

GOVERNMENT ADVISORY SERVICES

Department of Health
and Ageing

**Financial Review:
Multicultural Mental
Health Australia
Project**

COMMERCIAL IN CONFIDENCE

8 July 2010

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1

Executive summary

Background

The Department of Health and Ageing (the Department) contracted KPMG to perform a financial review to provide the Department with a clearer understanding of the current financial position of the 2008-2011 Multicultural Mental Health Australia project (the MMHA project), information relevant to the management of the Commonwealth monies disbursed under the Funding Agreement between the Commonwealth and Sydney West Area Health Services (SWAHS) for the purposes of the MMHA project.

Objectives

The objectives were to:

- undertake a full financial review of the MMHA project for the period from 1 July 2008;
- analyse the financial reporting of the MMHA project; and
- identify critical and/or emerging issues that need to be addressed and provide options to resolve issues of concern.

Requirements of the review

The key areas of focus of the review were to:

- analyse all the financial records in respect to the MMHA project for the period from 1 July 2008;
- analyse and consider the financial stability and accountability of the MMHA project including whether funds are being misused or not expended in accordance with the requirements of the Funding Agreement, including requirements over sub-contracting and banking;
- conduct compliance testing and analysis of the certified financial statements for the project period from 1 July 2008 to consider whether there are any significant compliance issues with meeting relevant corporate governance requirements, the Australian Accounting Standards and Australian Auditing Standards or other indicators of financial difficulty or poor financial management practice; and
- have regard to the auditor's management letters, or equivalent and any audit qualification when completing the financial review.

This report has been produced as the final deliverable associated with the engagement.

COMMERCIAL IN CONFIDENCE

2

The key findings from each section of this report are:

Report section	Number of findings	Key findings
2.2	10	<ul style="list-style-type: none"> • MMHA record current and prior MMHA project transactions in one cost centre • There is no separate bank account for the administration of the current MMHA project • Revenue recognition for MMHA project funding is inconsistent with Australian Accounting Standards • MMHA salaries and wages are not allocated between the current and prior grants • The infrastructure charge is potentially inconsistent with the Funding Agreement • MMHA budget setting and monitoring processes are weak for the current and prior grants, this must be resolved in the 2010-2011 final year of the Funding Agreement
2.3	6	<ul style="list-style-type: none"> • The 2010-2011 reporting schedule should be revised to better reflect the Department's requirements • MMHA officer certification of the audited financial statements should include that the funds were spent in accordance with the Funding Agreement • The Auditor's Statement includes a qualification over the basis of the infrastructure charge • The audit has no formal deliverables other than the Auditor's Statement • In accordance with best practice the 30 June 2010 financial statements should be subject to grant acquittal by an appropriately qualified external auditor
2.4	1	<ul style="list-style-type: none"> • Analysis of the financial statements to 31 December 2009 and the cumulative spend to 31 May 2010 indicates that 2006-2008 core grant and 2007 special grant funds were used for the purposes of the 2008-2011 MMHA project
2.5	1	<ul style="list-style-type: none"> • The Department has identified a sub-contracting agreement with ConNetica Consulting – in 2009-2010 MMHA incurred expenditure under this contract • KPMG testing identified a partnership agreement with the Hunter Institute of Mental Health to provide MMHA project deliverables; MMHA did not seek approval from the Department prior to arranging this partnership agreement
TOTAL:	18	

KPMG's financial review of the 2008-2011 MMHA project has identified a number of significant findings indicating potential non-compliance with the terms of the Funding Agreement with the Department.

The Department should ensure that appropriate arrangements are made with MMHA management to ensure a clear financial position of all MMHA funding is reported as at 30 June 2010 and that in 2010-2011 the project has strong financial and budget management and the remaining financial deliverables are received on a satisfactory basis.



Contents

Executive summary.....	2
1 Background and scope	5
1.1 Background.....	5
1.2 Scope.....	7
2 Results of fieldwork	8
2.1 Methodology	8
2.2 Financial management.....	9
2.3 Financial reporting	16
2.4 Financial analysis	22
2.5 Funding Agreement and sub-contracting	26
2.6 Compliance testing.....	29
Appendices	31
Appendix 1 – Summary of methodology	32
Appendix 2 – Summary of issues and concerns raised by the Department	34
Appendix 3 – Income and expenditure.....	35
Appendix 4 – Glossary	36

1 Background and scope

1.1 Background

The MMHA project

The 2008-2011 MMHA project is a national project under the National Mental Health Strategy funded by the Australian Government through the Department.

Multicultural Mental Health Australia (MMHA) is the Australian Government funded body established to undertake the MMHA project. The aim of the project is for MMHA to provide national leadership in mental health and suicide prevention for Australians from culturally and linguistically diverse (CALD) backgrounds.

The MMHA project builds upon the outcomes and learning of the 2006-2008 project funded by the Department which undertook national activities in mental health and suicide prevention for people from CALD communities.

The Funding Agreement

The project period is from July 2008 to 30 June 2011 and the Funding Agreement was finalised and signed off in October 2008 following a negotiation period in which the original MMHA project budget was reduced from \$3.0 million to \$2.7 million.

The maximum funds to be paid to MMHA are \$2.7 million and these payments are to be made in accordance with the Funding Agreement *payment schedule* on receipt and acceptance of deliverables which indicate that satisfactory progress is being made in the performance of the project.

Funds and the *payment schedule*

In 2008-2009 the Department received the 31 December 2009 financial statements which indicated significant underspends against budget. In accordance with the Funding Agreement, the Department *may at its discretion defer, reduce or not make payment of funds where it forms the opinion that the full payment is not properly required by MMHA because of surpluses or underspend*. As a result, the Department withheld payments two to six inclusive.

