

Department of State Development

Funding Audit and Development of
Accounting Policies and Procedures
(Anangu Pitjantjatjara Yankunytjatjara)
Phase 1 Report

22 April 2016

Ernst & Young ("Consultant") was engaged on the instructions of Department of State Development ("Client") to form a view on whether APY transactions (for the period within scope FY2015) were administered in accordance with relevant Commonwealth and State Government funding agreements, and provide a Financial Management System that addresses areas for improvement, in accordance with the engagement agreement dated 19th February 2016 including the General Terms and Conditions ("the Engagement Agreement").

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1. Executive summary

1.1 Introduction

The purpose of this phase 1 report is to provide the Department of State Development (DSD) with a summary of Ernst & Young's (EY's) work to date on the Funding Audit and Development of Policies and Procedures (as agreed in the Statement of Work dated 19 February 2016) for the Anangu Pitjantjatjara Yankunytjatjara (APY Lands).

APY Lands currently source funding through government grants (State and Commonwealth). During the 2014-15 financial year, EY was informed of 15 funding agreements in place. The implementation of appropriate oversight and a sound control environment (including supporting processes) is vital to making sure that funding provided is used for the proper purpose and will support ongoing funding for APY Lands. The General Manager plays a critical role in this environment.

APY Lands has experienced instability at the General Manager level over the last 2 years; 3 General Managers have been appointed within this time frame. During the current General Manager's term a number of improved controls have been designed and/or established (as recommended by the KPMG APY Land Rights Administration Grant Review & Status Report), for example:

- ▶ Changing the responsibility for bookkeeping services previously undertaken using internal resources to an outsourced provider
- ▶ Establishing and implementing an updated delegations of authority process to better manage and control expenditure
- ▶ Initiating regular Project Manager reporting on project status against funding agreements (formalised processes are still being developed)
- ▶ Researching alternative, and potentially more appropriate, awards under which to pay workers

The outsourced bookkeeper utilises MYOB to support the provision of accounting services. At the General Manager's request, regular reporting is now provided through job codes on each funding agreement (via an income and expenditure statement).

The observations within this report are designed to assist DSD support the APY Lands improve its control environment building on what the current General Manager has already commenced designing and implementing. A number of key stakeholders have been consulted during this review from APY Lands and DSD (refer to Appendix A).

1.2 Objectives and scope

This project was designed into two phases to address the following key objectives:

- ▶ Qualitative Review of Transactions (Phase 1) designed to provide a view on whether APY Lands transactions (for the period within scope FY2015) were administered in accordance with relevant Commonwealth and State Government funding agreements
- ▶ Financial Management System Development (Phase 2) to focus on the development of supporting policies and procedures that address areas for improvement identified as a result of the qualitative review of transactions in Phase 1

This report provides a view of the results of the Qualitative Review of Transactions and a summary of the identified areas for improvement to be considered in Phase 2 (section 1.5). The final report will provide an update of our work and EY actions taken to improve the DSD Financial Management System in accordance with our scope outlined in Phase 2 (refer to Appendix B).

1.3 Testing methodology

The Qualitative Review of Transactions focussed on whether:

- ▶ Internal controls were operating within APY Lands (for a sample of transactions)
- ▶ Documented evidence was sighted to support transactions and could be used to classify transactions as either:
 - ▶ 'In Accordance With'
 - ▶ 'Not in Accordance With' or
 - ▶ 'Cannot be Determined' against funding agreements (refer to the table below for definitions of each classification)

Classification	Definition
In Accordance With	Documentation was located and it supported that the transaction was expended in accordance with the relevant funding agreement.
Not In Accordance With	Documentation was located but it did not support that the transaction was expended in accordance with the relevant funding agreement.
Cannot be Determined	Supporting documentation could not be located or the documentation that was located did not contain enough information to verify if the transaction was expended in accordance or not in accordance with the relevant funding agreement.

Results of the testing will be used to guide the activities to be undertaken in Phase 2 to develop the Financial Management System.

1.4 Qualitative review of transactions summary

EY has consolidated the results of the testing performed to date to provide DSD with a view as to whether the transactions are 'In Accordance With', 'Not in Accordance With' or 'Cannot be Determined'. An overview of testing to date is outlined in the table below and more detail is provided in Appendix C.

Classification	Results
In Accordance With	53%
Not In Accordance With	5%
Cannot be Determined	42%

1.5 Improvement area summary

The below table highlights identified observations and improvement opportunities in testing of the Qualitative Review of Transactions as at May 2015. Each observation has been linked to the relevant element of DSD's Financial Management System.

