**Response to KPMG’s Independent Assurance Review of Queensland Healthy HeadWaters Water Use Efficiency Project (2018)**

The Australian Government Department of Agriculture and Water Resources (the department), in collaboration with the Queensland Government Department of Natural Resources and Mines (DNRME), commissioned an independent assurance review by KPMG of the Queensland State Priority Project – Healthy HeadWaters Water Use Efficiency Program (Healthy HeadWaters), to satisfy the requirements set out in the Water Management Partnership Agreement. The objective of the review was to examine the governance, risk and control processes of the Healthy HeadWaters program to ensure the effective use of Commonwealth funds.

KPMG selected a random sample of 20 projects (25 per cent of all projects) from the Healthy HeadWaters program for a desktop review. Within this sample, nine projects were selected for on-farm verification. The sample covered projects ranging in total cost from $100,000 to over $5 million, across various rounds, different types of infrastructure works and across a variety of catchment areas.

Overall, KPMG’s assessment of the Healthy HeadWaters program found:

* while it is not possible to remove all risk, DNRME has established appropriate control structures to effectively manage the use of Commonwealth funds in the administration of the Healthy HeadWaters program;
* the projects reviewed through desktop and site visits corresponded with the scope and progress reported and maintained by the DNRME; and
* no instances of non-compliance with key provisions of the Water Management Partnership Agreement.

The department supports KPMG’s assessment of the Healthy HeadWaters program. The key observations, areas for improvement and lessons learnt will inform future water recovery programs designed by the department. The department accepts the KPMG review ‘findings and observations’ shown below and provides responses to the ‘areas for improvement and lessons learnt’ reported by KPMG.

The full KPMG report is available on the Department’s website at <http://www.agriculture.gov.au/water/mdb/programs/qld/healthy-headwaters>

## KPMG review findings and observations

#### Note: the numbering shown here corresponds to the numbering in the KPMG report

### 3.1 Governance and Reporting

Key governance arrangements have been established and were operating for the life of the Healthy HeadWaters program. The level of planning, oversight and reporting appeared commensurate to the size of the Healthy HeadWaters program and was seen as fit for purpose by both DNRME and the department.

### 3.2 Application assessment

DNRME has robust and established processes for the assessment and evaluation of Healthy HeadWaters applications. There appears to be appropriate controls to support transparent and accountable decision making. Assessment processes have evolved over time to capture lessons learnt to inform process improvements.

### 3.3 Risk and issue management

DNRME has a defined and documented approach to identifying, assessing and communicating risks and issues. Key risks and issues are regularly reviewed and reported to stakeholders.

### 3.4 Financial management

DNRME appears to have implemented appropriate financial management systems, processes and controls at both an individual proponent level and overall at the Healthy HeadWaters program level. These processes and controls are designed to support the appropriate use of Commonwealth funds and appear to be fit for purpose. No significant discrepancies or control deficiencies were identified.

### 3.5 Stakeholder engagement

DNRME has planned and implemented various mechanisms for engaging and communicating with stakeholders both internally as well as with the broader Queensland community.

### 3.6 Water Transfer

DNRME processes have been designed to support and coordinate the water transfer process between the proponent and the Commonwealth. DNRME undertakes a review of water eligibility and transferability prior to DAWR approval and contractual transfer. DNRME also assist and update proponents during the water transfer process.

### 3.7 Project Management

DNRME appear to have established appropriate processes to manage and monitor proponent projects in accordance with the requirements as set out in proponent works agreements and the Water Management Partnership Agreement.

### 3.8 On-ground verification

From visual inspection, installed works appeared to correspond with the documentation provided, specifically, scope and progress of works reported in the approved application, milestone inspection reports and/or final commissioning report.

## Department’s responses to the KPMG review areas for improvement and lessons learnt

### 4.1 Risk and issue log

KPMG comment: ‘Issues can be considered risk events that have occurred, as such are not assessed and prioritised in the same manner. Whilst still deemed appropriate to capture risk and issue information in the same document, it is beneficial to distinguish between the two events to inform better communication and prioritisation. DNRME should ensure risk and issues can be clearly defined and differentiated to allow them be appropriately managed and addressed.’

Response: The department notes that DNRME’s processes are capable of distinguishing between the two types of events and treating them differently, as appropriate, even though records are kept in the one system.

### 4.2 Asset registers

KPMG comment: ‘DNRME should ensure that when designing and/or implementing controls, such as the requirement to submit asset registers, they are commensurate to the associated risk and effort involved in undertaking these activities, and where deemed unnecessary remove them as appropriate. DNRME should review whether there is a requirement for asset registers to be included in proponent works agreements.’

Response: The department supports DNRME in continuing to require asset registers. This is a requirement under Part 7 of the Water Management Partnership Agreement between the Commonwealth and Queensland in order to preserve proper accountability and transparency in project management.

### 4.3 Progress reporting

KPMG comment: ‘For future rounds of projects DNRME should consider when formal proponent project progress of reporting is required. DNRME should define the circumstances where formal reporting maybe not required and communicate this to stakeholders involved.’

Response: The department notes this improvement observation and also notes that DNRME requires reporting at different stages of each project, as set out in the Project Schedule and Individual Works Agreements. Any administrative procedure that may be implemented to clarify when progress reports are required should still ensure that proponents are able to fully account for the progress of their projects.

### 4.4 Conflict of interest management

KPMG comment: ‘DNRME should ensure there are appropriate processes in place to manage identified or declared conflicts of interest, including the documentation of any associated decisions and follow up. Where this evidence is not available, DNRME may have difficulty justifying or supporting decisions regarding perceive or actual conflicts.’

Response: The department supports this improvement observation.

### 4.5 Compliance plans

KPMG comment: ‘When designing and/or implementing controls, such as compliance plans, DNRME should ensure: the purpose of compliance plans is clearly articulated to avoid misinterpretation of the requirements, the circumstances under which a compliance plan may be required is documented, and it is applied consistently across proponents.’

Response: The department supports this improvement observation.

### 4.6 Insurance certificates of currency

KPMG comment: ‘Noting that the onus to maintain the appropriate insurances remains with the proponent, for future rounds or projects DNRME should consider whether it is necessary to include the contractual obligation for COCs [certificate of currency] renewals to be provided to DNRME. If deemed necessary, DNRME should ensure supporting review processes are in place and operating as intended.’

Response: The department supports this improvement observation.

## More Information

For more information about this review, including if you need help accessing the full KPMG report, email the department at: purchaseandnortherninfrastructure2@agriculture.gov.au