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1. EXECUTIVE SUMMARY

We have conducted an independent financial and performance audit of Queensland Harness Racing Board’s (“the QHRB”) administration of the Commercial Horse Assistance Payments Program (“the Program”) for the period 25 August 2007 to 30 April 2008.

1.1 The Responsibility of the Queensland Harness Racing Board

The QHRB was engaged by the Commonwealth Department of Agriculture, Fisheries and Forestry (“the Department”) to administer the Program in accordance with a Funding Deed executed by both parties on 25 September 2007. Consequently, the QHRB has been responsible for administering the Program in accordance with the terms of the Funding Deed. This includes designing, implementing, documenting, monitoring and maintaining a system to deliver the Program in compliance with the terms of the Funding Deed.

1.2 Auditor’s Responsibility

We have been engaged to conduct a financial and performance audit of QHRB’s delivery of the Program under the Funding Deed. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance regarding the financial and performance aspects of the Program delivery by QHRB. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether in all material respects, the funds provided by the Department have been spent in accordance with the Funding Deed and the Program was administered in accordance with the Funding Deed in an efficient and effective manner.

An audit involves performing such tests and other procedures as the auditor considers necessary in the circumstances. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material non-compliance with the Funding Deed, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ensuring compliance with the Funding Deed and administering the program in an efficient and effective manner in order to design audit procedures that are appropriate in the circumstances.

Our procedures included the following:

- obtaining an understanding of the Funding Deed and the terms of each stage of the Program;
- reviewing the Program books, records (including project reports and invoices) and financial statements maintained by QHRB including those relating to the receipt, holding, expenditure and commitment of funding;
- testing transactions and records on a sample basis to ascertain whether or not the funding was spent in accordance with the Funding Deed and the terms of each stage of the Program;
examining the efficiency and effectiveness of QHRB’s activities in administering the Program.

These procedures have been undertaken to form an opinion whether, in all material respects, QHRB has delivered the Program in accordance with the Funding Deed requirements from a financial and performance aspect.

The audit report has been prepared for the Department and the QHRB. We disclaim any assumption of responsibility for any reliance on this report to any organisations other than the Department and the QHRB, or for any other purpose than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

1.3 Independence

In conducting our audit, we have complied with applicable independence requirements of Australian professional ethical pronouncements.

1.4 Auditor’s Opinion

In our opinion:
- QHRB has kept proper books and records in respect of the Program;
- The funding was expended on the purpose for which it was provided as specified in, and in compliance with, the Funding Deed; and
- QHRB’s activities in administering the Program were efficient and effective.

BENTLEYS
BRISBANE PARTNERSHIP
CHARTERED ACCOUNTANTS

P M Power
PARTNER

Dated in Brisbane on 12 August 2008
2. **BACKGROUND**

In September 2007, the Minister for Agriculture, Fisheries and Forestry announced a suite of assistance measures for those horse-dependent businesses, employees and employers affected by the equine influenza outbreak in Australia. Commercial Horse Assistance Payments (CHAPs) are to be provided to primary carers of commercial horses who would otherwise be active and potentially earning an income if not for the Equine Influenza outbreak and resulting standstill.

A per-horse per-day payment providing for the welfare and ongoing training of horses to ensure they remain fit and healthy so as to ensure they could return to normal activity as soon as possible was provided. These payments to carers were administered through Queensland Harness Racing Board (QHRB).

We were engaged to undertake an independent third-party financial and performance and compliance audit of QHRB’s delivery of the Program under the Funding Deed.

In conducting our audit we have:

- reviewed QHRB’s books, records and financial statements, including those relating the receipt, holding, expenditure and commitment of the funding;
- reviewed whether the funding was spent in accordance with the terms of the Funding Deed;
- examined the efficiency and effectiveness of QHRB’s activities in administering CHAPs;
- compiled a report to provide an assessment of the delivery of the project by QHRB, and make recommendations for future process of project management improvement.
## 3. **COMPLIANCE WITH FUNDING DEED**

