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1. **OVERVIEW OF THE AUDIT OF SIP GRANTS**

1.1 **Legislation**

The Government’s Textile, Clothing and Footwear (TCF) Post 2000 Assistance package was designed to increase the international competitiveness of Australia’s TCF industries through providing investment certainty within the TCF industries, encouraging the retention and development of jobs and providing a framework for the modernisation of these industries.

The major component of the TCF Post 2000 Assistance Package is the TCF Strategic Investment Program (SIP). This is a five year entitlement scheme designed to promote an increase in investment by the TCF Industry in new capital plant and equipment and research and development, including innovative product development. SIP is administered under the provisions of the TCF (SIP) Scheme (The Scheme).

The Scheme provides for five different types of grants:

1. Type 1 Grant – in respect to new TCF plant, equipment and building expenditure;
2. Type 2 Grant – in respect to research and development expenditure;
3. Type 3 Grant – in respect to valued-added;
4. Type 4 Grant – in respect of second hand plant and equipment acquired as part of a reconfiguration between two or more TCF firms in TCF dependent communities; and
5. Type 5 Grant – special miscellaneous grants in respect of TCF dependent communities.

Type 1, 2 and 3 grants are general grants administered by ISR, while type 4 and 5 grants are special grants requiring ministerial approval.

Under the Scheme, subject to available funding, grants are available to all entities who lodge a satisfactory claim with AusIndustry for a grant in respect of eligible expenditure.

Eligible expenditure is defined in the following sections of the Scheme:

1. Type 1 Grant – Section 15
2. Type 2 Grant – Section 23
3. Type 3 Grant – Section 28
4. Type 4 Grant – Section 30
5. Type 5 Grant – Section 30

1.2 **Claims for SIP Grants**

Information regarding the claims process can be obtained from AusIndustry at the web address http://www.ausindustry.gov.au/ or by contacting the AusIndustry Hotline 13 28 46.
1.3 Audit of Eligible Expenditure

To make a claim for Type 1, 2 & 3 grants section 53 requires the applicant entity to lodge certain documents and information with the claim including:

1. For Type 1 & 2 grants - an auditor’s report verifying eligible expenditure; and
2. For Type 3 grants – an auditor’s report verifying the information required to calculate the total value adding undertaken by the entity.

To make a claim for Type 4 & 5 grants Section 57 requires the applicant entity to lodge certain documents and information with the claim including an auditor’s report verifying eligible expenditure.

1.4 Technical Audit of Eligibility of Expenditure

These audit requirements raise uncertainty for auditors in particular understanding the nature of expenditure that meet the definition of eligible expenditure and the extent of audit verification necessary.

To assist in the compliance and monitoring of the Scheme, a technical audit model is to be developed. The model, which will complement the financial audit requirements in the Scheme, focuses on the capital based expenditure outlined in the Scheme and will assist registrants in resolving whether expenditure is eligible in relation to items such as:

- the upgrade of existing TCF plant and equipment to meet Government environmental requirements; or
- whether second-hand TCF plant and equipment satisfies the definition of "state-of-the-art" under the Scheme.

In order to assist in resolving the difficulties surrounding the more fluid requirements of research and development expenditure, AusIndustry, the Department’s delivery agency, is committed to the development and implementation of a procedure to obtain expert advice to address matters within the Scheme, such as:

- the definition of innovation; or
- the determination of eligible activities that are not explicitly mentioned.

Further information on the development of the Technical Audit model and the procedure for obtaining expert advice, will be made available through AusIndustry.

1.5 Audit of Total Eligible Revenue

Lodging a claim in itself does not lead to payment of grant funds to an entity. At any time after a claim has been made the entity may then request a determination as to whether they are entitled to a grant.

To seek such a determination for Type 1, 2 & 3 grants, section 76 requires the applicant entity to lodge certain documents and information with the claim including an auditor’s report verifying the total eligible revenue.
To seek such a determination for Type 4 & 5 grants, section 82 requires the applicant entity to lodge certain documents and information with the claim including an auditor’s report verifying the total eligible revenue.

Total eligible revenue, for a period, is defined in section 9 of the Scheme as the total revenue derived by an entity from sales, except sales to New Zealand, of the entity’s eligible TCF products, excluding:

- any GST, excise or sales tax; and
- any subsidy given during the period by the Commonwealth, or a State or Territory.

Eligible TCF products are defined as products resulting from eligible TCF activity as defined in section 5 of the Scheme.

2. **AUDIT APPROACH**

2.1 **Scope**

The scope of the audit of a SIP grant is designed to enable the auditor to form an opinion as to whether the claim and subsequent request for determination is presented fairly in accordance with the requirements of the Scheme. However, the audit will not evaluate the level of compliance with the Scheme, nor will it seek to clarify interpretation of the terms defined under the Scheme.

In forming an opinion on the claim and request for determination, an auditor needs to perform the audit in accordance with Australian Auditing Standards (refer Members Handbook). Under paragraph .04 of AUS 202 Objective and General Principles Governing an Audit of a Financial Report, an auditor is also required to adhere to the ethical requirements of CPA Australia and The Institute of Chartered Accountants in Australia. The ethical principles governing the auditor’s professional responsibilities include:

- Independence, integrity and objectivity;
- Professional competence and due care;
- Confidentiality;
- Professional behaviour; and
- Technical standards.

2.2 **Audit Objective**

The objective of the audit of a claim and request for determination under the Scheme is designed to enable the auditor to form an opinion as to whether the claim and request for determination is presented fairly in accordance with the requirements of the Scheme.

In order to achieve this objective, sufficient appropriate audit evidence needs to be obtained. This can be achieved by performing appropriate compliance and substantive procedures.