Observation- as at May 2015	DSD – Financial Management System
1. Funding agreements and interrelated supporting documentation were not sufficiently clear in nature regarding key requirements	Revenue/Grants
2. Monitoring of funding requirements inconsistent	Revenue/Grants
3. Preferred suppliers are not established or utilised	Procurement and Contracts
4. Procurement framework is not established or utilised	Procurement and Contracts
5. Chart of accounts is overly complex and inconsistently applied	General Ledger Management
6. Detailed fixed assets register is not established or utilised	Fixed Assets
7. Delegations of authority not designed to support process efficiency	Accounts Payable/Revenue
8. Inconsistent records management processes	General Ledger Management
9. Cash balance adjustments not in accordance with generally accepted accounting practices	Cash at Bank
10. Inconsistently applied employment contracts and awards	Payroll

1.6 Next steps and timeframes

As outlined in the Statement of Work dated 19 February 2016, our next steps for Phase 2 of the project will include completion of the following key tasks:

1. Conducting a review of the current APY Financial Management System, including:
 - ▶ Reviewing the work completed to date
 - ▶ Holding discussions with APY staff regarding the Financial Management System to confirm the current state, including the policies and procedures that form the control environment
 - ▶ Assessing the policies and procedures and control environments to identify gaps and areas for improvement to build a robust Financial Management System for 2015-16 and beyond
 - ▶ Discussing key changes required with APY Lands leadership and staff

2. Updating selected supporting policies and procedures, controls and processes, including:
 - ▶ Guiding APY staff through the principles required to enhance APY Lands capability to self-manage policies and procedures and control developments
 - ▶ Developing at a high-level or updating policies and procedures and controls to address identified gaps in the Financial Management System
 - ▶ Working with APY Lands employees to assist with capability building in the Financial Management System

The table below outlines timelines associated with these tasks:

Key task	Anticipated delivery timeline
Preliminary report - Phase 1	7 March
Final report - Phase 2	22 April
Financial Management System development	7 March - 22 April
Financial Management System training	9 May - 11 May

2. Appendices

Appendix A Stakeholders consulted

We would like to extend our appreciation to the following individuals who provided information during this project:

Name	Title	Organisation
APY Lands		
Richard King	General Manager Anangu Pitjantjatjara Yankunytjatjara	APY Lands
Tania King	Manager Anangu Engagement	APY Lands
Cecilia Tucker	Manager Development & Planning Anthropology	APY Lands
Clint Taylor	A/Land Management Program Manager	APY Lands
Sue Weatherill	Bookkeeper	APY Lands
Greg Jobson	Community Admin Support Officer (CASO) Manager	APY Lands
Chris Tee	Director - Araluen Taxation Services	Araluen Taxation Services (ATS)
The Department of State Development		
Fiona Ward	Director Aboriginal Affairs and Reconciliation	DSD
Phuong Chau	Director Finance	DSD
Craig Macauley	Manager Anangu Pitjantjatjara Yankunytjatjara / West Coast	DSD
Department of the Prime Minister and Cabinet		
Marnie Wettenhall	Acting South Australian Regional Manager	PM&C
Kira Kudinoff	Deputy South Australian Regional Manager	PM&C
James Armitage	Deputy South Australian Regional Manager- APY Lands	PM&C

Appendix B Financial management system

Recommendations within the report have been aligned to the list below which highlights the key elements of the DSD Financial Management System for APY Lands:

- ▶ Revenue
- ▶ Grants
- ▶ Inventory Management
- ▶ Cash and bank
- ▶ Fixed assets
- ▶ Procurement and contracts
- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Payroll
- ▶ General ledger management

Appendix C Summary of qualitative review of transactions

The results of the transactional testing (expense) completed to determine whether transactions were "In Accordance With" funding agreements are:

Funding Agreements	Population	In Accordance		Not in Accordance		Cannot be Determined	
Commonwealth Grants							
Alinytjara Wilurara Natural Resources Management Board- Australian Government Biodiversity Funds Grant	29	0	0%	14	48%	15	52%
Anthropology - IHP Men's Project- Men's Tjukurpa Mapping	117	94	80%	0	0%	23	20%
Anthropology - IHP Women's Grant- Women's Tjukurpa Mapping	39	13	33%	0	0%	26	67%
Caring for Warru in the APY Lands Grant - Commonwealth - Testing Agreement	2,905	1,949	67%	5	0%	951	33%
Dream Weaver 2 Consolidating-Women's Engagement in Environmental Management - Commonwealth	607	356	59%	4	1%	247	41%
Indigenous Land Corporation Equipment	1	0	0%	1	100%	0	0%
Local Government Admin Grant	3,730	885	24%	46	1%	2,799	75%
Protected Areas Program Grant - Commonwealth	2,951	2,206	75%	61	2%	684	23%
Working On Country- APY Ranger Grant - Commonwealth	496	376	76%	1	0%	119	24%
State Grants							
APY Land Rights Admin Grant Agreement	1,240	750	60%	8	1%	482	39%
APY Anthropology (General) - State Government Grant	605	415	68%	4	1%	186	31%
Community Administration Support Manager - State Government Grant	127	7	6%	113	89%	7	5%
Law & Cultural Council Grant - State Government	110	63	57%	3	3%	44	40%
Large Feral Herbivore (LFH) total grazing pressure control within the central corridor Biofund area in APY lands	742	48	6%	436	59%	258	35%
Pastoral Landcare Overseer - State Government Grant	373	259	69%	0	0%	114	30%

Due to limitations in the General Ledger system used by APY to record transactions, the numbers quoted in the above table include all transactions recorded against that grant regardless of the funding source.

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