After negotiation with MMHA, the Department made an interim payment to MMHA in May 2010. The following table summarises the status of the funding payments:

Payment	Due date	Amount due \$	Status as at 30 June 2010
1	September 2008	700,000	October 2008
2	15 February 2009	180,000	Payments withheld. Interim \$300,000 payment made May 2010.
3	31 May 2009	20,000	
4	15 July 2009	600,000	

COMMERCIAL IN CONFIDENCE

5	15 February 2010	280,000	
6	31 May 2010	20,000	
7	15 July 2010	600,000	N/a
8	15 February 2011	280,000	N/a
9	31 May 2011	20,000	N/a

Predecessor projects: 2006-2008 MMHA and 2007 Special Grant

MMHA has received funding based on two prior Funding Agreements preceding the 2008-2011 Funding Agreement:

- the 2006-2008 Funding Agreement; and
- the 2007 'special grant' variation agreement.

As at 31 June 2009 MMHA had remaining unspent funds of \$748,087 from the predecessor grants. The Department has subsequently allowed MMHA to carry forward \$518,084.42 of the unspent funds with the remaining \$230,003.07 refunded to the Department in November 2009.

Under the agreement MMHA must continue to maintain a *reporting schedule* for both the 2006-2008 agreement and the 2007 special grant. The carried forward funds are to be used to complete agreed projects and activities as provided for under the predecessor agreements.

Concerns identified and raised by the Department

The Department has raised a number of concerns in relation to the current Funding Agreements in place with MMHA. These issues over the financial management of the MMHA project are detailed in **Appendix 2**. In summary, the concerns are in relation to:

- the expenditure of funding carried forward from the predecessor grants to the 2008-2011 project period;
- underspend of current and predecessor Funding Agreements;
- inaccuracies in the unaudited and audited financial statements presented to the Department; and
- sub-contracting arrangements.

1.2 Scope

Financial review objectives

The purpose of this financial review is to provide the Department with a clearer understanding of the current financial position of the MMHA project and information relevant to the management of the Commonwealth monies disbursed under the Funding Agreement between the Commonwealth and SWAHS for the purposes of the 2008-2011 MMHA project.

The objectives were to:

- undertake a full financial review of the MMHA project for the period from 1 July 2008;
- consider the financial reporting of the MMHA project; and
- identify critical and/or emerging issues that need to be addressed and provide options to resolve issues of concern.

Financial review requirements

Under the terms of this engagement, the Department required KPMG to:

- analyse all the financial records in respect to the MMHA project for the period from 1 July 2008;
- analyse and consider the financial stability and accountability of the MMHA project including whether funds are being misused or not expended in accordance with the requirements of the Funding Agreement, including reviewing requirements over sub-contracting and banking;
- conduct compliance testing and analysis of the certified financial statements for the project period from 1 July 2008 to consider whether there are any significant compliance issues with meeting relevant corporate governance requirements, the Australian Accounting Standards and Australian Auditing Standards or other indicators of financial difficulty or poor financial management practice; and
- have regard to the auditor's management letters, or equivalent and any audit qualification when completing the financial review.

Deliverables

As a result of the financial review KPMG provides this report in accordance with the terms of the contract. This report has been produced as the final deliverable associated with the engagement.

2 Results of fieldwork

2.1 Methodology

The scope of this financial review is detailed in **section 1.2** of this report. Our methodology for this review is designed to meet these objectives and fulfil these requirements. A detailed summary of our approach is included in **Appendix 1**.

Consultation

The key parties consulted as part of this review, were:

- Mr Stanford Harrison, Director, Mental Health and Chronic Disease Division, Department of Health and Ageing.
- Mr Chris Forsey, Assistant Director, Mental Health and Chronic Disease Division, Department of Health and Ageing.
- Dr Ghassan Turki, Senior Business and Finance Analyst, Workforce and Organisational Development, Sydney West Area Health Service. (Dr Turki succeeded Rene Saavedra in February 2010).
- Ms Georgia Zogalis, National Program Manager, Multicultural Mental Health Australia.
- Ms Harinder Singh, Administrative Officer, Multicultural Mental Health Australia.

2.2 Financial management

The Funding Agreement is between the Commonwealth of Australia (as represented by the Department), and SWAHS. The MMHA body is managed as a separate entity but is administered by SWAHS in terms of management support, financial systems, payroll and its location on the SWAHS Cumberland Hospital site.

Roles and responsibilities

A team of five project officers are currently responsible for the delivery of the MMHA project and the National Program Manager, Georgia Zogalis, leads MMHA. The Administrative Officer's role is in supporting the National Program Manager and project officers and includes liaising with the SWAHS finance team, obtaining quotes for expenditure and maintaining MMHA's finance database records.

A Senior Business and Finance Analyst is the SWAHS officer responsible for around \$250 million of SWAHS expenditure including the MMHA project cost centre. Generally, larger SWAHS sections have a Business Manager who reports to the Senior Business and Finance Analyst. However, in the case of MMHA the National Program Manager reports directly to him.

As a result the National Program Manager, who has a non-financial background, has responsibility for MMHA financial management, the maintenance of the MMHA finance database and the creation of the periodic and annual financial statements.

Finding 1

Financial ledger

All MMHA transactions are recorded in a separate cost centre on the SWAHS financial ledger (Oracle), however there are no separate cost centres for the 2008-2011 or predecessor grants.

Finding 2

SWAHS finance policies are followed in respect to depreciation of fixed assets, accounting for employee entitlements and accruals.

Banking arrangements

MMHA do not hold separate bank accounts for any of the funding received under clause 10 of the current Funding Agreement or predecessor MMHA grants.

All grant income received from the Department is deposited in a shared bank account maintained by SWAHS. As such bank charges and interest income is received in this bank account.