<table>
<thead>
<tr>
<th>Deed Section</th>
<th>Compliant</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Defined Terms &amp; Interpretation</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>2. Project Performance</td>
<td>Yes</td>
<td>One component of the project performance, namely, the appeals process was generally found to be satisfactory. However, the time limits specified for appeals were not communicated to appellants in accordance with the Funding Deed.</td>
</tr>
<tr>
<td>3. Grantee’s Warranties</td>
<td>Yes</td>
<td>Nil</td>
</tr>
<tr>
<td>4. Funding Payment</td>
<td>Yes</td>
<td>Nil</td>
</tr>
<tr>
<td>5. Use and Banking of Funding Money</td>
<td>Yes</td>
<td>Nil</td>
</tr>
<tr>
<td>6. Goods and Services Tax</td>
<td>Not applicable</td>
<td>There were no GST transactions involved.</td>
</tr>
<tr>
<td>7. Accounts and Records</td>
<td>Yes</td>
<td>Nil</td>
</tr>
<tr>
<td>8. Reports</td>
<td>Yes</td>
<td>Nil</td>
</tr>
<tr>
<td>9. Assets</td>
<td>Not applicable</td>
<td>No fixed assets were purchased or leased as part of the Program.</td>
</tr>
<tr>
<td>10. Commonwealth Material</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>11. Confidential Information</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>12. Personal Information – Grantee to Comply with Privacy Obligations</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>13. Personal Information – Grantee to Comply with Privacy Obligations</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>14. Indemnity and Insurance</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>15. Conflict of Interest</td>
<td>Yes</td>
<td>We are not aware of any conflicts of interests which may have been present.</td>
</tr>
<tr>
<td>Deed Section</td>
<td>Compliant</td>
<td>Comment</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-----------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>16. Dispute Resolution</td>
<td>Yes</td>
<td>We are not aware of any disputes.</td>
</tr>
<tr>
<td>17. Termination</td>
<td>Yes</td>
<td>We are not aware of any termination events occurring.</td>
</tr>
<tr>
<td>18. Assignment</td>
<td>Yes</td>
<td>We are not aware of any assignment of rights under the Deed.</td>
</tr>
<tr>
<td>19. No Partnership or Employment</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>20. Compliance with Law</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>21. Notices</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
<tr>
<td>22. Miscellaneous</td>
<td>Not applicable</td>
<td>This was outside the agreed scope of the audit.</td>
</tr>
</tbody>
</table>
4. DISCUSSION POINTS

4.1 Application Process

Audit Approach

The following procedures were performed as part of the audit:

- QHRB’s performance in making sure the application information was available to potential applicants was reviewed.
- The processing of applications and the verification of the information provided therein was assessed.
- The decision making process of the Approval Committee was reviewed and documented.
- A sample of horses in relation to which applications were received was selected and the assessment of the applications tested. A separate sample was selected for each round of the Program.

Findings

Under the Funding Deed for Commercial Horse Assistance Payment QHRB contracted to:

- receive claims for funding (Schedule 1)
- assess each claim against eligibility guidelines (Schedule 1)
- provide a fortnightly invoices for funding in arrears and report to the Commonwealth (Schedule 1)
- distribute funds to eligible claimants (Schedule 1)
- keep comprehensive records of the conduct of the Project. (Schedule 5).

QHRB has established and documented certain procedures to discharge its obligations under the Deed. In summary, the following steps were performed:

1. Invite trainers to apply for CHAPs by sending pre-completed (name, address etc) application forms to all trainers registered with QHRB.
2. The trainers had to provide the following information in the application, which was in the form of a statutory declaration:
   - The number of horses “unable to undertake normal activities to generate income due to EI” at 25 August 2007
   - The number of horses that were “in work” on that date (excludes horses “on spell”, broodmares)
An attached list of horses with their freeze brand numbers, location, owner’s name

Statutory declaration by the owner certifying that their liquid assets were under $300,000 and that the horse was in the custody of the applicant trainer.

3. On receipt of the above information, the following steps were taken to assess the application:

A clerk reviewed the application and the accompanying documents and verified the name of the horses, their brand numbers, and their trainer (which should be the applicant him- or herself) against the HARVEY register. Additionally, the clerk checked that the trainer was up-to-date with their Stable Returns in relation to the horses subject to the claim.

On completion of the above procedures, the application form was initialled in the “Document Verified” field of the “Office Use Only” section and forwarded to the Approval Committee.

4. The Approval Committee was made up of three members:

- Warren Cummins - QHRB board member
- Michael Costillo - Integrity Manager
- Susan Morley - Registrar of QHRB

The composition of the committee stayed the same throughout the three rounds of CHAPs.

5. The committee sat approximately 4 days a week and reviewed, on average, 20-25 applications per session.

6. The committee jointly performed the following procedures in assessing each claim against the applicable criteria:

Looked up the HARVEY register to check when the horse took part in a race/trial last. If it happened within two months of the standstill and the horse was not disqualified, this was treated as evidence that the horse was “in work” and that it was an income-generating horse.

