

Fact Sheet

Audit Process and the Disaster Funding Arrangements

December 2025

This fact sheet is for local councils and state agency asset owners, non-government organisations. It explains compliance roles and requirements, independent audit and assurance processes, and high-level audit process for programs funded under the Disaster Recovery Funding Arrangements.

What is NSW Reconstruction Authority's role in DRFA compliance?

The NSW Reconstruction Authority (RA) is the state agency responsible for coordinating disaster recovery funding in NSW under the Disaster Recovery Funding Arrangements (DRFA).

As the DRFA is a cost share arrangement between the Australian Government and state and territory governments, its funding is governed by specific arrangements to ensure that the agreed allocated funds are used appropriately and contribute to supporting affected communities in their recovery following a natural disaster.

The National Emergency Management Agency (NEMA) requests regular compliance reporting to inform policy decisions, Commonwealth financial reporting, requested changes to programs and future program development.

RA works with administering agencies, local councils, asset owners and non-government organisations (NGOs) to meet DRFA compliance requirements.

Reporting and compliance activities include:

- assurance expenditure checks
- year to date expenditure reporting
- DRFA program fraud reporting
- DRFA quarterly estimates reporting
- state independent audit of DRFA claim
- Australian Government assurance of annual DRFA state claim
- Category B Essential Public Assets Restoration Works only - efficiencies reporting

RA also has an obligation to report to NSW Treasury on behalf of the state on disaster recovery funding.

What is the role of administering agencies, local councils, asset owners and NGOs in DRFA compliance?

To be reimbursed for DRFA eligible recovery measures, administering agencies must participate in DRFA compliance activities conducted on three levels by RA, an independent state appointed auditor, and the Australian Government.

Administering agencies, local councils, asset owners and NGOs are required to provide information for reports and, audit and assurance activities and must keep accurate program records and financial evidence for any expenditure that is funded under the DRFA or NSW separately.

Where compliance with the DRFA (including DRFA program guidelines) and/or financial evidence requirements are not met during the assurance and audit process, expenditure will be deemed ineligible or insufficient and not reimbursed under the DRFA.

Administering agencies are required to enter a formal funding arrangement with RA, which will outline agency obligations.

What audit and assurance activities are required for the DRFA?

The Australian Government reimburses NSW for eligible DRFA expenditure only after the following audit and assurance activities:

- RA claim assurance activities
- State independent audit
- Australian Government assurance.

Both state and Australian Government audits and assurance occur annually, but timing may vary. The state audit usually begins in October of the financial year after the funds were spent. NSW must submit its audited DRFA claim to the Australian Government by 31 March of the following financial year. For example, for 2024-25 DRFA claims, the deadline for submission to the Australian government is 31 March 2026.

RA Claim Assurance Activities

The Funding Arrangements team will conduct an initial assurance review for all expenditure claims submitted for payment. Claim values may be adjusted for any ineligible items identified during this process.

These checks may include (but are not limited to) expenditure within relevant Allowable Time Limit (ATL) periods, capital purchases, state imposed payroll tax, overhead rates, oncost rates used for salary and wages, and unsubstantiated accruals.

Administering agencies will be asked to provide substantiating evidence for any items where the eligibility is in question.

Any adjustments to claims will be communicated with administering agencies prior to payment being made.

Independent State Audit

The DRFA states that expenditure claims submitted to the Australian Government must first be audited by an independent state appointed auditor to gain certification of the accuracy of the claim.

The state auditor reviews the claim and selects a sample of transaction based on a set of criteria for further examination. Administering agencies must provide complete evidence for all selected samples to RA within the required timeframe. Delays in providing this evidence will delay the entire state claim to the Australian Government.

In addition, where NSW claims essential public asset reconstruction (EPAR) works expenditure for Local Government and State Government owned assets, the state needs to provide DRFA

Management System of controls for audit to determine if the controls have been operated effectively when developing the estimate. This audit is referred to as the ASAE 3150 controls audit.

The state auditor provides their audit opinion of the state's compliance with the DRFA, including the DRFA Management System to RA. This is submitted to NEMA and assurance activities are conducted by the Australian Government's external assurance provider.

The outcome of the Australian Government's assurance activities will determine the reimbursement amount NSW will receive under the DRFA.

Australian Government Assurance

Before reimbursing NSW under the DRFA, the Australian Government conducts its own assurance process. This is managed by an external assurance provider who reviews the state's claim and selects a sample of transactions for detailed examination (this sample may differ from the state audit sample). Administering agencies are required to provide comprehensive evidence for all selected samples to RA within the specified timeframe. Delays in providing the evidence will delay acquittal and payment of the claim by the Australian Government.

The external assurance provider also reviews the DRFA Management System for the EPAR works expenditure and selects specific samples to test the system, in addition to reviewing actual expenditure within the claim.

This Australian Government assurance process ensures NEMA can effectively monitor state relief and recovery processes and provide the necessary assurance before releasing payments for audited claims.