Finding 3

Income

The Senior Finance and Business Manager confirmed that to-date, sales invoices have been raised by the National Program Manager in accordance with the payment schedule. When invoices are raised in the sales ledger, these credits are posted to the MMHA cost centre.

In accordance with Australian Accounting Standard Board 120 *Accounting for Government Grants and Disclosure of Government Assistance*, income should only be recognised when the conditions of the Funding Agreement are met and recognised as income over the period necessary to match them with the related costs which they are intended to compensate. Therefore, income should only be recognised in the financial statements when the conditions of the funding agreement are met.

Finding 4

As MMHA does not have a separate bank account, interest receivable has to be identified then apportioned to each cost center by SWAHS, **Finding 3** above.

Other income is receivable from the sale of publications and ad hoc transactions. All such transactions are credited to the MMHA cost centre, however in creating the financial statements this income has not been recognised and disclosed. Between 1 July 2008 and 31 May 2010, 66 such publication sales transactions were posted totaling \$5,023. In June 2009 a fourth and final payment, \$6,000, was received from Hunter New England Area Health Services as part of the 2006-2008 *Mindframe* agreement.

Finding 5

Salaries and wages expenditure

In the period from 1 July 2008 to 31 May 2010 salaries and wages costs made up 49.9% of MMHA expenditure. MMHA employees work 100% on MMHA. Costs include base salaries, superannuation, employee entitlements and other standard payroll costs.

Goods and services expenditure

When goods or services are required, the Administration Officer identifies appropriate suppliers and obtains three quotes in accordance with SWAHS procedures. With National Program Manager assistance, the most appropriate quote is chosen and the Administration Officer then inputs the details into the purchase order module of the financial ledger. The purchase order must then be authorised in accordance with authorisation limits. The National Program Manager can authorise expenditure up to \$10,000 and the majority of transactions are within this limit. The MMHA director, Associate Professor Abd Malak, authorises orders greater than \$10,000.

The finance system is updated to confirm receipt of goods or services when they are received. Purchase invoices are matched to orders and inputted into the system for payment. The administration officer keeps copies of MMHA invoices.

COMMERCIAL IN CONFIDENCE

10

KPMG has not performed testing over the effectiveness of the SWAHS systems, including, authorisation, segregation of duties or access controls.

Other expenditure items include journal transfers including cleaning charges, publication costs and airfares.

MMHA finance database

MMHA maintain a Microsoft Access database (MMHA finance database) of transactions in the MMHA cost centre. The Administration Officer runs a monthly cost centre report of all transactions to update the MMHA finance database manually. She checks that the totals of transactions added to the MMHA finance database reconcile back to the balances in the cost center report. No formal documentation for this reconciliation is completed.

Finding 6

Prior to creating the financial statements, the transactions have to be allocated to the 2008-2011 and predecessor grants and split across the MMHA budget lines, e.g. the Synergy newsletter or MMHA committee activity. The National Program Manager goes through the MMHA finance database to allocate each transaction. This process is the only method to segregate each grant's transactions and allocate the spend to budget lines.

At the time of the review, all MMHA cost centre transactions to 31 May 2010 had been updated to the MMHA finance database but only transactions to 31 December 2009 had been allocated to each grant and budget lines.

Finding 7

The salaries and wages costs are applied to the current 2008-2011 MMHA project. There is no attempt to allocate costs to the 2006-08 or 2007 predecessor grants.

Finding 8

Infrastructure charge

The financial statements include a 7.5% *infrastructure charge* to cover overhead costs including senior management, security, grounds and utilities. This is a standard rate applied by SWAHS to other similar projects and cost centres.

Neither the Funding Agreement nor the agreed budget in Schedule B of the Funding Agreement specifies the nature or quantum of such an overhead charge. There is a risk that the 7.5% infrastructure charge is not allowable under the terms of the Funding Agreement.

Finding 9

Budgeting and budget monitoring

Discussion with the National Program Manager indicates that there is no formal budget setting or monitoring process in MMHA. Formal budget reports against the Funding Agreement budget are not created. In January 2009 MMHA prepared a budget for the grants carried forward, MMHA has not prepared a formal analysis against this budget.

In addition to the Funding Agreement reporting requirements, the Department should request that as at 30 June 2010 MMHA should:

- identify the spend-to-date against budget for the 2006-2008 funding agreement, 2007 variation agreement and 2008-2011 Funding Agreement;
- identify the remaining funds available for the 2010-2011 year; and
- prepare a detailed 2010-2011 budget based on calculations for anticipated project expenditure on salaries and wages, goods and services and other items including non-grant income.

Finding 10

Financial management: summary of findings

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
1	<p>Roles and responsibilities</p> <p>The National Program Manager is responsible for the delivery of the MMHA project and MMHA's financial management, budgeting and monitoring and financial reporting.</p>	<p>There is a risk that MMHA lacks the financial skills to resolve the current issues in the financial management of the MMHA project.</p>	<p>The Department should gain agreement that MMHA management will have appropriate financial support for the remaining period of the Funding Agreement.</p>
2	<p>Financial ledger</p> <p>A single cost centre is used to record all transactions for the current and predecessor grants.</p> <p>There is a manual process to update the separate MMHA finance database with these transactions where they are allocated to MMHA project budget lines and the current and predecessor grants.</p>	<p>The manual process adds significant administrative burden to the MMHA project.</p> <p>There is increased risk that transactions are wrongly allocated.</p>	<p>The Department should enquire with SWAHS as to the possibility of using separate cost centres for the MMHA grants.</p> <p>Future Funding Agreements should stipulate that individually significant grants be allocated a separate cost centre.</p>

