# Department of Agriculture and Water Resources – Response to KPMG’s Independent Assurance Review Report (January 2019) of New South Wales Irrigated Farm Modernisation Project

The Australian Government Department of Agriculture and Water Resources (the department), in collaboration with the New South Wales Government Department of Industry (DPI), commissioned an independent assurance review by KPMG of the New South Wales Irrigated Farm Modernisation (IFM) State Priority Project. The review is a requirement set out under the Water Management Partnership Agreement (WMPA). The objective of the review was to examine the governance, risk and control processes of the IFM project to ensure the effective use of Commonwealth funds.

KPMG selected a random sample of 28 projects (25 per cent of all projects) from the NSW IFM project for a desktop review. Within this sample, 12 projects were selected for on-farm verification. The sample covered projects ranging in total cost from $140,000 to over $5 million, across 9 rounds, different types of infrastructure works and a variety of catchment areas.

Overall, KPMG’s assessment of the NSW IFM project found that DPI has developed and implemented appropriate controls, processes and structures to assist in the effective administration of the IFM project. This included:

* Establishment of relevant governance and reporting mechanisms
* Appropriate document management processes and evidentiary requirements
* Defined and documented management processes and procedures
* Program evaluation and monitoring functions built-in to the project
* Processes and controls to support the appropriate use of Commonwealth funds
* Ongoing management and monitoring of proponent activity; and
* Regular and ongoing stakeholder engagement.

The department supports KPMG’s assessment of the NSW IFM project.

# Review Key Observations

## 1 Governance and Reporting

DPI have established relevant governance roles and structures to provide oversight and control over the project. These appear to have been operating through the life of the IFM project supported by regular reporting. DPI has also placed a particular focus on continuous improvement and evaluation.

## 2 Assessment of applications

DPI has a well-defined and robust application assessment process. Multiple controls and processes exist and are designed to support transparent and accountable decision making.

## 3 Risk and issue management

Whilst DPI appear to have regular and active discussion on IFM risks and issues, risk and issue management processes have not been formalised.

## 4 Financial management

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

## 5 Stakeholder engagement

Various mechanisms for engaging and communicating with industry and community stakeholders have been implemented. DPI have demonstrated commitment to engaging with stakeholders through regular and ongoing engagement activities.

## 6 Water Transfer

DPI have established appropriate processes and procedures to facilitate the transfer of water savings to the Commonwealth in accordance with the WMPA.

## 7 Project Management

DPI appear to have established appropriate processes to manage and monitor proponent projects in accordance with the requirements as set out in proponent funding deed and WMPA. The emphasis DPI placed on record keeping and audit trail was evident through testing and ensured an accurate representation of project activities and decisions.

## 8 On-ground verification

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

# Department’s responses to the Areas for improvement and lessons learnt

## 1 Improvement Observation 4.1 Risk and issue management

*‘KPMG found that while DPI have established the mechanisms to report and raise risks and issues, DPI have not developed a formal risk management plan, risk register and issues register in accordance with the IFM implementation plan. Noting the size and complexity of the IFM program, formal risk and issue management artefacts should have been developed and maintained.’*

*‘DPI were able to demonstrate active risk management practices through the establishment and ongoing review of various project controls and processes. The establishment of formal risk and issues processes and artefacts provides a systematic and transparent basis to evidence these practices. For future projects DPI should ensure risk and issue management processes and procedures are formalised and actively undertaken.’*

The department supports this improvement observation.

## 2 Improvement Observation 4.2 Proponent payment processing

*‘…KPMG identified eight instances where proponents received milestone one payments prior to WAL settlement. All instances related to funding rounds 1 and 2 completed in 2013 and 2014, no further instances were identified in subsequent rounds. Discussion indicated that payment was expedited by DPI to ensure construction could commence in a timely manner. While this did not align with agreed processes, we were advised that this decision was made to mitigate the risk of delays in the delivery of the project. No material impact on program or financial administration could be identified…’*

*‘This process did not appear to continue in subsequent funding rounds. Additionally, current procedure documentation explicitly states that the relevant dealings must be registered in order to trigger the first milestone payment. For any future project payments, should the need arise to amend the payment protocols outlined in the WMPA, DPI must obtain prior approval from the Commonwealth.’*

The department supports this improvement observation and NSW’s ongoing refinements over the life of the project.

## 3 Improvement Observation 4.3 Progress reporting

‘*For future projects DPI should consider when formal proponent project progress reporting is required. DPI should define the circumstances where formal reporting may not be required and communicate this to stakeholders involved.’*

The department notes this improvement observation. It also notes that DPI requires reporting at different stages of each project as set out in the IFM Project Schedule to the WMPA.

## 4 Improvement Observation 4.4 Insurance certificates of currency

*‘During sample testing KPMG identified that while evidence of insurance was sighted by DPI during project implementation meetings, ongoing review of COC’s was not regularly conducted / documented in accordance with documented DPI procedures.’*

*‘Noting that the onus to maintain the appropriate insurances remains with the proponent as well as the substantive risk of project failure, for projects DPI should consider whether it is necessary to include the contractual obligation for COCs renewals to be provided to DPI. If deemed necessary, DPI should ensure supporting review processes are in place and operating as intended.*

The department supports this improvement observation.