*Compliance procedures*
The auditor is required to develop an understanding of the Entity’s accounting systems and internal controls in order to determine the overall internal control risk. It has been noted in discussions that the level of internal controls at a number of SIP claimants is likely to be weak. Accordingly, in a number of cases the auditor may well decide to preclude any planned reliance on internal controls. For example, the business may be small privately owned entities, and/or internal control may be weak due to a lack of segregation of duties. In those circumstances where there may be an overall lack of segregation of recording, authorisation and custody functions, reliance on internal controls may not be possible.

**Substantive procedures**

Substantive tests of transactions comprising the claim should be performed so as to enable the auditors to assess whether the transactions are bona fide and have been properly treated and claimed. Sample selections will depend on factors such as the assessment of overall audit risk as discussed in the ‘planning the audit’ below.

**2.3 Engagement Risk**

**Engagement Acceptance**

Before acceptance of the engagement the auditor should assess the level of engagement risk associated with the prospective audit engagement. AUS 204 *Terms of Engagement* details the procedures that the auditor should undertake prior to acceptance.

Provision of professional services always presents some degree of risk and exposure to the auditor. Auditors should have risk management procedures designed to provide a systematic process for identifying and appropriately responding to risk.

The audit of a SIP claim and request for determination is likely to primarily be a substantive audit process only. Compliance with the Scheme will be determined by a series of separate audits undertaken by the Commonwealth under its powers of full and free access. In addition, the Commonwealth has the discretion to undertake technical audits; therefore it is not expected that the auditor will conduct detailed technical interpretations of the legislation.

Given the nature of such an audit, due consideration should be taken by an auditor in accepting an engagement of this nature. The following is not an exhaustive list of the risks associated with engagement acceptance, but rather items, which the auditor should be aware of.

**First Time Audits**

SIP grants are available to all entities who satisfy the criteria detailed in the Scheme. Several of these entities may not be required to undergo a financial statement audit under the Corporations Law. This may raise the following risks:

- Client is unaware of the scope of the audit or the audit procedures required.
- Auditor has little additional information or prior audit knowledge available to adequately assess engagement risk.
- Accounting systems and internal controls may not be conducive to a reliable recording keeping and financial reporting.
**Limitation of Scope**

The client may be reluctant to provide the auditor with all the information necessary to audit the claim documents. This may occur, for example, where the auditor does not provide other services to the entity or does not audit the entity’s financial statements. Where such a situation arises the following options may be available to the auditor:

- Decline to accept the engagement; or
- Accept the engagement but qualify the audit report via a ‘Limitation of Scope’.

The client should be made aware that under the Scheme the Commonwealth has the right to demand full and free access to accounting records and other documentation. In the event that a the auditor qualifies based on a limitation of scope, the Commonwealth has indicated that the claim will be subject to a specific review by the Commonwealth who has the power to call for a full compliance audit.

**Limitations on Expertise**

The Scheme is complex and the auditor may require technical clarification of certain terms or definitions. The interpretation of these matters is not the responsibility of the auditor. The assistance of experts may be obtained to clarify these interpretations, however this should be agreed with the client and any reliance documented in the engagement letter and audit report.

### 2.4 Planning the Audit

**Engagement Letter**

It is in the best interests of both the entity and the auditor that the terms of the engagement be agreed in writing before the commencement of the audit. An engagement letter helps to avoid any misunderstanding about responsibilities and the terms of the engagement. The engagement letter also documents and confirms the auditor’s acceptance of the appointment, the objectives and scope of the audit, the extent of responsibility and the form of reports to be issued.

AUS 204 *Terms of Audit Engagement* provides a general guide to the items that should be included in an engagement letter. Section 3.1 contains a sample audit engagement letter that should be suitable for SIP claim and request for determination audit engagement.

**Planning Memorandum**

Planning the audit is the process of identifying what should be performed on the audit, by whom and when. Generally planning is viewed as those steps up to the design of the audit program but before the performance of detailed testing. In order that the audit is effective and efficient, it is essential that the engagement is planned and documented. This should be performed in accordance with AUS 302 *Planning*.

Planning should be continuous throughout the engagement. Changes in conditions or unexpected results of audit procedures may cause revisions of the overall plan of the audit program.

The plan should also be based on the auditor’s knowledge of the client (refer AUS 304 *Knowledge of the Business*). The plan is used to develop a written program, which demonstrates
the implementation of the plan. The nature, timing and extent of audit procedures will vary depending upon the factors such as:

- Prior audit knowledge;
- Nature and complexity of claims;
- Nature and availability of supporting documentation;
- Size and complexity of business;
- Competency of staff; and
- Overall assessment of engagement risk.

These factors should be taken into account in assessing overall audit risk.

2.5 Audit Risk

Audit risk is defined in AUS 306 Materiality as being the risk that auditors may express inappropriate opinions on financial information that is materially misstated. The three components of audit risk as defined in AUS 514 Audit Sampling and Other Selective Testing Procedures are:

- Inherent risk (risk that material errors will occur);
- Control risk (risk that the client’s system of internal control will not prevent or correct such errors); and
- Detection risk (risk that any remaining material errors will not be detected by the auditor).

The nature, timing and extent of planned procedures for any claims audit will be determined by the auditor’s perception of the degree of risk assessed for the engagement.

In the case of the audit of SIP claims and request for determination, it is important to remember that inherent and control risk can be significant, especially if the auditor is not engaged to audit the financial statements of the entity. In addition, risk of error may be greater as the compilation of the claim may be prepared by entity staff unfamiliar with the legislation and/or based on financial information that does not emanate from a reliable accounting system. The nature of risks may be such that the use of a substantive approach to the audit is necessary. That is, no reliance may be placed on internal controls.

2.6 Sampling

When there are a small number of transactions comprising the claim then it may be appropriate and efficient to perform substantive testing at 100%. However, when there are a large number of transactions comprising the claim then the use of selecting and testing samples to obtain sufficient appropriate audit evidence would be the most efficient and effective basis of substantive testing.
It should be noted that the Commonwealth has confirmed to CPA Australia that audit sampling is appropriate even although the Scheme requires the auditor to verify the eligible expenditure and total eligible revenue.