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
3	<p>MMHA banking arrangements</p> <p>The Funding Agreement requires MMHA to maintain a bank account to be used solely for the purposes of the MMHA project.</p> <p>MMHA project funds are deposited in a shared account. Bank charges and interest receivable are segregated and allocated to the current and predecessor MMHA grants.</p>	<p>There is a risk that MMHA cannot adequately segregate bank charges and interest receivable for funds held under separate Funding Agreements.</p>	<p>In accordance with the Funding Agreement separate bank accounts should be set up for individual projects.</p>
4	<p>Income recognition – grant funding</p> <p>MMHA raises sales invoices for grant income per the payment schedule and these balances are recognised as accrued income in the MMHA cost centre.</p> <p>In accordance with AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>, income should only be recognised when the conditions of the Funding Agreement are met and recognised as income over the period necessary to match them with the related costs which they are intended to compensate.</p> <p>There have been inconsistencies between the financial statements and actual funds received.</p>	<p>MMHA revenue recognition policies are inconsistent with Australian Accounting Standards.</p> <p>There is a risk that MMHA will overstate total income received from the Department and that future MMHA financial statements will not accurately reflect funds received.</p>	<p>In accordance with Australian Accounting Standards, MMHA should only raise sales invoices and recognise the income after the Department formally indicates that reporting requirements have been satisfactorily met and when related costs are incurred.</p>
5	<p>Income – other contributions</p> <p>MMHA receives other income from which is credited to the MMHA cost centre.</p> <p>This income is not accounted for in the MMHA financial statements.</p>	<p>The MMHA project financial statements understate income.</p>	<p>MMHA should recognise other income as a separate line item in the financial statement.</p>
6	<p>MMHA finance database – reconciliation</p> <p>The Administration Officer manually updates the MMHA finance database with MMHA cost centre transactions before checking totals against the general ledger totals to ensure that the update captured all transactions.</p>	<p>The reconciliation has no formal documentation.</p> <p>The audit trail for the MMHA finance process is weak.</p>	<p>MMHA should formalise reconciliation procedures including an evidenced management review</p>

COMMERCIAL IN CONFIDENCE

13

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
7	<p>MMHA finance database – allocations</p> <p>At the time of the review the MMHA finance database included all transactions to 31 May 2010.</p> <p>The allocation of transactions to budget lines and grants is not complete for the period from 1 January 2010.</p>	<p>There is a risk that the financial statements do not fairly reflect the expenditure in the respective periods.</p>	<p>MMHA should ensure that all expenditure is allocated on a timely basis to produce accurate financial statements in accordance with reporting deadlines.</p>
8	<p>Expenditure – salaries and wages</p> <p>Salaries and wages costs are applied to the current 2008-2011 grant.</p> <p>There is no allocation to the 2006-08 or 2007 predecessor grants.</p>	<p>There is a risk that expenses for the 2008-2011 grant will be overstated and that expenses for the 2006-2008 and 2007 grants will be understated.</p>	<p>MMHA should apportion the costs of salaries and wages across each Funding Agreement using the total goods and services for each grant or the actual time spent by each employee as the basis for apportionment.</p>
9	<p>Expenditure – infrastructure charge</p> <p>The Funding Agreement does not include a specific allowance for overhead costs and therefore MMHA's use of an infrastructure charge in their financial statements is potentially not in compliance with the Funding Agreement.</p>	<p>There is a risk that the infrastructure charges included in the financial statements by MMHA are not in compliance with the Funding Agreement.</p>	<p>The Department should formally consider whether the infrastructure charge and rate applied is in accordance with its understanding of the Funding Agreement.</p>

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
10	<p>Budget and budget monitoring</p> <p>There is no formal budget setting or monitoring process in MMHA.</p> <p>Formal budget reports against the Funding Agreement budget are not created. In January 2009 MMHA prepared a budget for the grants carried forward. MMHA has not prepared a formal analysis against this budget.</p>	<p>There is a risk that MMHA cannot adequately monitor spending in 2010-2011 and may over or under spend allocated funds.</p>	<p>In addition to the Funding Agreement reporting requirements, the Department should request that as at 30 June 2010 MMHA should:</p> <ul style="list-style-type: none"> • identify the spend-to-date against budget for the 2006-2008 funding agreement, 2007 variation agreement and 2008-2011 Funding Agreement; • identify the remaining funds available for the 2010-2011 year; and • prepare a detailed 2010-2011 budget based on calculations for anticipated project expenditure on salaries and wages, goods and services and other items including non-grant income.

2.3 Financial reporting

Basis and requirement for financial statements

The basis of preparation for the financial statements is section 11 *Records and Reports* and Schedule D *Reports* of the Funding Agreement. Paragraph 11.2 states that MMHA *must keep financial reports relating to the Project so as to enable:*

- (a) *all income and expenditure related to the Project to be identified in the Participant's accounts.*
- (b) *the preparation of financial statements in accordance with Australian Accounting Standards; and*
- (c) *the audit of these records in accordance with Australian Auditing Standards.*

Reporting schedule

The *Reporting Schedule* in accordance with schedule D of the Funding Agreement is:

Deliverable	2008-2009		2009-2010		2010-2011	
	Required	Period	Required	Period	Required	Period
Progress report and unaudited financial statement to 31 December	Yes	6 months	Yes	8 months	Yes	8 months
Certificate and unaudited financial statement to 30 April	Yes	10 months	Yes	10 months	Yes	10 months
Annual final report and audited financial statement to 30 June	Yes	12 months	Yes	12 months	Yes	12 months

The varied periods of these reports has led to issues over the financial statements being prepared for each period. The Department has since agreed that the 30 April 2010 report is not required.

Finding 11

Preparation of financial statements

The National Program Manager is responsible for the delivery of the above financial and non-financial reports.

