

Department of State Development

Funding Audit and Development of
Accounting Policies and Procedures
(Anangu Pitjantjatjara Yankunytjatjara)
Phase 2 Report

27 May 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 2 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).

The observations within the Phase 1 report were designed to assist DSD support the APY to improve its control environment building on what the current General Manager APY has already commenced designing and implementing. The development of APY Financial Management System Policy and supporting procedures, detailed in this Phase 2 report, provides APY direction for embedding future financial management practices. A number of key stakeholders have been consulted during this review from APY 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 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 final report provides an update of our work and EY actions taken to assist APY to improve their Financial Management System.

1.3 Financial Management System

The Department of State Development (DSD) have provided guidance of the APY in the development of a Financial Management System. The Financial Management System structure consists of a number of key elements illustrated in Figure 1 below. These elements have been designed to address observations made in the Phase 1 Qualitative Review of Transactions.

Key elements include the Financial Management System Policy (including Delegations of Authority) and a suite of supporting procedures:

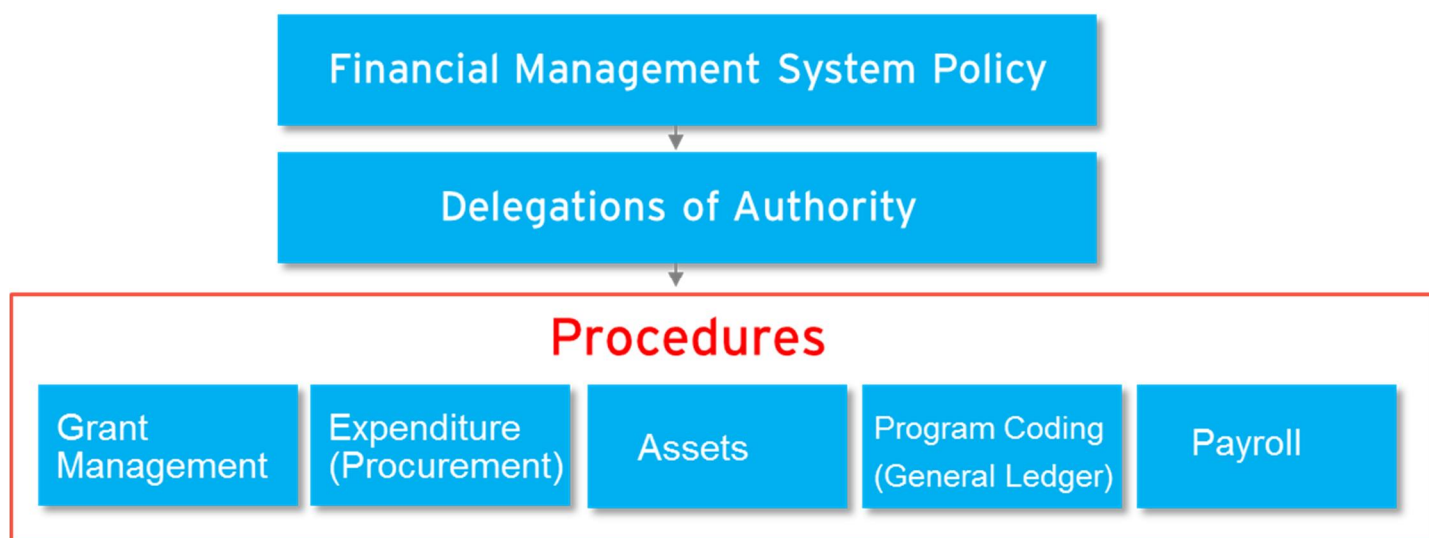
- ▶ Grant Management Procedure
- ▶ Expenditure (Procurement) Procedure
- ▶ Assets Procedure
- ▶ Payroll Procedure
- ▶ Program Coding (General Ledger Management) Procedure

The overarching APY Financial Management System policy and supporting procedures are interrelated. The Delegations of Authority within the Financial Management System policy are the foundation of these procedures.

The APY Financial Management System structure is illustrated in Figure 1 below. This structure has been adapted to suit the APY business environment (refer to Appendix B for alignment to DSD Financial Management System elements).

EY has drafted each of the documents described in this structure in consultation with the APY General Manager and Manager of Stakeholder Engagement.

Figure 1: APY- Financial Management System



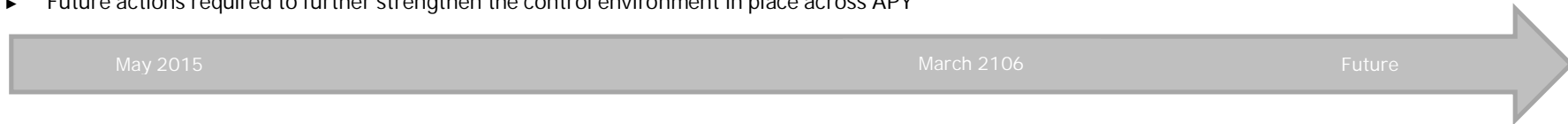
The table below highlights Phase 1 report observations and their alignment to the DSD Financial Management System.

