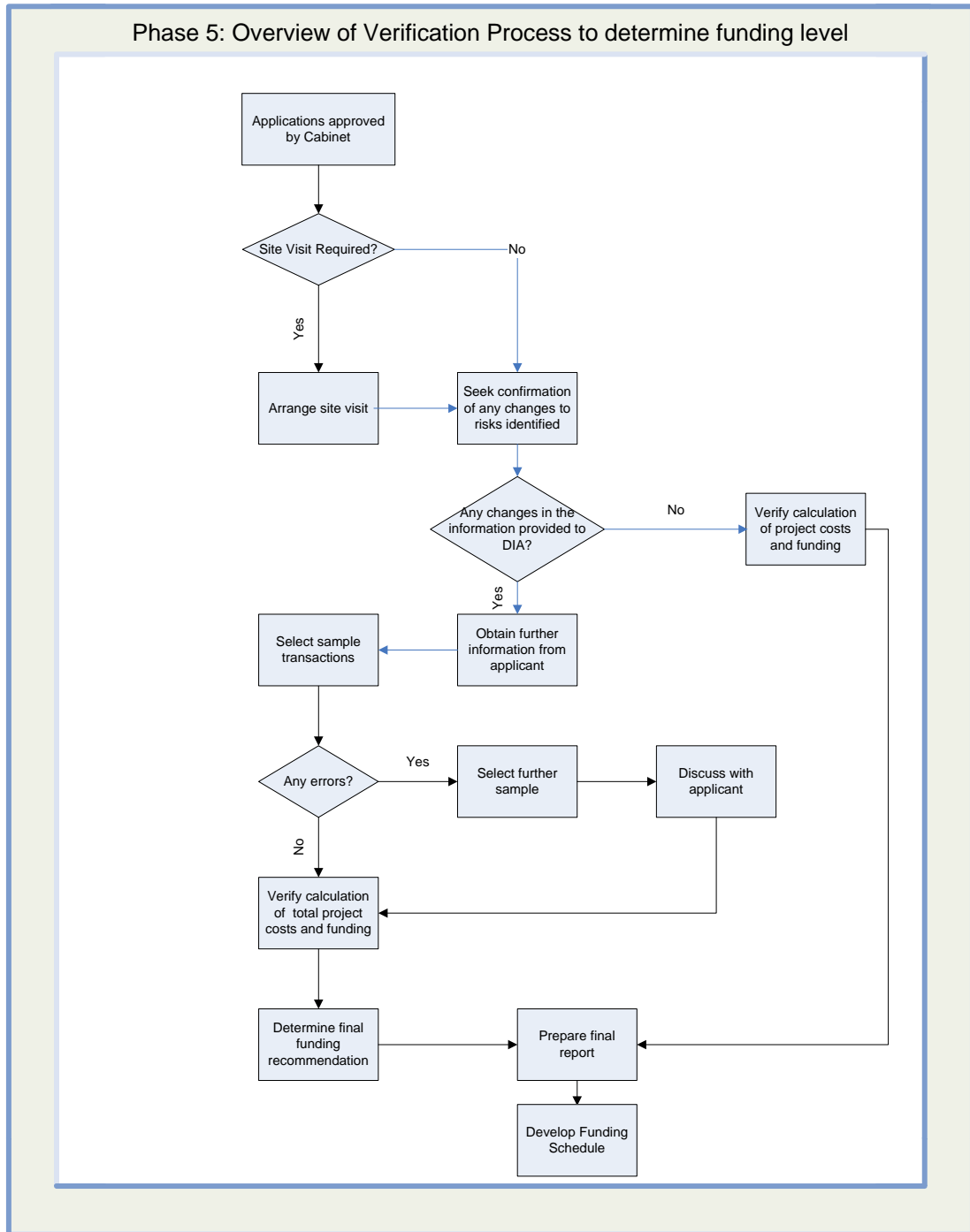
To fulfil these objectives the IAT will:

- Confirm that identified committed funds remain secure;
- Confirm other fundraising by the applicant;
- Confirm project budgeted and actual costs have not materially changed since the first IAT assessment. Where there has been a material change, the IAT will assess the impact of the risk of non-completion of the project;
- Provide a view as to the nature and level of any significant financial and/or project risks that should be recognised within the funding agreement;
- Establish the amount of funding to be considered by the IAG; and
- Develop the milestone payment schedule for the Fund Agreement.

4.2 Stage 1: Independent Verification of Information

The overall aim of this stage is to determine what information has changed since the first IAT assessment in order to validate the project costs and funding income associated with the project. Diagram 1 provides an overview of this approach.