Audit process map

Figure 1 shows a high-level overview of the NSW DRFA audit process. It outlines the main tasks carried out by administering agencies and RA during the audit cycle.

The diagram only shows the key phases of one audit cycle for a single financial year. This process is repeated for each claim submitted to the Australian Government.

Audit samples typically cover 5% to 10% of the total claim amount, depending on the size of transaction listing and claim value.

For any DRFA audit enquiries, email disasterexpenditure@reconstruction.nsw.gov.au.

NSW DRFA Audit Process Map

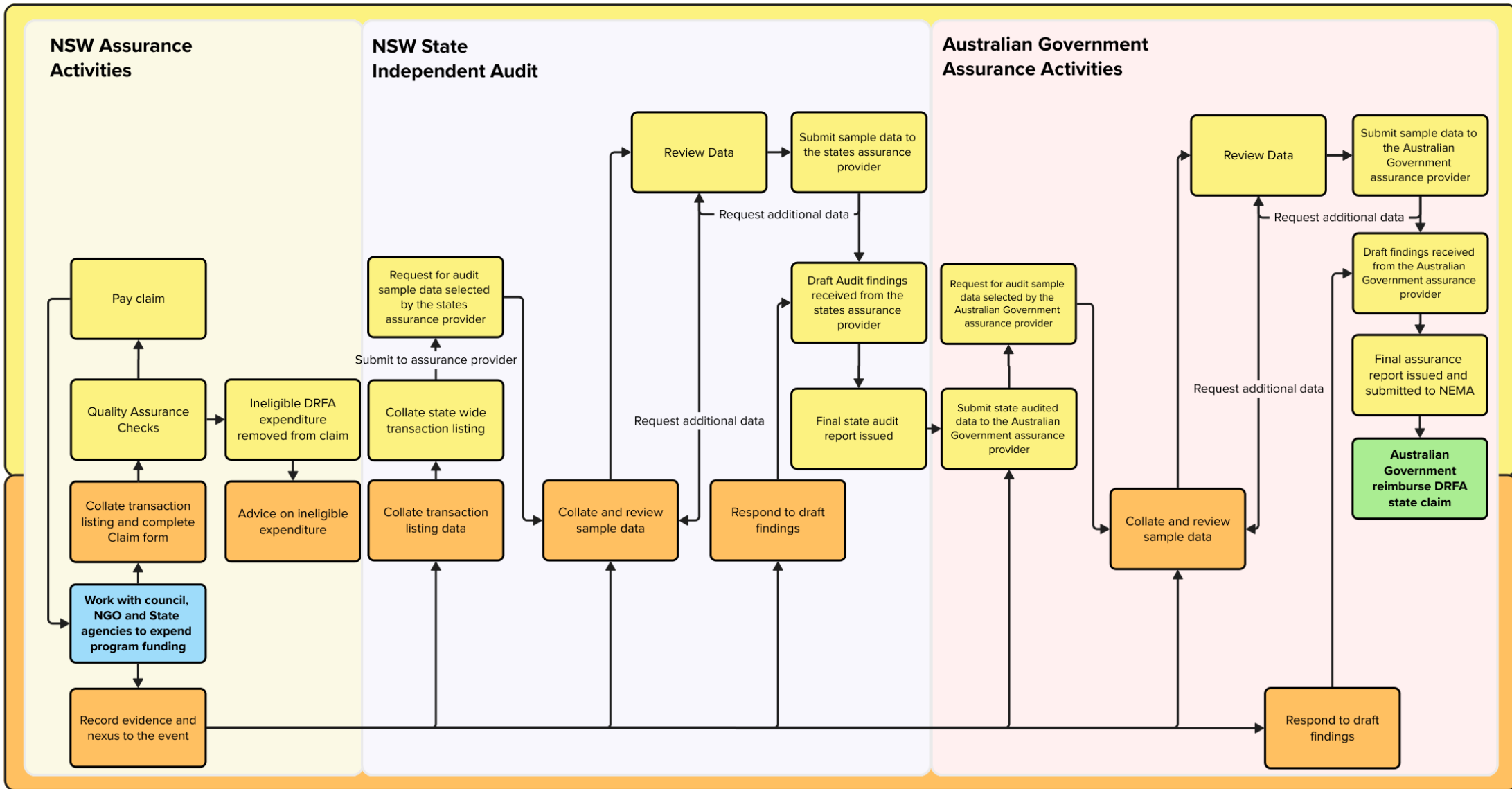
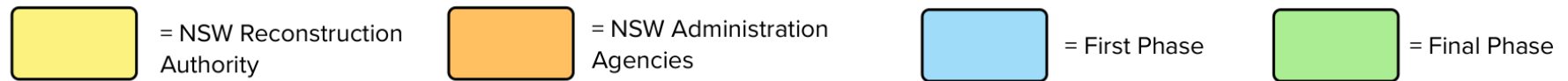


Figure 1. DRFA audit process showing key phases and activities. Councils and NGOs may be required to participate in some NSW administering agency steps