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

1.4 Improvement area progress summary and future actions

The table below highlights the:

- ▶ observations and improvement opportunities identified in the Phase 1 Qualitative Review of Transactions (as at May 2015)
- ▶ progress made (as at March 2016) by the General Manager APY and Manager of Stakeholder Engagement to address identified improvement opportunities
- ▶ Future actions required to further strengthen the control environment in place across APY



| Observation (May 2015) | APY – Financial Management System | Current state (March 2016) | Future actions |
|--|-----------------------------------|--|---|
| 1. Funding agreements and interrelated supporting documentation were not sufficiently clear in nature regarding key requirements | Grant Management | As an outcome of the Phase 1 review, we understand that respective governments have identified and consolidated a complete lists of grant agreements, including interrelated supporting guidelines. These agreements are in the process of being reviewed to ensure that key requirements under each funding agreement are clear, consistent (to the extent possible). Any changes have yet to be clearly communicated to APY. | Commonwealth and State Governments to review funding agreements, including interrelated supporting guidelines, with a view of providing APY with greater clarity over key funding agreement requirements. |
| 2. Monitoring of funding requirements inconsistent | Grant Management | APY have recognised the importance of maintaining a register of funding agreements and have put processes in place to monitor key requirements of agreements. A formalised process is being established to monitor each funding agreement where Program Managers, the | APY to finalise and implement the draft Grant Management Procedure to govern the transfer, use and reporting of funds and resources provided by a grant agreement issued to APY. |

| Observation (May 2015) | APY – Financial Management System | Current state (March 2016) | Future actions |
|---|-----------------------------------|--|--|
| | | General Manager and Manager of Stakeholder Engagement ensure key requirements of those agreements are adhered to. | |
| 3. Preferred suppliers are not established or utilised | Expenditure (Procurement) | At this time the establishment of a preferred supplier listing for APY was not considered a priority or easily established given the remote location of suppliers. An analysis of expenditure has identified that greater control and value could be obtained from the establishment and use of a preferred supplier listing. | APY to finalise and implement the draft preferred suppliers list procedure to establish a process for creating a list of preferred suppliers to be used by APY for the procurement of goods and services in support of business operations. |
| 4. Procurement framework is not established or utilised | Expenditure (Procurement) | <p>Informal procurement processes have been used at APY with the intention of achieving efficiencies by leveraging people already on the lands to perform the required work, reducing mobilisation costs.</p> <p>The results of the Phase 1 report clearly identified the need to establish more robust and consistently applied procurement processes to control APY expenditure in accordance with funding agreements. General agreement has been reached to structure procurement procedures based on the type and value of</p> | <p>APY to finalise and implement the draft Expenditure (procurement) procedure developed to provide guidance in buying goods and services in line with organisational needs and meeting specified requirements in funding agreements.</p> <p>This procedure development has been informed by the State Procurement Board Guidelines.</p> |

| Observation (May 2015) | APY – Financial Management System | Current state (March 2016) | Future actions |
|--|-----------------------------------|--|---|
| | | the purchase using the State Procurement Board requirements as a guide. | |
| 5. Chart of Accounts is overly complex and inconsistently applied | Program Coding (General Ledger) | <p>The Chart of Accounts has been revised and has been reduced to a single page which will enhance control, flexibility and reporting capacity.</p> <p>We understand the Manager of Stakeholder Engagement has communicated this revised Chart of Accounts to APY employees and the Araluen Taxation Services. Each funding agreement is allocated a project code and consistent cost codes are used across all funding agreements to monitor project revenue and expenditure.</p> | APY to finalise and implement the draft Program Coding (General Ledger Management) procedure developed to establish a framework to ensure accurate and complete recording of transactions in the APY financial accounts. |
| 6. Detailed fixed assets register is not established or utilised | Assets | <p>A stocktake of APY assets has been performed which included photographing all assets in preparation for reviewing APY insurance coverage.</p> <p>There is a recognised need to add the assets current location to the Asset Register and ensure that higher value and theft attractive items are appropriately tracked and secured.</p> | APY to finalise and implement the draft Assets procedure developed to describe procedures governing the recording, control and disposal of assets. This document is intended to assist employees of APY to appropriately manage assets. |
| 7. Delegations of authority not designed to support process efficiency | Expenditure (Procurement) | The General Manager APY has made several changes to the delegations of | APY to finalise and implement the draft Financial Management System policy, |