Diagram 1: Phase 5 Overview of Verification of Information Process



4.2.1 Step 1: Communicate with applicants

Both the Secretariat and IAT will liaise with the applicant.

	Description
1: The Secretariat	The Secretariat will initially communicate with the applicants to inform them of the Cabinet decision and the subsequent site visits to be commenced by the IAT.
2: Independent Assessment Team	The IAT will communicate with the applicants to: <ul style="list-style-type: none">• Plan for upcoming site visits; and• Seek further information. The applicant will be required to complete the templates and provide supporting evidence where changes have occurred.

4.2.2 Step 2: Site visits

Site visits will be undertaken to all successful applicants unless otherwise agreed with DIA.

Site visits will enable the IAT to:

- Better understand the organisational environment, activities, systems, risks and controls associated with the project;
- Physically verify and assess the information provided by the applicant in the application more effectively. This will include tracing transactions through the information system(s) relevant to financial reporting (refer Step 3);
- Provide the opportunity to physically meet the project team and develop a better sense about the people involved in the project, their knowledge, capability and experience; and
- Provide the opportunity to ask more questions and obtain responses in a timely fashion.

The same principles will be applied as for Phase 3 site visits, but with a more targeted approach. The IAT will:

- Communicate formally with the applicant to outline the purpose of the site visit and the information the IAT will need during the visit;
- Identify appropriate people (such as CEO, CFO, Chairman and relevant project members) to meet with and set up time to meet;

- Identify any further information that is required and communicate this to the applicant in advance to ensure this is available at the time of arrival;
- Conduct opening interview with appropriate people. This should aim to:
 - Introduce the team;
 - Provide an overview of objectives, scope and approach of the process;
 - Summarise the methods and procedures to be used;
 - Establish communication links between the team and the staff;
 - Clarify any potential misunderstandings; and
 - Document the outcomes of the meeting

4.2.3 Step 3: Verification of information

The focus of this step will be to review the information relating to project costs and funding income received (Step 3.1). This will require verifying changes to project costs and fundraising activities and determining whether the information is complete and adequate and to confirm or change the risk assessment.

In step 3.2 the IAT will determine whether there have been changes to the Project Plan and Capability, Financial Sustainability and Governance and Management (Step 3.2). Where changes have occurred, the IAT will confirm or change the risk assessment.

Based on the first assessment the IAT will be aware of the previous risk level associated with a particular assessment area. Where the risk has been assessed as low, the IAT needs to confirm there has been no significant change which could affect this risk. This will be done by a declaration signed by the organisation's CEO or Chairperson.

4.2.3.1 Step 3.1: Project Costs and Funding

The following steps should be performed as part of this stage:

1. Project Costs Assessment Review	
The risk to the Crown is that the applicant has <u>overstated or understated</u> the amount of costs relating to this project.	
	Steps required
	1) Based on the first review of project costs performed by the IAT – Recommendation Stage, understand the level of risk associated with project costs. 2) Identify appropriate project team members to discuss and document the process for determining the project costs. <ul style="list-style-type: none"> • Obtain confirmation of the total project costs as at 31 March 2007. If these have changed since the original application, perform a walkthrough of this process to confirm costs are

	<p>accurate and complete.</p> <ul style="list-style-type: none"> • The applicant should be able to clearly demonstrate and identify specific costs in relation to the project and explain how the costs relate to the project (refer eligibility requirements). In particular where items are not clearly identified or cannot be linked to a project costing, project plan or demonstrate a link to the project, these may be excluded from the total project costs. • Below are examples that IAT should consider as appropriate to the application: <ul style="list-style-type: none"> - The hourly rate for each person on the project, which will normally be made up of a base wages or salary component and overheads adjusted for leave, holidays and other non-chargeable time, must be explicitly stated and justified. Any projected wage or salary increases should be explicitly stated and included in the project cost calculation. - The internal costs for an organisation should be constructed from the actual cost to the organisation of undertaking the activity and not the charge out rate. - Other project expenses specific to the project, such as external contracts or services, materials, consumables and plant usage, shall be explicitly included in the project application with sufficient detail breakdown to show that it is a qualifying expense. These costs should not be rolled into an overhead rate. <p>3) Determine whether any changes to project costs have occurred in relation to capital expenditure, one-off expenditure, debt servicing, retrospective costs and economic costing since the application was submitted (1 December 2006 -31 March 2007). This will include verification of any errors, miscalculations arising during previous reviews.</p> <p>4) Assess the changes and ensure there is sufficient supporting documentation for these.</p> <p>5) Based on professional judgement and previous sampling performed (Phase 2 Eligibility Assessment, Part 1), select a sample of costs and evidence these back to supporting documentation such as quotes and invoices. (refer to Appendix 2)</p> <p>6) Complete the Project Costs template to show:</p> <ul style="list-style-type: none"> • the total costs the applicant is claiming for and over what period
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	<ul style="list-style-type: none"> • the total verified costs. The stages of the project and the associated costs must be clearly identified. • any differences identified between the original application and subsequent assessment and referenced to supporting documentation <p>7) Reassess the risks and determine whether the risks have changed.</p> <p>8) Update the report to confirm the risk assessment.</p>
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2. Funding Review

The risk to the Crown is that the applicant has overstated or understated the amount of funding received or promised.