In **section 2.2** the process of updating the MMHA finance database is outlined. The annual and periodic financial reports can only be prepared after the National Program Manager has allocated transactions between the current and predecessor grants and MMHA budget lines.

Financial statements can only be prepared after the cost centre transaction report has been updated to the MMHA finance database and the National Program Manager has allocated these costs between grants and budget lines, see **Finding 8**.

Financial statements policies and structure

In recording transactions in the SWAHS ledger SWAHS financial policies are adhered to including depreciation of fixed assets, revenue recognition and expenditure cut off. There is no separate MMHA management consideration of MMHA accounting policies.

Revenue recognition on raising an invoice led to the issues over the inclusion of funding not yet received from the Department in the audited and unaudited financial statements. **Section 2.2** raises **Finding 4** where in accordance with Australian Accounting Standards, income should only be recognised when the conditions of the Funding Agreement are met and must be recognised over the periods necessary to match them with the related costs which they are intended to compensate. Therefore, MMHA should only recognise the revenue based on meeting the requirements of the Funding Agreement and Australian Accounting Standards.

The Funding Agreement requires that financial statements are prepared in accordance with Australian Accounting Standards and that reporting requirements include:

- for the *progress reports* –
 - *a statement of the balance of the bank account;*
 - *a statement of how much the Participants needs to meet current liabilities under legal commitments entered into by the Participant for the performance of this Agreement;*
- for the *final reports* –
 - *an audited detailed statement of receipts and expenditure in respect of the Funds;*
 - *a statement of the balance of the bank account;*
 - *a statement of how much the Participants needs to meet current liabilities under legal commitments entered into by the Participant for the performance of this Agreement;*

As there is no separate bank account for the current MMHA project, no statement of period end balance has been included with the financial statements. No balance sheet has been prepared and there is no statement of current liabilities under legal commitments. The financial statements are not prepared in a prescribed Australian Accounting Standard structure.

Finding 12

Certification of financial statements

Paragraph 11.4 (f) and Schedule D of the Funding Agreement requires certification by an authorised officer confirming that the funds received *were spent for the purposes of the Project and in accordance with this Agreement and that the Participant has complied with this Agreement*. This requirement applies to deliverables (2), (3) and (4) in the table below.

The table below summarises the required and included certifications. For the final report to 30 June 2009 there was no certification by either officer that the funds were spent in accordance with the Funding Agreement. In addition the certifications refer to clauses 1.1 and 7 of the Funding Agreement rather than paragraph 11.4 and Schedule D of the Funding Agreement.

Finding 13

Deliverable	Certification by National Program Manager		Certification by Senior Finance Business Analyst*	
	Required	Included	Required	Included
(1) 1 July 2008 – 31 December 2008	Yes	Yes	No	No
(2) 1 July 2008 – 31 May 2009**	Yes	Yes	Yes	Yes
(3) 1 July 2008 – 30 June 2009	Yes	Yes	Yes	No
(4) 1 May 2009 – 31 December 2009	Yes	Yes	No	Yes

* Including certification that the funds were spend in accordance with the Funding Agreement.

** The Funding Agreement required period is 1 July 2008 – 30 April 2009.

Audit of financial statements

The Funding Agreement requires the annual financial statements to 30 June to be audited by an Approved Auditor in compliance with the Australian Auditing Standards and that the auditor's statement *must include a definitive statement as to whether the financial accounts are complete and accurate*.

SWAHS internal audit are responsible for the financial statements audit. For the year to 30 June 2009 Internal Audit Manager Stephen Billingsley conducted the audit and certified the auditor's statement. Enquiry with the National Program Manager confirmed that there was no formal management letter or report prepared by internal audit. In the course of the audit, the Audit Manager liaises with the National Program Manager to resolve audit issues.

Finding 14

The auditor's statement includes a definitive statement over the completeness and accuracy of the financial statements:

I have audited the Statement of Income and Expenditure of the 2008-11 Multicultural Mental Health Australia Project for the period 1 July 2008 to 30 June 2009, and in my opinion:

- a) it complies with the Funding Agreement (with the exception of the 'Infrastructure Charges') and presents fairly and in accordance with accounting principles generally applied in commercial practice and as required by law;*
- b) The statement referred to is complete and free of material misstatement; and*
- c) The project has complied with its obligations in respect of the funds.*

Our review concurs with the audit qualification over the Funding Agreement having no specific basis for the application of infrastructure charges.

Finding 15

To ensure that the annual financial statements to 30 June 2010 and 30 June 2011 are audited in accordance with Australian Auditing Standards, an appropriately licensed independent external auditor should perform a grant acquittal audit.

Finding 16

Financial reporting: summary of findings

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
11	<p>Funding Agreement: Reporting Schedule</p> <p>The Reporting Schedule (schedule D) includes a requirement for financial reports for the periods specified in the schedule.</p> <p>The reporting periods varying from six to 12 months appear inconsistent with better practice.</p> <p>The Department has already agreed that the 30 April 2010 report is not required.</p>	<p>Without further review of the Reporting Schedule there is a risk that further issues will arise over the satisfactory completion of financial reporting.</p>	<p>The 2010-2011 Reporting Schedule should be revised to better reflect the Department's and the project's requirements.</p>