| Observation (May 2015) | APY – Financial Management System | Current state (March 2016) | Future actions |
|---|--|--|---|
| | | <p>authority to improve controls. We understand these have been approved by the Executive Board.</p> | <p>defining the Financial Management System of APY with a focus on how to manage financial related risks across the organisation. This policy will assist to help mitigate risks associated with funds provided to the APY and not being used for the intended purpose or if they are not in accordance with the related funding agreement or legislative requirements.</p> <p>The policy provides an overview of the delegations of authority across the organisation.</p> |
| <p>8. Inconsistent records management processes</p> | <p>Program Coding (General Ledger)</p> | <p>The majority of records are now filed electronically rather than in hard copy.</p> <p>APY are currently looking for corporate assistance (e.g. a records clerk) to review current filing and systemise the process.</p> | <p>APY to finalise and implement the draft Program Coding (General Ledger Management) procedure developed to establish a framework to ensure accurate and complete recording of transactions in the APY financial accounts.</p> |
| <p>9. Cash balance adjustments not in accordance with generally accepted accounting practices</p> | <p>Program Coding (General Ledger)</p> | <p>Discussions will be held with Araluen Taxation Services to clarify the appropriate use of cash accounts.</p> | <p>APY to finalise and implement the draft Program Coding (General Ledger Management) procedure developed to establish a framework to ensure accurate and complete recording of transactions in the APY financial accounts.</p> |

| Observation (May 2015) | APY – Financial Management System | Current state (March 2016) | Future actions |
|--|-----------------------------------|---|--|
| 10. Inconsistently applied employment contracts and awards | Payroll | <p>The NT Department of Commerce has advised that the Pitjantjatjara Award will be ceased and the Pitjantjatjara Award will also be phased out at some stage. A mapping exercise has been conducted to determine which modern award each employee will fall under. The modern awards include the Social and Community Housing and Disability Award and the Pastoral Award.</p> <p>The General Manager, Director and Executive have agreed to streamline this into one EBA. The purpose of this is to standardise entitlements. It is anticipated that an EBA will be in place by the end of the 2015/2016 financial year.</p> | <p>APY to finalise and implement the newly established EBA to cover all APY employees.</p> <p>APY to finalise and implement the draft Payroll procedure developed to describe the procedure for processing Payroll related transactions for APY staff.</p> |

1.5 APY next steps and timeframes

In May 2016, EY will deliver a Financial Management System Awareness workshop, which is aimed to develop employee capability with respect to Financial Management. The workshop will provide a high-level overview of key Financial Management System elements to be implemented across APY. This will conclude EY's work 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).

Successful implementation of the Financial Management System policy and supporting procedures is dependent on organisational support and engagement of staff adhering to procedures. It is the responsibility of the General Manager APY to drive this implementation, with the support and endorsement of the APY Executive Board.

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 | | |
| Richard King | General Manager Anangu Pitjantjatjara Yankunytjatjara | APY |
| Tania King | Manager Anangu Engagement | APY |
| Cecilia Tucker | Manager Development & Planning Anthropology | APY |
| Clint Taylor | A/Land Management Program Manager | APY |
| Sue Weatherill | Bookkeeper | APY |
| Greg Jobson | Community Admin Support Officer (CASO) Manager | APY |
| Chris Tee | Director - Araluen Taxation Services | Araluen Taxation Services (ATS) |
| The Department of State Development | | |
| Dr Don Russell | Chief Executive Officer | DSD |
| Alex Reid | Deputy Chief Executive Officer | DSD |
| Nerida Saunders | Executive Director - Aboriginal Affairs and Reconciliation | DSD |
| 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 | PM&C |

Appendix B Alignment to DSD Financial Management System elements

This table aligns the APY Financial Management System to elements of the DSD Financial Management System. Please note:

- ▶ Inventory was identified as a potential element within the DSD Financial Management System. APY do not manage inventory. As a result this element has not been included within the scope of APY Financial Management System.
- ▶ Budget management was identified as a potential element within the DSD Financial Management System. This element (as it relates to funding agreements within the scope of this work) has been incorporated within Grant Management.

| APY-Financial Management System | DSD-Financial Management System |
|------------------------------------|---------------------------------|
| 1. Grant Management | Revenue/Grants |
| 2. Grant Management | Revenue/Grants |
| 3. Expenditure (procurement) | Procurement and Contracts |
| 4. Expenditure (procurement) | Procurement and Contracts |
| 5. Program Coding (General Ledger) | General Ledger Management |
| 6. Assets | Fixed Assets |
| 7. Expenditure (procurement) | Accounts Payable/Revenue |
| 8. Program Coding (General Ledger) | General Ledger Management |
| 9. Program Coding (General Ledger) | Cash at Bank |
| 10. Payroll | Payroll |

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Due to the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected by us. Further, the internal control structure, within which the control procedures that we will examine are located, will not be reviewed; therefore no view will be expressed by us as to its effectiveness. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

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