Otherwise, particularly if the horse was unnamed, the trainer was contacted and queried. The fact that a horse was unnamed as at 25 August 2007 meant that the horse had never raced and more evidence was required that the horse was “in work” and “has the potential to generate income”.

In such cases, the trainer would be contacted and asked what the horse was doing in terms of preparation for races and what its fitness level was. Applicant’s representations were usually accepted at face value and determinations were made based on them.
If, however, if there was something which put the committee on further enquiry, the application would be put on hold and an inspection by two stewards would be organised.

During the course of the programs, 18 inspections were conducted, covering 163 horses. All horses were sighted and their fitness examined during such visits. No instances of fraud or misleading statements were uncovered during such visits. An internal audit report summarising the findings was prepared.

7. It was noted by us that the deliberations of the Committee were not minuted in any great detail. In particular, the steps taken in relation to each application were not always documented. However, for each applicant a table was filled out listing all the horses applied for and brief notes on any contentious issues. The “Daily summary sheet” listing the applicants and the number of horses approved and rejected in relation to each application was also filled out.

**Conclusion**

Processing of applications was found to be satisfactory and uniform throughout the Program.

**Issues**

No issues requiring discussion herein were identified.


4.2 Payment Process

Audit Approach

The following procedures were performed:

- Obtained an understanding of the payment process and, in particular, how the payments were calculated.
- A sample of payments was checked for each round of CHAPs.

Findings

A spreadsheet was used to record and keep track of the progress of applications. A separate person was put in charge of maintaining the spreadsheet – a control against replication and unauthorised tampering with the data.

Throughout the three rounds of CHAPs, all applicants were notionally divided into group A and group B with payments to each alternating each week. This was done to manage the workload.

A separate MYOB file was used for each group. These two MYOB files were used throughout all the three rounds of CHAPs to record all the disbursements to the applicants. The payroll module of MYOB was used. Both of these files were obtained from the client and used in testing the payments.

DAFF was invoiced using QHRB’s main accounting system in arrears. I.e, QHRB had the cash resources to process applications and make payments without waiting for the funds from DAFF. DAFF was then invoiced on a monthly basis.

The calculation of payments was tested separately for each of the rounds of the Program and was found to be in accordance with the Deed.

Conclusion

The payment process was found to be satisfactory.

Issues

No issues requiring discussion herein were identified.
4.3 Unsuccessful Applications

Audit Approach
We obtained an understanding of the QHRB’s handling of the rejection process and ascertained whether due process was followed.

Findings
If a decision was made to reject an applicant’s claim for CHAPs, a letter to that effect was sent. The letter advised them of their right to appeal within four weeks thereof.

The numbers of horses in relation to which applications were received are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Approved</th>
<th>Rejected</th>
<th>% rejected</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHAPs 1 and 2</td>
<td>2,264</td>
<td>2,208</td>
<td>56</td>
<td>2.5%</td>
</tr>
<tr>
<td>CHAPs 3</td>
<td>1,870</td>
<td>1,699</td>
<td>171</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

As can be seen from the numbers, the number or rejections increased significantly during CHAPs 3. This was caused by the introduction of two new requirements:

Primary carers could not claim for -

- horses in pre-training; or
- broodmares and stallions

Accordingly, a number of horses that previously qualified were no longer eligible.

Conclusion
QHRB’s handling of the rejections was found to be satisfactory.

Issues
No issues requiring discussion were noted.
4.4 Site Visits

Audit Approach

The following procedures were performed:

- We ascertained how many site visits were conducted and what the basis of selection was.
- We ascertained the outcomes of site visits.

Findings

18 applicants (out of the average of 359) were visited in November 2007. The visits covered a broad range of properties, and targeted applicants, in relation to whom there was doubt as to the validity of their claim. The visits were conducted swiftly and unannounced with the total number of horses covered being 163 (out of 1,946 in receipt of CHAPs 1 payments). Each horse inspected was on the property and in a condition consistent with evidence that the horse had been in training at the time of the standstill. An audit report documenting the findings of the site visits was prepared and submitted to the board of directors of QHRB.

Conclusion

The process of site visits was found to be satisfactory. In particular, the basis of selection and the size of the sample were found to be adequate and the findings adequately documented.

Issues

No issues requiring discussion herein were noted.
4.5 Appeals Process

Audit Approach

We obtained an understanding of the QHRB’s handling of the appeals and ascertained whether due process was followed. In particular, we ascertained whether the Appeal Committee was independent from the original decision panel.