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
12	<p>Financial statements format</p> <p>The financial statements include only a statement of income and expenditure.</p> <p>The following statements are not prepared:</p> <ul style="list-style-type: none"> • statement of current liabilities under legal commitments; and • statement of the balance of the bank account. 	<p>There is a risk that MMHA has not complied with the financial statements requirements of the Funding Agreement.</p>	<p>The Department should consider whether MMHA financial statements meet its requirements as agreed in the Funding Agreement. If necessary, further disclosures should be requested.</p>
13	<p>Certification of financial statements</p> <p>Review of financial statement certifications identified that requirements of clause 11.4 of the Funding Agreement was not completed.</p> <p>There was no certification by either the National Program Manager or the Senior Finance or Business Analyst that the funds were spent in accordance with the Funding Agreement.</p> <p>In addition the certification statements should refer to clauses 11.4 and Schedule D of the financial.</p>	<p>The certification requirement for the 30 June 2009 financial statement was not met.</p>	<p>The Department should ensure that financial statements have certification in accordance with the requirements of clauses 11.4 of the Funding Agreement.</p>
14	<p>Auditor's deliverables</p> <p>On completion of the audit of the annual financial statement, the only formal output from internal audit was the Auditor's Statement.</p> <p>The internal auditor did liaise with the National Program Manager over changes to this statement to resolve audit issues.</p>	<p>There is a risk that audit recommendations are not communicated effectively to MMHA as no management letter or equivalent is produced.</p>	<p>MMHA should request that the auditors of the financial statement produce a formal report on completion of the audit.</p>
15	<p>Auditor's statement</p> <p>The internal auditor's formal deliverable was the auditor's statement.</p> <p>It includes a qualification over the basis of the infrastructure charge.</p>	<p>There is a risk that the infrastructure charges included in the financial statements by MMHA are not in compliance with the Funding Agreement.</p>	<p>The Department should formally consider whether the infrastructure charge and rate applied is in accordance with the principles of the Funding Agreement.</p>

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
16	<p>Audit of year end financial statements</p> <p>Internal audit perform the audit of the financial statement.</p>	<p>There is a risk that the audit is not performed in accordance with Australian Auditing Standards.</p>	<p>The Department should consider advising MMHA to engage an independent external auditor to audit the financial statements to 30 June 2010 and following years.</p>

2.4 Financial analysis

Income and expenditure analysis

KPMG obtained financial ledger reports for the MMHA project cost centre to 31 May 2010 detailing income and expenditure per month for each account code, **Appendix 3**. We note that expenditure for the current and predecessor grants is included in this cost centre.

The analysis of cumulative funding received and expenditure to date and monthly expenditure in **Figures 1** and **2** includes current and predecessor grants.

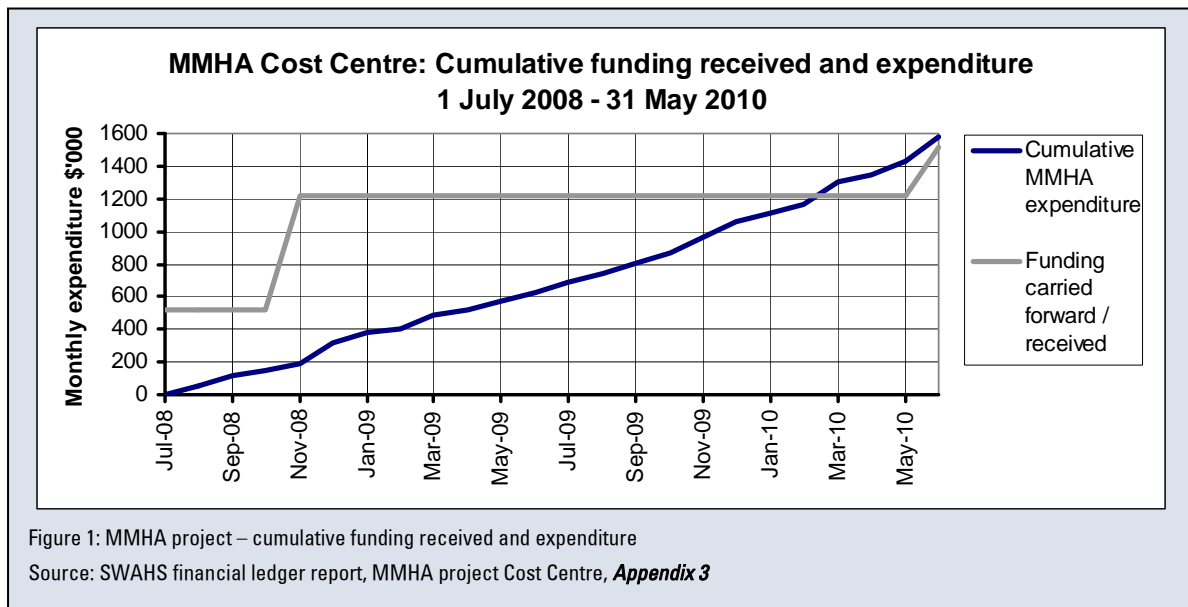


Figure 1 shows the cumulative expenditure to 31 May 2010 is \$1.58 million and cumulative available funding, including the agreed carry-forward, is \$1.52 million. As a 31 May 2010 the MMHA project cost centre is in deficit with SWAHS making up the \$60,000 difference. This analysis does not include bank interest receivable or other income receivable to the MMHA project cost centre.

Figure 1 also demonstrates that the carried forward funding has been utilised for the 2008-2011 MMHA project expenditure since July 2009 when the cumulative expenditure increased above payment 1 (\$700,000) of the current 2008-2011 funding.