AUS 514 outlines the matters to be considered in selecting sample methods and sizes. These matters include the extent of planned reliance on internal controls. Given the nature of the claims and the opinion required the claims and request for determination should be tested for overstatement.

2.7 Materiality

Materiality should be considered at the planning stage and then throughout the engagement in accordance with AUS 306 Materiality. The factors to be considered in determining the appropriate level of materiality may include those items previously outlined at ‘Planning Memorandum’ above.

2.8 Documentation

Given the nature of a claims and request for determination audit there could be problems and delays in locating supporting documentation. Accordingly, auditors are advised to provide the client with a list of the information required prior to the commencement of the audit. This requirement can be incorporated into the engagement letter and can also stipulate the timing of each requirement.

Section 5 contains examples of the supporting documentation that typically would be sought by the auditor and should be made available for inspection by an auditor.

2.9 Communication with Third Parties

To obtain sufficient appropriate evidence to verify certain data it may be necessary for the auditor to communicate with a number of external third parties. For example, the auditor may which to confirm hire purchase arrangements with the financier or cost of construction with the contractor. AUS 504 External Confirmations provides guidance on the auditor’s use of external confirmations as a means of providing audit evidence.

2.10 Analytical Procedures

Analytical procedures should be used during all stages of the audit, in accordance with AUS 512 Analytical Procedures. Auditors should carefully consider the amount of reliance that can be obtained from analytical procedures as a substantive procedure. Given the nature of a claims audit the auditors should make an assessment of the risk that analytical procedures may not detect a material misstatement when in fact a material misstatement exists.

2.11 Representation from Client

The auditor should obtain a representation letter from the client as part of the audit evidence in accordance with AUS 520 Management Representations. In the case of a SIP audit the main purpose is to obtain from management an acknowledgment of their responsibility for the preparation and correctness of the claim. Auditors are reminded that in respect to verification of SIP data management representations would not, by itself, constitute sufficient appropriate evidence of the validity of a claim.
3. LETTERS AND AUDIT REPORTS

3.1 Audit Engagement Letter

Ref: [reference]

Date

[enter the governing body or appropriate representative of senior management]
[name of entity]
[address]

Dear [salutation]

Engagement to perform an Audit of SIP Claims and Requests for Determination

Scope

You have requested that we audit the claim application and request for determination of [name of entity] as at [date]. This application relates to claims and requests for determination made under the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of expressing an opinion on the claim made.

We will conduct our audit in accordance with Australian Auditing Standards to provide reasonable assurance whether the claim is free of material misstatement. Our procedures will include examination, on a test basis, of evidence supporting the amounts, the evaluation of accounting policies, and significant accounting estimates used.

These procedures will be undertaken to form an opinion whether, in all material respects, the claim and request for determination is presented fairly in accordance with requirements under the Textile, Clothing and Footwear (Strategic Investment Program) Scheme.

The work undertaken by us to form an opinion is permeated by judgment, in particular regarding the nature, timing and extent of the audit procedures for gathering of audit evidence and the drawing of conclusions based on the audit evidence gathered. In addition, there are inherent limitations in any audit, and these include the use of testing, the inherent limitations of any internal control structure, the possibility of collusion and the fact that most audit evidence is persuasive rather than conclusive. As a result, our audit can only provide reasonable - not absolute - assurance that the claim is free of material misstatement.

We remind you that the responsibility for the preparation of the claim and request for determination is that of the governing body of the [type of entity]. This includes the maintenance of adequate accounting records and internal control structure, the selection and application of accounting policies, and the safeguarding of the assets of the [type of entity]. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.
Fees

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. *[Consider listing records required and timing of their availability]*

GST

*Include clause as appropriate*

Other

To the extent permitted by law, you agree that to the extent that any loss or damage suffered by the [type of entity] is attributable to fault, negligence, or lack of care on the part of the [type of entity] or on the part of any person for whom the [type of entity] is responsible (including advisers), we and our Partners and Staff have no liability (in tort, contract or otherwise) for such loss or damage.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the claim.

Yours faithfully,

[Auditor name]

Acknowledged on behalf of [name of entity] by

Name: __________________________

Title: __________________________

Date: __________________________
3.2 Audit Report – Unqualified

INDEPENDENT AUDIT REPORT TO THE [ADDRESSEE]

OF [INPUT ENTITY NAME]

Scope
We have audited the attached claim and request for determination, lodged under the Textile, Clothing and Footwear (Strategic Investment Program) Scheme, of [entity name] for the period ended [date] as set out on pages [1no.] to [2no.]. The [directors/trustees] of [entity name] are responsible for the preparation of the information provided and the determination of the claim form. We have conducted an independent audit of the claim and request for determination forms in order to express an opinion to the [directors/trustees].

The claim and request for determination have been prepared to satisfy the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. The claim expenditure has been determined in accordance with the accruals basis of accounting. We disclaim any assumption of responsibility for any reliance on this audit report or on the claim to which it relates to any person other than the [addressee], or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts of the claim and request for determination. These procedures have been undertaken to form an opinion whether, in all material respects, the claim and request for determination is presented fairly in accordance with the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. The audit did not evaluate the level of compliance of [entity name] with the Textile, Clothing and Footwear (Strategic Investment Program) Scheme, nor did it seek to clarify [entity name]’s interpretation of terms defined under the scheme.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion - (Select appropriate clauses)
In our opinion, the expenditure of the claim totalling [insert balance] presents fairly the claim expenditure under grant Type [insert grant number] of [entity name] for the period ended [date], in accordance with the books and records of [entity name] and the Textile, Clothing and Footwear (Strategic Investment Program) Scheme.

In our opinion, the calculation of the claim totalling [insert balance] under grant Type [insert grant number] of [entity name] for the period ended [date] presents fairly the calculation and underlying data as required by the Textile, Clothing and Footwear (Strategic Investment Program) Scheme, in accordance with the books and records of [entity name].