Findings

The Funding Deed provides that “the Grantee [ie, QHRB] must establish an appropriate appeals process” (Schedule 2 to the Funding Deed).

Applicants aggrieved by the decision of the Approval Committee, were given the right to appeal. The right to appeal could only be exercised within four weeks of the date of the notice of the original decision.

Whenever an application was rejected in relation to at least one horse, a standard paragraph about the right of appeal was included in the letter to the applicant. The paragraph read as follows:

“I would like to draw your attention to the appeal process which is available to you. Details and the form to be used are available on the website.”

The time limit for appeals was not mentioned in the letter. Despite the provision in the Funding Deed that “the person has four weeks after the notice is given to request a review of the decision”, Notice of Appeal form stated that “this form must be received by the appeal committee secretary within five (5) working days of the date of the decision”.

To initiate an appeal, the Notice of Appeal form had to be completed and delivered to the Appeal Committee Secretary with a fee of $10. The appellants were advised that, although the majority of appellants were self-represented, they were entitled to be represented, if they wished, at their own cost. The form required the appellants to state grounds for the appeal.

An Appeal Committee consisted of two members. The Committee was independent of the Approval Committee and determined appeals within 14 days of the date of lodgement of appeal. Audit noted that the appeal decisions were better documented than the original decision.

Conclusion

The appeals process was generally found to be satisfactory. However, the time limits specified for appeals was not communicated to applicants in accordance with the Funding Deed.

Issues

Communication to applicants regarding the time limits for appeals in accordance with the Funding Deed.
4.6 Invoicing and Reporting

Audit Approach

The following procedures were performed:

- ascertained whether QHRB’s reporting obligations under the Funding Deed were met;
- tested a sample of reports, invoices and receipts for accuracy.

Findings

Under the Funding Deed, QHRB had to provide ongoing fortnightly reports summarising the CHAP application information from primary carers. A standard form to be used for reporting purposes was provided by DAFF. The original intention was that QHRB would collect applications and invoice DAFF for payment. The invoice would be supported by a report detailing the number of horses and other particulars. On receipt of funds, QHRB would disburse them to the applicants.

However, this process was not followed in that QHRB made payments to applicants without waiting for the funds from DAFF. QHRB would then seek reimbursement from DAFF and submit an invoice and the required reports in support of its claim.

Invoices were raised monthly and not fortnightly (as stipulated in the Funding Deed), with each invoice detailing the period to date amount, less the amounts already invoiced. Accordingly, the final invoice summarises all the payments made in relation to CHAPs 1 and 2, and, in a separate invoice, CHAPs 3. Each invoice was accompanied by a detailed statistics report detailing the number of horses and the number of rejections.

Our testing of reports, invoices and receipts was satisfactory for this area.

Conclusion

QHRB has complied with the Funding Deed in this respect.

Issues

No issues requiring discussion herein were noted.
4.7 Quality Assurance

Audit Approach

Our work involved reviewing and documenting the procedures and documentation used to process applications. Discussions were held with management regarding the arrangements in place to ensure applications were processed in accordance with the Funding Deed together with the controls and safeguards in place. We also ascertained whether there was an internal audit function.

Findings

DAFF provided the QHRB with templates of all the standard documents to be used in collecting and processing all applications. These templates were customised as QHRB documents and were used to facilitate all aspects of the application process.

A team of clerks was specifically employed to document and process all applications received. A comprehensive memorandum outlining the CHAPs process step by step and who is in charge of each step was drafted and distributed to the staff concerned.

It was noted that the QHRB was in a continuous dialogue with DAFF throughout the program. All major issues and uncertainties that arose during the administration of the program were brought to DAFF's attention and instructions sought.

Our testing found that the QHRB was consistent in processing applications. The documentation inspected and processes followed had been completed in accordance with the procedures memorandum. The process for dealing with applications was well organised, documented and consistently executed.

Other than the site visits conducted, there was no internal audit function, nor was it required under the Deed. Given the duration and the extent of the program, as well as the size of the agency administering it, this is not unreasonable. We consider that this was a practical approach in the circumstances.

Conclusion

QHRB has complied with the Deed in this respect.

Issues

No issues were identified.
4.8 Retained Fees

Audit Approach
Audit ascertained whether QHRB retained any fees for its services in administering the program.

Findings
No fees were retained by the administering agency and nor was it entitled to. The administering agency bore the cost of the program.

Conclusion
QHRB complied with the Deed in this respect.

Issues
No issue were noted.