Finding 17

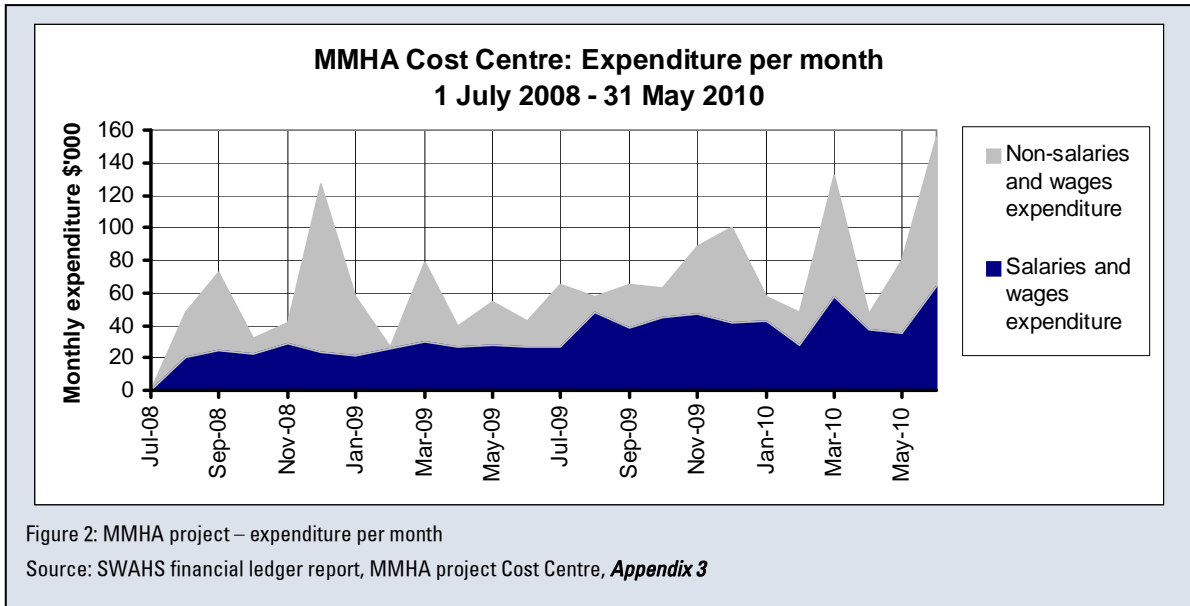


Figure 2 shows the expenditure per month for the project period to 31 May 2010; this expenditure is presented cumulatively in **Figure 1**. It demonstrates that in the 2009-10 year there have been additional employees working on the MMHA project and that non-salaries and wages expenditure has fluctuated throughout the period.

Projected expenditure analysis

The following table illustrates estimated projected expenditure to 30 June 2011 based on the average spend per month in 2009-2010:

	Salaries and wages expenditure \$'000	Non-salaries and wages expenditure \$'000	Total expenditure \$'000
MMHA cost centre spend: 1 July 2009 – 31 May 2010	484	413	897
Average monthly spend for above period	44	38	82
Projected spend based on above average: 1 June 2010 – 30 June 2011	572	488	1,060
Total spend to 31 May 2010	788	793	1,581
Projected total spend to 30 June 2011	1,360	1,281	2,641

At the current rate of expenditure, the projected total spend in the MMHA cost centre (including the predecessor grants), is \$2.64 million. The 2008-2011 agreed funding is \$2.7 million. Including the \$518,000 carried forward, total MMHA available funds is \$3.22 million, representing a potential underspend of approximately \$580,000.

Financial statements analysis

Based on the unaudited financial statements submitted by MMHA, we summarise the financial position of the respective grants as at 30 June 2009:

	2007 special grant \$	2006-2008 grant \$	2008-2011 grant \$	Total \$
Previous year carry forward (C/F)	\$281,835	\$466,253	-	\$748,088
Funds remitted back to the Department	(\$230,003)	-	-	(\$230,003)
Grant funding	-	-	\$700,000	\$700,000
Interest	\$10,677	\$14,236	\$14,263	\$39,149
TOTAL INCOME	\$62,509	\$480,489	\$714,236	\$1,257,234
Salaries and Wages	-	-	(\$304,888)	(\$304,888)
Goods and services	(\$60,802)	(\$57,495)	(\$273,192)	(\$391,489)
Infrastructure charge	(\$4,560)	(\$4,312)	(43,356)	(\$52,228)
TOTAL EXPENDITURE	(65,362)	(\$61,807)	(\$621,436)	(\$748,605)
BALANCE C/F	(2,853)	\$418,682	\$92,800	\$508,629

Based on the unaudited financial statements submitted by MMHA, we summarise the financial position of the respective grants as at 31 December 2009:

	2007 special grant \$	2006-2008 grant \$	2008-2011 grant \$	Total \$
Previous year carry forward (C/F)	(\$2,853)	\$418,682	\$92,800	\$508,629
Grant funding	-	-	-	-
Interest	-	-	-	-
TOTAL INCOME	(\$2,853)	\$418,682	\$92,800	\$508,629
Salaries and Wages	-	-	(\$315,341)	(\$315,341)
Goods and services	(\$10,752)	(\$39,489)	(\$173,434)	(\$223,675)
Infrastructure charge	(\$806)	(\$2,962)	(\$53,908)	(\$57,676)
TOTAL EXPENDITURE	(\$11,558)	(\$42,451)	(\$542,683)	(\$596,692)
BALANCE C/F	(\$14,411)	\$376,231	(\$449,883)	(\$88,063)

The above table indicates that the excess funds from previous grants had been utilised to fund the expenditure of the 2008-2011 MMHA project. The analysis above does not include the additional income items identified in the review of MMHA policies and procedures.

The utilisation of \$518,084 excess funds from previous grants is not in accordance with the purpose of which it was approved to be carried forward, **Finding 17** above.