In our opinion, the stated total eligible revenue of [insert balance] presents fairly the total eligible revenue of [entity name] for the period ended [date], in accordance with the books and records of [entity name] and the Textile, Clothing and Footwear (Strategic Investment Program) Scheme.

[name of auditor]
[Title]
[Qualification]
[location], [date]
3.3 Audit Report – Qualified

INDEPENDENT AUDIT REPORT TO THE [ADDRESSEE]

OF [INPUT ENTITY NAME]

Scope
We have audited the attached Textile, Clothing and Footwear (Strategic Investment Program) Scheme claim form and request for determination of [entity name] for the period ended [date] as set out on pages [1no.] to [2no.]. The [directors/trustees] of [entity name] are responsible for the preparation of the information provided and the determination of the claim form. We have conducted an independent audit of the claim and request for determination forms in order to express an opinion to the [directors/trustees].

The claim and request for determination has been prepared to satisfy the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. The claim expenditure has been determined in accordance with the accruals basis of accounting. We disclaim any assumption of responsibility for any reliance on this audit report or on the claim to which it relates to any person other than the [addressee], or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts of the claim. These procedures have been undertaken to form an opinion whether, in all material respects, the claim and request for determination is presented fairly in accordance with the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. The audit did not evaluate the level of compliance of [entity name] with the Textile, Clothing and Footwear (Strategic Investment Program) Scheme, nor did it seek to clarify [entity name]'s interpretation of terms defined under the scheme.

The audit opinion expressed in this report has been formed on the above basis.

Qualification
Provide details

Qualified Audit Opinion (Select appropriate clauses)
In our opinion, except for the effect on the claim of the matter referred to in the qualification paragraph, the expenditure of the claim totalling [insert balance] presents fairly the claim expenditure under grant Type [insert grant number] of [entity name] for the period ended [date], in accordance with the books and records of [entity name] and the Textile, Clothing and Footwear (Strategic Investment Program) Scheme.

In our opinion, except for the effect on the claim of the matter referred to in the qualification paragraph, the calculation of the claim totalling [insert balance] under grant Type [insert grant number] of [entity name] for the period ended [date] presents fairly the calculation and underlying data as required by the Textile, Clothing and Footwear (Strategic Investment Program) Scheme, in accordance with the books and records of [entity name].

In our opinion, except for the effect on the claim of the matter referred to in the qualification paragraph, the stated total eligible revenue of [insert balance] presents fairly the total eligible revenue of [entity name] for the period ended [date], in accordance with the books and records of [entity name] and the Textile, Clothing and Footwear (Strategic Investment Program) Scheme.

[name of auditor]
[Title]
[Qualification]
[location], [date]
3.4 Audit Report – Qualified (Limitation on Scope)

INDEPENDENT AUDIT REPORT TO THE [ADDRESSEE]

OF [INPUT ENTITY NAME]

Scope
We have audited the attached Textile, Clothing and Footwear (Strategic Investment Program) Scheme claim and request for determination forms of [entity name] for the period ended [date] as set out on pages [1no.] to [2no.]. The [directors/trustees] of [entity name] are responsible for the preparation of the information provided and the determination of the claim form. We have conducted an independent audit of the claim and request for determination forms in order to express an opinion to the [directors/trustees].

The claim and request for determination have been prepared to satisfy the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. The claim expenditure has been determined in accordance with the accruals basis of accounting. We disclaim any assumption of responsibility for any reliance on this audit report or on the claim to which it relates to any person other than the [addressee], or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts of the claim and request for determination. These procedures have been undertaken to form an opinion whether, in all material respects, the claim and request for determination are presented fairly in accordance with the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. The audit did not evaluate the level of compliance of [entity name] with the Textile, Clothing and Footwear (Strategic Investment Program) Scheme, nor did it seek to clarify [entity name]’s interpretation of terms defined under the scheme.

The audit opinion expressed in this report has been formed on the above basis.

Qualification
All documents necessary for the performance of the audit were not made available. As the remaining accounting records are not adequate to permit the application of necessary auditing procedures, we are unable to obtain all the information and explanations we require in order to form an opinion.

Qualified Audit Opinion
In our opinion, because of the existence of the limitation on the scope of our work as described in the qualification paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether the claim and request for determination is presented fairly in accordance with the Textile, Clothing and Footwear (Strategic Investment Program) Scheme as at [date].

[name of auditor]
[Title]
[Qualification]
[location], [date]
4. SAMPLE AUDIT PROGRAM

This sample audit program is aimed as providing guidance to auditors on the steps involved in the audit of a SIP claim and request for determination. The audit should be conducted by persons who have adequate training, experience and competence in auditing. It is intended that this sample audit program will be adapted as required for the circumstances of each engagement.

4.1 Client Acceptance and Continuance

*Independence*
Consider the auditors compliance with independence requirements before accepting or continuing with the engagement.

*Client Evaluation*
Consider the particular risk that might arise on the acceptance of the audit engagement.

4.2 Planning

Prepare or update the audit engagement letter. Auditors should familiarise themselves with the requirements of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme. Prepare an audit planning memorandum summarising the scope and approach to the audit.

4.3 Internal Control and Compliance Procedures

Document and assess the internal controls over the preparation of the claim and the recording of the underlying eligible expenditure on which the claim is based.

Based on the results of the review determine whether internal controls can be relied on.

4.4 Substantive Procedures

*Detailed SIP Claim Testing*

The objective of the SIP Claim tests is to ensure the SIP claim is made in accordance with the Scheme. Accordingly, the auditor should ensure:

- Claim forms are completed and compiled in accordance with SIP requirements;
- Only eligible expenses as defined are included in the claim;
- The claim complies with the caps, thresholds and other SIP requirements as detailed in Section 6; and
- Eligible expenditure is supported by appropriate documentary evidence as detailed in Section 5.