	Steps required
	<ol style="list-style-type: none"> 1 Based on the first review of Funding performed by the IAT – Recommendation Stage, understand the level of risk associated with this. 2 Identify appropriate project team members to discuss and document the process for tracking and tagging funding allocated to the project. <ul style="list-style-type: none"> • Obtain confirmation of the total funding <u>promised</u> and <u>banked</u> as at 31 March 2007 where this has changed. Where appropriate, perform a walkthrough of this process to confirm that project funding is tagged accurately to the project and complete. • Determine all the bank accounts used in relation to the project and determine whether the deposited amounts appear reasonable and in line with the application. • The applicant should be able to clearly demonstrate and identify deposits made in relation to the project and explain those deposits that do not. <i>(NB – important to check the bank statements to ensure that any income for the project has been received and declared).</i> 3 Determine whether any changes to funding (both banked and promised) have occurred in relation to Community support, Internal Funding, and Alternative Funding since the application was submitted (1 December 2006). This will include verification of any errors, miscalculations arising during previous reviews. 4 Where it is identified that changes have occurred since the first assessment, review the information and supporting documentation to determine what the changes are (e.g further funding received) and whether the risk has increased. Ensure there is supporting documentation for these.

	<p>5 Based on professional judgement and previous sampling performed (Phase 2 Eligibility Assessment, Part 1), determine the total fundraising and donations and select a sample and evidence these back to supporting documentation such as bank statements, letters of promise, deposit slips. Letters that support the project from organisations planning to donate should be checked to ensure that funds have been received and agree to the amount promised. (refer to Appendix 2)</p> <p>6 Complete the Project Funding workpaper to show:</p> <ul style="list-style-type: none"> • the total funding the applicant has obtained for the project • the total verified funding • any differences identified and referenced to supporting documentation <p>7) Reassess the risks and determine whether the risks have changed.</p> <p>8) Update the report to confirm the risk assessment.</p>
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4.2.3.2 Step 3.2: Project Capability and Governance

The following steps should be performed as part of this stage:

3. Project Plan and Capability Review	
The risk to the Crown is that the applicant's project management resourcing and capability is inadequate to complete the project	
	Steps required
	<ol style="list-style-type: none"> 1) Based on the first review of Project Plan and Capability performed by the IAT – Recommendation Stage, understand the level of risk associated with this. 2) Identify appropriate project team members to discuss how the project is currently being managed. Review whether there have been any changes to the project plan and capability of the project since submission of the application. Where no changes have occurred no further work is required. 3) Where the applicant has identified changes, review the information and supporting documentation to determine whether the risk has increased. Examples would include: key project management staff are no longer working on the project, key milestones are not being met and reporting and monitoring of the project is not clearly communicated within the organisation.

	<p>4) Reassess the risks and determine whether the risks have changed.</p> <p>5) Update the report to confirm the risk assessment.</p>
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4. Financial Sustainability Review

The risk to the Crown is that the applicant is not financially sustainable in the longer term and unable to complete the project.

	Steps required
	<ol style="list-style-type: none"> 1 Based on the first review of Financial Sustainability performed by the IAT – Recommendation Stage, understand the level of risk associated with this. 2 Interview CEO/CFO/Board/Trustees to confirm that there have been no changes to the financial sustainability of the organisation 3 Where the applicant has identified changes, review the information and supporting documentation to determine whether the risk has increased. 4 Reassess the risks and determine whether the risks have changed. 5 Update the report to confirm the risk assessment.

5. Governance and Management Review

The risk to the Crown is that the applicant does not have adequate governance and management processes in place

	Steps required
	<ol style="list-style-type: none"> 1) Based on the first review of Governance and Management performed by the IAT – Recommendation Stage, understand the level of risk associated with this. 2) Where the applicant has identified changes, review the information and supporting documentation to determine whether the risk has increased. Examples include: changes to Board/Trust membership; reporting lines, leadership, and meeting frequencies. 3) Where no changes have occurred no further work is required. 4) Reassess the risks and determine whether the risks have changed. 5) Update the report to confirm the risk assessment.

