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Networking the Nation  
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Our ref DCITA-03 NTNCQU 0709-CIR

9 July 2003

Dear James

**Networking the Nation (NTN) Grant: Nulloo Yumbah, Central Queensland University**

During April 2003, KPMG performed a review of the administration of the NTN Grant provided to Nulloo Yumbah ("NY"), Central Queensland University ("CQU") in relation to the Capricornia Connect Indigenous Access project for the period between May 1999 and April 2003.

***Scope***

We have performed the review in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the control environment in which the grant is managed is not adequate to ensure that the grant funding has been expended for the purposes, and in accordance with, the grant deed.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures.

To substantiate proper processing, key reconciliations were examined and a limited sample of transactions were tested. The procedures were undertaken to assess:

- financial compliance with the Grant Deed;
- quality of documentation;



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- internal control/financial management in the managing organisation
- the continuing (financial) viability of the managing organisation.

The procedures undertaken do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. However, as the grant was in excess of \$100,000 the CQU has obtained a separate independent audit of their final acquittal of grant funds

In addition to the audit procedures, we have provided advice to the grant recipient in relation to a number of administrative matters which, while not being seen to impact on our review, represent improvements to the current practices undertaken.

#### ***Statement***

Our review, which is not an audit, identified a number of non-compliances with the grant deed and weaknesses in the control environment. Whilst not necessarily indicative of mismanagement, the inability of the Grantee to retrieve supporting documentation and the nature of exceptions found during our substantiation testing raise questions about the adequacy of control over the incurring of liabilities before May 2002. There is insufficient evidence to enable any opinion to be formed on expenditure prior to May 2002.

Since May 2002 with the shift to central invoice processing and filing, the overall control environment appears more rigorous, and that nothing has come to our attention that would indicate that the grant funding has been expended other than for the purposes of, and in accordance with, the grant deed.

#### ***Findings***

As a result of the review of the NTN grant deed and investigation of the control environment at CQU, the following matters were noted, which we believe are relevant to both CQU in particular and the management of NTN grant in general.

- No separate bank account has been created by CQU for the NTN project;
- Interest on the Grant has never been accounted for;
- The cost centre for some of the computer equipment purchased using the Grant has been incorrectly set up in the Asset Management module within PeopleSoft accounting system, leading to depreciation expenses not being charged to the relevant assets; and



- With poor filing and archival system within the NY faculty, more than 90% of the selected project expenses incurred before May 2002 could not be substantiated as limited supporting documentation was found.

The above findings have been discussed with the Project Manager during our review. In general, Management agreed with our findings, and that prompt corrective action will be taken. We have included the detailed findings in the attachment.

Yours faithfully

Michael Parkinson  
*Director*

## Attachment – Detailed Findings

Findings	Implications
<p>1) No separate bank account has been created by CQU for the NTN project. Instead, the operational bank account of CQU has been used for the administration of the Grant Funds (e.g. receiving Funds from DCITA). A parallel arrangement has been set up in CQU's accounting system, PeopleSoft. We noted that there is only one 'Cash at Bank' account established for the whole organisation in PeopleSoft.</p> <p>In addition, we noted that interest on the Grant has never been accounted for. We discussed this issue with Management in Finance at CQU. As a result, Management agreed to retrospectively calculate the interest, which should have accrued to the Grant since the inception of the project.</p>	<p>Non –compliance with the Grant Deed's requirement under Clause 5.2 that Grantee to pay all Grant funds received into the Grantee's bank account, which is separate from Grantee's operational bank account.</p> <p>Non-compliance with the Grant Deed's requirement under Clause 5.5 that funds earned by the Grantee from interest on the Grant must be used and dealt with by the Grantee as if those funds earned were part of the Grant.</p>
<p>2) We found that the cost centre for some of the computer equipment purchased using the Grant has been incorrectly set up in the Asset Management module within PeopleSoft. As a result, no depreciation expenses have been charged against these assets. Being a centrally managed asset register, the Asset Management module records all assets of CQU.</p> <p>We discussed this finding with Management in Finance at CQU. Upon discussions, Management agreed to review all project assets to ensure that the cost centre information is recorded correctly in the Asset Management module.</p>	<p>Without depreciation charges, the replacement value (i.e. purchase costs net depreciation) of an asset is overstated, hence overstating the assets value in the project's financial statement.</p> <p>On the other hand, this understates the expenses in the project's profit &amp; loss statement.</p>

Findings	Implications
<p>3) KPMG could not complete the substantiation testing of project expenses. We noted that the majority of project expenditures were incurred in the years of 2000 and 2001 on the areas of project management, travelling, computer equipment, software and motor vehicle. Expenditures in these 2 years represent approximately 65% of the total Grant received from DCITA to date.</p> <p>However, we could only complete testing of expenses occurred after May 2002. Due to the poor filing and archival system within the NY faculty, project expenses incurred before May 2002 could not be substantiated as only limited supporting documentation could be found. This represented 90% of our sample.</p> <p>We noted that before May 2002, processing and filing of invoices was conducted within the faculty, since such time, this has been primarily done by Finance at CQU. Our testing results indicate that the deficient filing system does not extend to the Finance department.</p> <p>During our testing of project expenses, we noted the following exceptions:</p> <ul style="list-style-type: none"> <li>■ No evidence of scrutinising credit card statements for personal expenses prior to May 2002. Two business credit cards were given to the project manager for paying project related expenditures. During our review, we could only find supporting evidence that credit card statements were examined for personal expenses for the period between March 2002 and May 2002.</li> <li>■ No authorisation of credit card expenses totalling \$337.16 in December 2001 before payment was made. These expenditures were originally paid using the project manager's business credit card.</li> </ul>	<p>Non –compliance with the Grant Deed's requirement under Clause 5.3 of retaining all records for at least 36 months from the time of making, despite any expiration of the Grant Period or termination of the Deed during that time.</p> <p>Non-compliance with the Grant Deed's requirement under Clause 5.3 of ensuring that all payments out of grant moneys are correctly made and properly authorised and adequate control is maintained over the incurring of liabilities.</p>