Section 5 provides a guide of the appropriate supporting evidence that the entity should have to support the validity of the claim. Auditors should exercise due care and skill in determining the evidence necessary to suit each circumstance.
The Audit of SIP Grants

Audit & Assurance Centre of Excellence

The guide in Section 5 is in the form of a checklist and details for each Grant Type:

- Eligible expenditure applicable to each grant type;
- A reference to the sections of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme for each eligible expenditure; and
- Supporting documentation that the auditor should consider examining to support the particular claim.

**Detailed Request for Determination Testing**

The objective of the Requests for Determination tests is to ensure the request for determination is made in accordance with the Scheme. Accordingly, the auditor should ensure:

- Request for determination forms are completed and compiled in accordance with SIP requirements;
- Only revenue derived from eligible sales as defined are included in the calculation of total eligible revenue; and
- Total eligible revenue calculation is supported by appropriate documentary evidence.

Total eligible revenue is defined in Section 9 of the Scheme as:

“for a period, means the total revenue derived by the entity from sales, except sales to New Zealand, of the entity’s eligible TCF products during the period, excluding:

(a) Any GST, excise or sales tax; and

(a) Any subsidy given during the period by the Commonwealth, or a State or Territory.”

In turn, eligible TCF products is defined by section 3 of the Scheme as products resulting from:

- a manufacturing activity, carried on in Australia, of a kind mentioned in Parts A to E of Schedule 1 of the Scheme; and
- an activity mentioned in Part G of Schedule 1 of the Scheme, carried on in Australia, by the entity using eligible TCF product resulting from a manufacturing activity mentioned above.

Subsidy is to be defined by reference to the WTO Agreement on Subsidies and Countervailing Measures as any financial assistance provided including, but not limited to, grants, loans or revenue foregone (such preferential tax treatment).

Amongst the appropriate supporting evidence that the entity should have to support the validity of the claim is:

- General ledger, sales ledgers for sales and other income;
- Invoices, delivery docket and other proof of delivery;
- Proof of payment by debtors;
- Bank Statements to confirm details.

Auditors should exercise due care and skill in determining the evidence necessary to suit each circumstance.
## 5. Audit Checklist

### 5.1 Type 1 Grant

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure</th>
<th>Supporting Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Division 2.2 15(3)</em>&lt;br&gt;<strong>(a)(I)</strong>&lt;br&gt;<strong>(ii)</strong></td>
<td>Expenditure on the acquisition of new TCF plant or equipment (value capitalised) less the amount, if any: &lt;br&gt;• recovered from any trade-in; or &lt;br&gt;• received from the sale of any plant or equipment decommissioned as a result of the purchase.</td>
<td>• Authorised supplier invoices and contracts&lt;br&gt;• Fixed assets registers reconciled to general ledger to identify additions and disposals&lt;br&gt;• Asset Movement Schedule to identify additions &amp; disposals&lt;br&gt;• Bank statements to confirm disposals and additions&lt;br&gt;• Commissioning certificate</td>
</tr>
<tr>
<td><em>15 (4)</em>&lt;br&gt;<strong>(a)(i)</strong>&lt;br&gt;<strong>(ii)</strong></td>
<td>Expenditure on the purchase of new TCF plant or equipment purchased under a hire purchase agreement or financed through a finance lease (value capitalised) less the amount if any: &lt;br&gt;• recovered from any trade-in; or &lt;br&gt;• received from the sale of any plant or equipment decommissioned as a result of the purchase.</td>
<td>• Authorised lease/hire purchase agreement&lt;br&gt;• Fixed assets registers reconciled to general ledger to identify additions and disposals&lt;br&gt;• Bank statements to confirm disposals and additions and payment of lease instalments&lt;br&gt;• Commissioning certificate</td>
</tr>
<tr>
<td><em>15 (5)</em>&lt;br&gt;<strong>(a)(i)</strong>&lt;br&gt;<strong>(ii)</strong>&lt;br&gt;<strong>(iii)</strong>&lt;br&gt;<strong>(iv)</strong></td>
<td>Expenditure on the construction of TCF plant or equipment (capitalised in accounts), limited to the sum of; &lt;br&gt;• the costs of materials; and &lt;br&gt;• direct labour costs; and &lt;br&gt;• factory overhead (110% of direct labour costs); and &lt;br&gt;• establishment and commissioning fees.</td>
<td>• Authorised suppliers and contractor invoices&lt;br&gt;• Bank Statements to confirm payments&lt;br&gt;• Invoices from employment agencies and subcontractors&lt;br&gt;• Payroll reports for employees included in direct labour costs&lt;br&gt;• Time records to confirm correct allocation.&lt;br&gt;• Fixed assets registers reconciled to general ledger to identify additions&lt;br&gt;• Commissioning certificate</td>
</tr>
</tbody>
</table>
5.1 Type 1 Grant (continued)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure</th>
<th>Supporting Documentation</th>
</tr>
</thead>
</table>
| **Division 2.2 15 (6)** | Expenditure on a new building or structure, or on alterations to an existing building or structure necessary for the efficient housing and operation of new TCF equipment. | • Authorised supplier and contractor invoices  
• Quantity surveyor reports  
• Directors minutes’ approving building contracts  
• Certificate of occupancy |
| **15 (7)** | Expenditure on the purchase of a new building or structure purchased under a hire purchase agreement or financed through a finance lease. | • Authorised lease/hire purchase agreement  
• Fixed assets registers reconciled to general ledger to identify additions and disposals  
• Bank statements to confirm disposals and additions and payment of lease instalments  
• Certificate of occupancy |
| **15 (8)** | Expenditure on the upgrading of existing TCF plant or equipment, in relation to environmental requirements of the Commonwealth or State or Territory, limited to the actual costs of the upgrade. | • Authorised supplier invoices and contracts  
• Fixed assets registers reconciled to general ledger to identify additions  
• Asset Movement Schedule to identify additions  
• Bank statements to confirm additions |
## 5.2 Type 2 Grants