4.2.4 Organisational representation

As part of the verification process, the IAT will seek a formally signed representation letter from the CEO/CFO/Chairman of the Trust or equivalent to confirm the information provided to the DIA is true and correct.

The letter will seek to confirm information included in the application and any subsequent changes. The applicant will be required to complete sections of the letter relating to the Project Costs and Project Funding and sign and date the letter attesting to the accuracy of the information. A template of this letter is attached in Appendix 3.

4.3 Stage 2: Final Funding Level Recommendation

From the site visit, interviews with relevant people and review and analysis of information, the IAT will document results and findings which clearly show:

- Any identified issues causing the risks to increase
- Any new risks identified
- why it's occurring
- the risk, and its significance, of not completing the project
- recommendations in relation to the risks identified

The results will form the basis of the report for each applicant with the Final Funding Level Recommendation as per the standard fund format and criteria. The report will outline:

- The purpose of the project and the stages involved (where applicable);
- The recommended funding amount to be received. This figure will be either an “up to” amount or an “actual” amount. The up to level will be used where project costs have not yet been substantially finalised or funds have not actually been received; and
- Any risks the IAG needs to be aware of.

Appended to this report will be the first Independent Assessment Report and subsequent addenda. A template of this report is attached as Appendix 4.

4.4 Stage 3: Funding Agreement and Milestone Schedule

This stage involves the development of the Funding Agreement and the schedule of milestone payments. The Funding Agreement is in accordance with DIA requirements and should take into account the risks identified during the previous stages and the mitigating strategies. The IAT will develop the schedule of milestone payments.

A template of the milestone schedule is attached as Appendix 5.

Appendix 1: Phase 3 Site Visit Template

Appendix 2: Sampling Methodology

A.1 Phase 5: Independent Verification Sampling

During Phase 5: Verification of Information, the Independent Audit Team will establish that project costs and funding received are true and accurate. The purpose of sampling is to obtain a sample that is representative of the target population. This means that, the information derived from the sample fairly represents the target population.

A.1.1 Selecting a Sample

The IAT will use professional judgment in determining the sampling method and size. Based on the risks associated with SCBPF, the recommended sampling method will be non-statistical and based on professional judgment. This is because the population sizes may vary significantly across applications ie some applications may have received a small number of donations however the dollar value is large. Alternatively there may be a high number of donations with a small dollar value. There needs to be flexibility in determining the appropriate transactions to be tested. In addition, the IAT should consider the materiality of the items to be sampled and this should be discussed with the senior IAT members.

The IAT will consider the following elements when selecting the sample:

- Previous findings from the Recommendations Stage ie whether any findings, errors or miscalculations were identified and the amount;
- The number of items already sampled and assessed during the Recommendations Stage;
- What changes have occurred since submission of the application, such as project costs and funding received.

Although non-statistical sampling is being performed, there are elements of statistical sampling that can be applied such as:

- **Risk of significant exception:** The size of the sample, in non-statistical sampling, depends upon the risk of significant exception. The risk of a significant exception is the non-statistical equivalent to the relative difference between the expected level of exceptions and the tolerable level of exceptions, two variables used in statistical sampling. In non-statistical sampling, the risk of a significant exception is a factor in (i) selecting key items, (ii) deciding whether or not it is appropriate to stratify the population and (iii) determining sample size.
- Provided that items associated with a high risk of significant exception are selected as key items then the following table may be used as a guide to determining the sample size of the remaining population, or each of the remaining stratum, whichever is appropriate.

The following table provides a guide for the IAT to select a sample:

Risk of significant exception	Stratified population		Unstratified population	
	Sample size (n)	Max. sample size (n)	Sample size (n)	Max. sample size (n)
Mod to high	20% of N	30	40% of N	60
Moderate	10% of N	25	20% of N	50
Mod to low	5% of N	20	10% of N	40
Low	1% of N	10	5% of N	20
N = number of items in the stratum or population (excluding key items).				

For any sampling over 20 items, the IAT will consult with the senior member of the IAT team regarding the sampling size.

Sampling definitions

Population	A finite (or infinite) set of 'objects' whose properties are to be studied during the assessment
Target population	The population whose properties are estimated via a sample, usually the same as the 'total' population
Sample	A subset of the target population chosen so as to be representative of that population
Sampling Unit	<ul style="list-style-type: none"> • A member of the sample frame • A member of the sample
Probability sample	Any method of selecting a sample such that each sampling unit has a specific probability of being chosen. These probabilities are usually (but not always) equal. Most probability sampling employs some form of random sample to generate equal probabilities for each unit being selected.
Non-probability	A method in which sample units are collected with no sample specific probability structure

Appendix 3: Representation Letter

Appendix 4: Phase 5 Reporting Template

Appendix 5: Milestone Schedule Template