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure</th>
<th>Supporting Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Division 2.3 1</strong></td>
<td>Expenditure on salaries incurred in undertaking research and development activity directed at a product or process. (totalling): - Regular salaries (capped at $120,000 for any 1 employee); - Salary on-costs (30% of regular salaries); - Identifiable overheads (50% of regular salaries); and - Administrative overhead (30% of regular salaries).</td>
<td>- Payroll report detailing employees working on the project, including payroll report for prior period comparison and agreement to time sheets. - Fixed assets registers reconciled to general ledger to identify additions. - Authorised lease/hire purchase agreement (if applicable). - Authorised supplier invoices - Bank Statements to confirm amounts - Commissioning Certificate (if appropriate)</td>
</tr>
<tr>
<td>24(1)(a) &amp; 24(2)</td>
<td>Expenditure to acquire or construct pilot plant or plant prototypes as part of a research and development activity directed at a product or process. – to be treated similarly to acquisition of new plant and equipment under a Type 1 grant, therefore, refer above.</td>
<td></td>
</tr>
<tr>
<td>24(1)(b) &amp; 15(3) – (5)</td>
<td>Expenditure on non-capitalised prototype expenditure incurred in research and development activity directed at a product or process.</td>
<td></td>
</tr>
<tr>
<td>24(1)(c)</td>
<td>Expenditure on materials for the research and development activity directed at a product or process.</td>
<td></td>
</tr>
<tr>
<td>25 &amp; 18</td>
<td>Expenditure on innovative product design activity, including salaries and material costs. Section 18 defines innovative product design activity as activity directly concerned with: • the design, testing and sample production of a particular innovative eligible TCF product; or • innovation in the design, testing, trial and sample production of particular eligible TCF products.</td>
<td>• Payroll report detailing employees working on the project, including payroll report for prior period comparison and agreement to time sheets • Authorised supplier invoices • Bank Statements to confirm amounts</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>25 &amp; 19</td>
<td>Expenditure on innovative process improvement activity, including salaries and material costs. Section 19 defines innovative process improvement activities as an activity which is Australian based and directed at innovative improvement of a production process for an eligible TCF product.</td>
<td>• Payroll reports as above • Authorised supplier invoices • Bank Statements to confirm amounts</td>
</tr>
</tbody>
</table>
### 5.2 Type 2 Grant (continued)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure.</th>
<th>Supporting Documentation</th>
</tr>
</thead>
</table>
| Division 2.3 25 & 20 | Expenditure on brand support comprising of participation (other than as a retailer) by an entity in trade showings and in-store promotions of an innovative eligible TCF product, which is marketed under a trademark owned by the entity. Including salaries and material costs. | • Authorised paid invoices from organisers.  
• Authorised paid invoices from suppliers of promotional materials  
• Payroll Reports as above  
• Bank Statements to confirm payments |
| 25 & 21 | Expenditure on market research comprising of market testing, market development or sales promotion (including consumer surveys) that is not routine and that has as its main purpose the introduction of an innovative eligible TCF product and that is carried out prior to production of the product. Including salaries and material costs. | • Authorised paid supplier invoices  
• Bank Statements to confirm payments  
• Payroll Reports as above |
| 25 & 22 | Expenditure on obtaining industrial property rights in respect of an innovative eligible TCF product comprising the preparation and lodging of applications and other documents for the initial grant or registration of the rights. | • Approval in regard to successful lodgement.  
• Authorised paid invoices from suppliers of professional services. |
5.3 Type 3 Grant

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure.</th>
<th>Supporting Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division 2.4 27</td>
<td>Entities are eligible where they have successfully applied for Grants 1 &amp; 2.</td>
<td>Note: prior audit knowledge may enable the auditor to simply agree the amounts to the audited financial statements</td>
</tr>
<tr>
<td>Schedule 2</td>
<td>This grant is calculated, as follows: Turnover + change in stock – (purchases + transfers in + selected expenses)</td>
<td>The following components of the formula require verification:</td>
</tr>
<tr>
<td></td>
<td>The above components are defined in Schedule 2.</td>
<td>Turnover:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• General ledger, sales ledgers for sales and other income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Invoices, delivery dockets and other proof of delivery</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Payment by debtors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Change in Stock:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Detailed inventory listing as at start and end of financial year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Original stock invoices to confirm costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Last deliveries in and out at balance date for cut-off procedures.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Attendance at stock take</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Purchases:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Authorised supplier invoices</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bank statements to confirm payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transfers In</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Goods received advices or similar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Delivery dockets or similar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Authorised supplier invoices</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bank statements to confirm payments</td>
</tr>
</tbody>
</table>

Note: prior audit knowledge may enable the auditor to simply agree the amounts to the audited financial statements.

The following components of the formula require verification:

**Turnover:**
- General ledger, sales ledgers for sales and other income
- Invoices, delivery dockets and other proof of delivery
- Payment by debtors

**Change in Stock:**
- Detailed inventory listing as at start and end of financial year
- Original stock invoices to confirm costs
- Last deliveries in and out at balance date for cut-off procedures.
- Attendance at stock take

**Purchases:**
- Authorised supplier invoices
- Bank statements to confirm payments

**Transfers In**
- Goods received advices or similar
- Delivery dockets or similar

**Expenses**
- Authorised supplier invoices
- Bank statements to confirm payments
### 5.4 Type 4 Grant

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure</th>
<th>Supporting Documentation</th>
</tr>
</thead>
</table>
| *Division 2.5*  | **30 (2)** Expenditure on the purchase of state-of-the-art second-hand TCF plant or equipment acquired as part of, or as a direct consequence of, a restructuring initiative. For definition of restructuring initiatives, see 29 (5). | • Authorised paid supplier Invoices  
• Bank Statements to confirm payments  
• Commissioning certificate                                                           |
| *30 (3)*        | Expenditure incurred under a lease or hire/purchase arrangement for the purchase of state-of-the-art second-hand TCF plant or equipment acquired as part of, or as a direct consequence of, a restructuring initiative. For definition of restructuring initiatives, see 29 (5). | • Authorised lease/hire purchase agreement  
• Bank Statement detailing to confirm instalments  
• Commissioning certificate                                                             |

### 5.5 Type 5 Grant

<table>
<thead>
<tr>
<th>Reference</th>
<th>Eligible expenditure</th>
<th>Supporting Documentation</th>
</tr>
</thead>
</table>
| *Division 2.5*  | **30 (4)** Ancillary expenditure in relation to restructuring initiatives, including, but not limited to, the decommissioning, dismantling, transportation, reinstallation and recommissioning of state-of-the art second-hand TCF plant or equipment. | • Authorised paid supplier Invoices  
• Bank Statements to confirm payments                                                           |
6. RULES GOVERNING CLAIMS

The following information is provided to assist auditors in the understanding and interpretation of the Textile, Clothing and Footwear (Strategic Investment Program) Scheme.

<table>
<thead>
<tr>
<th>Reference</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PART 1</strong> 12</td>
<td>In the Scheme, a reference to the cost or price of land, buildings, plant, equipment, materials or anything else is a reference to the cost or price excluding any GST, excise or sales tax.</td>
</tr>
<tr>
<td></td>
<td>Audit fees cannot be claimed as part of a grant.</td>
</tr>
<tr>
<td><strong>Part 2</strong> 26</td>
<td><strong>Expenditure on travel not eligible</strong> Expenditure is not eligible expenditure for research and development activities or product development activities (section 24 and 25) if it relates to travel costs</td>
</tr>
<tr>
<td><strong>PART 3</strong> 63</td>
<td><strong>Pro rata adjustment of eligible expenditure for Type 1 grants</strong> If an entity has made a claim for a Type 1 grant in one or both of the pre-program years as well as at least 1 program year, then the entity must (under section 36) elect between the three options detailed in Schedule 3 as to how eligible expenditure will be apportioned over the life of the Scheme. This election serves to ensure that the total amount of Type 1 grants payable to the entity in respect of both pre-program and program years does not exceed the total amount that would be payable to the entity in respect of eligible expenditure in the program years.</td>
</tr>
<tr>
<td>64</td>
<td><strong>Cap for Type 1 grants</strong> The amount of a Type 1 grant made to an entity in respect of eligible expenditure incurred by the entity during a particular pre-program year or program year must not exceed 20% of that eligible expenditure.</td>
</tr>
<tr>
<td>65</td>
<td><strong>Cap for Type 2 grants</strong> The amount of a Type 2 grant made to an entity in respect of eligible expenditure incurred by the entity during a particular program year must not exceed 45% of that eligible expenditure.</td>
</tr>
</tbody>
</table>
| 66 | **Cap for Type 3 grants**  
The total of Type 3 grants made to an entity in respect of TCF value added by the entity during a program year must not exceed the lesser of: |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>5% of the total eligible TCF value added by the entity in respect of eligible TCF activities carried on by the entity during the program year; and</td>
</tr>
<tr>
<td>(b) the sum of:</td>
<td>(i) the total of Type 1 grants made to the entity for the program year; and</td>
</tr>
<tr>
<td></td>
<td>(ii) the total of Type 2 grants made to the entity for the program year; and</td>
</tr>
<tr>
<td></td>
<td>(iii) the total of Type 4 grants made to the entity for the program year.</td>
</tr>
</tbody>
</table>
### 6. Rules Governing Claims (continued)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PART 3 67</strong></td>
<td><strong>Cap for Type 4 and Type 5 grants</strong></td>
</tr>
<tr>
<td>(1)</td>
<td>The amount of a Type 4 grant made to an entity in respect of eligible expenditure incurred by the entity during a particular pre-program year or program year must not exceed 20% of the eligible expenditure incurred during the pre-program year or program year, respectively.</td>
</tr>
<tr>
<td>(2)</td>
<td>The amount of a Type 5 grant made to an entity in respect of eligible expenditure incurred by the entity during a particular program year must not exceed 20% of that eligible expenditure.</td>
</tr>
<tr>
<td><strong>75</strong></td>
<td><strong>Overall limits on grants</strong></td>
</tr>
<tr>
<td><strong>Modulation of Type 1, Type 2, Type 4 and Type 5 grants</strong></td>
<td>(1) The modulation factor for a program year is worked out in accordance with the formula set out in Schedule 4.</td>
</tr>
<tr>
<td>(2)</td>
<td>If the modulation factor for a program year is less than 1, the amount of a Type 1, Type 2, Type 4 or Type 5 grant made to an entity for a program year must not exceed the amount worked out in accordance with the formula:</td>
</tr>
<tr>
<td></td>
<td>[ MF \times G ]</td>
</tr>
<tr>
<td>where:</td>
<td></td>
</tr>
<tr>
<td>( MF ) is the modulation factor for the program year. For function see Appendix A</td>
<td></td>
</tr>
<tr>
<td>( G ) is the amount of the grant for which, apart from this section, the entity would have been eligible under this Part.</td>
<td></td>
</tr>
<tr>
<td><strong>80</strong></td>
<td><strong>Minimum additional expenditure</strong></td>
</tr>
<tr>
<td>(1)</td>
<td>An entity is not entitled to be paid a Type 1, Type 2 or Type 3 grant unless the total amount of relevant eligible expenditure mentioned in subsection (2) incurred by the entity in respect of eligible TCF activities exceeds $100,000.</td>
</tr>
<tr>
<td>(2)</td>
<td>In subsection (1):</td>
</tr>
<tr>
<td><strong>relevant eligible expenditure</strong> means eligible expenditure:</td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>in respect of which the entity has made a claim; and</td>
</tr>
<tr>
<td>(b)</td>
<td>that has not been taken into account in the payment of any previous grant.</td>
</tr>
</tbody>
</table>
### 6. Rules Governing Claims (continued)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Limit</th>
</tr>
</thead>
</table>
| **PART 3  
85**  
Sales-based cap for grants | (1) The total grants that become payable to an entity during a particular income year of the entity (the *claim year*) in respect of eligible expenditure incurred by the entity otherwise than during an eligible start-up period of the entity must not exceed 5% of the total eligible revenue (see below for definition) for the entity for the income year of the entity preceding the claim year.  
(2) The total of the Type 1, Type 2 and Type 3 grants that become payable to an entity during a particular income year of the entity (the *claim year*) and any income years of the entity that are earlier than the claim year, in respect of eligible expenditure incurred by the entity during an eligible start-up period of the entity, must not exceed 15% of the total of the eligible start-up investment amounts of the entity for each of the income years of the entity that are earlier than the claim year. 
For definition of start-up period/investments, see subsection (3). |  
| 9(1) | For the Scheme, *total eligible revenue*, for an entity and for a period, means the total revenue derived by the entity from sales, except sales to New Zealand, of the entity’s eligible TCF products during the period, excluding:  
(a) any GST, excise or sales tax; and  
(b) any subsidy given during the period by the Commonwealth, or a State or Territory. |
6. Rules Governing Claims (continued)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>91</strong></td>
<td>Disposal of plant and equipment — Type 1 grant</td>
</tr>
<tr>
<td>(1)</td>
<td>It is a condition of a Type 1 grant to an entity that any plant or equipment (the <em>original plant or equipment</em>) in relation to which the grant is made is not to be disposed of (whether by sale, as scrap, or otherwise):</td>
</tr>
<tr>
<td></td>
<td>(a) before the end of the program period; or</td>
</tr>
<tr>
<td></td>
<td>(b) after the end of the program period, if the value of the plant or equipment at the time of disposal is not less than 70% of the economic life of the plant or equipment when new.</td>
</tr>
<tr>
<td>(2)</td>
<td>However, an entity does not fail to fulfil the condition if the entity:</td>
</tr>
<tr>
<td></td>
<td>(a) acquires similar new plant or equipment with improved performance to replace the original plant and equipment; and</td>
</tr>
<tr>
<td></td>
<td>(b) the original plant or equipment is used as a trade-in on the new plant or equipment.</td>
</tr>
<tr>
<td><strong>78</strong></td>
<td>Threshold expenditure for pre-program years — Type 1 grants</td>
</tr>
<tr>
<td>(1)</td>
<td>An entity is not entitled to be paid a Type 1 grant for a pre-program year unless:</td>
</tr>
<tr>
<td></td>
<td>(a) the total amount of the eligible expenditure incurred by the entity in the pre-program years in respect of eligible TCF activities exceeds $200,000 (the <em>threshold amount</em>); or</td>
</tr>
<tr>
<td></td>
<td>(b) if the total amount of the eligible expenditure in the pre-program years in respect of eligible TCF activities does not exceed the threshold amount — the total amount of eligible expenditure for Type 1 and Type 2 grants incurred by the entity in 1 or more of the program years, and in respect of which the entity has made a claim, exceeds the threshold amount.</td>
</tr>
<tr>
<td>(2)</td>
<td>If, for an entity, the total amount of the eligible expenditure mentioned in paragraph (1) (a) or (b) exceeds the threshold amount, the entity becomes entitled to be paid a Type 1 grant in respect of eligible expenditure in each of the pre-program years if, apart from this section, the entity would be entitled to be paid the grant.</td>
</tr>
</tbody>
</table>
6. Rules Governing Claims (continued)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>79</strong></td>
<td><strong>Threshold expenditure for Type 1, Type 2 and Type 3 grants — program years</strong></td>
</tr>
</tbody>
</table>

(1) An entity is not entitled to be paid a Type 1, Type 2 or Type 3 grant for a program year unless the sum of the amounts mentioned in subsection (2) exceeds $200,000 (the *threshold amount*).

(2) For subsection (1), the amounts are:
   
   (a) the total amount of eligible expenditure for Type 1 and Type 2 grants incurred by the entity in the program year in respect of which the claim is made; and
   
   (b) the total amount of eligible expenditure for Type 1 and Type 2 grants:
       
       (i) incurred by the entity in previous program years; and
       
       (ii) in respect of which a claim was made but, by reason of the operation of this section, a grant was not paid.
Schedule 4  

Modulation factor  

Appendix A  

(section 75)  

For subsection 75 (1), the modulation factor for a program year is:

\[
\frac{700 - A - RAP}{(0.4 \times B) + (0.9 \times C) + (0.2 \times D)}
\]

where:

\(A\) = the sum of the amounts of grants for which claimant entities have been assessed to be eligible in accordance with Subdivisions 5.2.1 and 5.2.2 for all preceding program years.

\(B\) = the sum of:

(a) the estimated total eligible expenditure for Type 1 and Type 4 grants for the program year and all succeeding program years; and  
(b) the amounts of Type 1 and Type 4 grants for which claimant entities are likely to be assessed to be eligible in accordance with Subdivisions 5.2.1 and 5.2.2 for the immediately preceding program year.

\(C\) = the sum of:

(a) the estimated total eligible expenditure for Type 2 grants for the program year and all succeeding program years; and  
(b) the amounts of Type 2 grants for which claimant entities are likely to be assessed to be eligible in accordance with Subdivision 5.2.1 for the immediately preceding program year.

\(D\) = the sum of:

(a) the estimated total eligible expenditure for Type 5 grants for the program year and all succeeding program years; and  
(b) the amounts of Type 5 grants for which claimant entities are likely to be assessed to be eligible in accordance with Subdivision 5.2.2 for the immediately preceding program year.

\(RAP\) = the sum of all Regional Assistance Program supplementation payment