Financial analysis: summary of findings

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
17	<p>Utilisation of prior grant funds for 2008-2011 MMHA project expenditure</p> <p>Our analysis of available funds versus 2008-2011 expenditure to-date indicates that MMHA have not used the carry-forward funds in accordance with the agreed purpose of which it was approved to be carried forward.</p>	<p>The carried forward predecessor grant funds appear to have not been used in accordance with the agreed terms of the carry forward.</p>	<p>The Department should request MMHA to monitor the actual expenditure related to the excess funds carried forward.</p> <p>Any unspent funds should be returned or a funding variation agreed to allow funds to be carried forward for future expenditure.</p>

2.5 Funding Agreement and sub-contracting

The Funding Agreement

KPMG has reviewed the Funding Agreement in the planning phase of this review to identify the significant clauses in the context of this review including:

- Funding for the project;
- Other contributions;
- Conduct of the Project;
- Sub-contracting;
- Management of funds and bank account;
- Records and reports;
- Suspension and termination; and
- Repayment of funds.

Our financial review has taken into account the terms of the Funding Agreement in performing this financial review. Specific findings are summarised in the section **2.2 Financial Management** and where appropriate, the following sections.

Funding Agreement: sub-contracting

The Standard Funding Agreement held between the Department and SWAHS states under clause 7 the following:

- *the participant not sub contract the performance of any part of the project without prior approval in writing from the Commonwealth;*
- *the subcontractors, if any, will perform work in relation to the Project in accordance with the Funding Agreement and are approved by the Commonwealth to do so; and*
- *in respect of subcontractors the Participant must ensure that:*
 - *the subcontract facilitates compliance by the Participant with its obligations under this Agreement; and*
 - *the subcontract contains all the relevant terms of this Agreement including those relating to subcontracting, intellectual property, audit and access, privacy, security, confidentiality, warranties and*

COMMERCIAL IN CONFIDENCE

26

indemnities, disclosure and termination and in particular that the Participant has or will secure for itself a right to terminate the subcontract on terms no less favourable than those accorded the Commonwealth by clause 19, in the event of this Agreement being terminated.

Financial review: sub-contracting

The Department has raised concerns over agreements with third parties that may be in breach of clause 7.

KPMG performed the following review procedures:

- In accordance with KPMG sampling methodology, selected a sample of project expenditure items from the 2008-2011 core grant for the period 1 July 2008 – 31 December 2009 and tested that transactions complied with the sub-contracting requirements under the Funding Agreement by reviewing all invoices and supporting documentation held on file for these transactions;
- Performed a finance system supplier enquiry on the MMHA general ledger cost centre to ascertain total spend on transactions with potential sub-contractors;
- Reviewed MMHA expenditure files to identify potential sub-contract arrangements; and
- Queried MMHA management on our findings.

Findings: sub-contracting

Short-term temporary contractors

MMHA undertake employment of staff on short-term temporary contracts to perform training related duties for MMHA. This will only occur when MMHA does not have internal resources available to complete such training.

Potential sub-contract agreement

The Department has raised concerns over agreements that may be in breach of clause 7. The Department's legal area has advised that these agreements are sub-contracting arrangements as articulated in the Funding Agreement.

Since the identification of these arrangements the Department and MMHA has liaised over how to proceed with the arrangement and agreed an approach. MMHA have advised that it has ended the agreements; however ConNetica performed services to the value of \$4,550 (excl. GST) in the current year.

Partnership Agreement: Hunter Institute of Mental Health (New England Area Health Service)

Partnership Agreement

MMHA currently hold a Partnership Agreement with the Mindframe Project Team at the Hunter Institute of Mental Health - Hunter New England Area Health Service. A formal Partnership Agreement was created and approved on behalf of SWAHS by the National Program Manager in July 2009.

Finding 18

The terms and structure of the agreement might indicate a sub-contracting arrangement. under. The existence of the Partnership Agreement may breach clause 7 of the Funding Agreement as MMHA did not seek prior approval in writing from the Department.

Deliverables

The deliverables of the Partnership Agreement are for the development of resources and face-to-face training for the national CALD consumer and carer reference group and the speaker's bureau for MMHA. Specifically, *the Hunter Institute of Mental Health will develop and deliver to MMHA by 30 November 2009:*

- *A training resource/package for the MMHA Speaker's Bureau;*
- *A one day Mindframe training for the National CALD Consumer and Carer Reference Group; and*
- *Face-to-face training for Speaker's Bureau members in NSW and possibly VIC and SA (to be negotiated).*

Funding Agreement consideration

The responsibilities for MMHA and the Hunter Institute of Mental Health include agreement to abide by the conditions and requirements of the Partnership Agreement and '*the requirements of MMHA's Funding Agreement with DoHA*'.

Costs and payments

Total contract is for \$19,700 of which 50% (\$9,850) was invoiced on 17 September 2009 and paid in October 2009.

Timing

The timeframe of the contract is from 1 July 2009 – 31 October 2009.

Reporting requirements include a final report due by 30 November 2009.

The final deliverables must be submitted to MMHA no later than 30 November 2010.

Funding Agreement and sub-contracting: summary of findings

Finding Ref.	Issue or weakness	Risk	Suggested option to address issue
18	<p>Hunter Institute of Mental Health</p> <p>In August 2009 a Partnership Agreement was approved with the Hunter Institute of Mental Health to provide deliverables in respect to the MMHA project. The terms and structure of the agreement may indicate that a sub-contracting arrangement under clause 7 of the Funding Agreement.</p> <p>MMHA did not seek approval from the Department prior to agreeing this Partnership Agreement.</p>	<p>MMHA may be in breach of clause 7 of the Funding Agreement.</p>	<p>The Department should seek MMHA clarification on the remaining deliverables and payments under this Partnership Agreement to determine whether this Partnership Agreement should continue to its final deliverables and reporting.</p>

2.6 Compliance testing

Compliance testing

The scope of this financial review includes a compliance test of expenditure transactions to test that selected expenditure transactions are supported by adequate documentation, and where applicable comply with the Funding Agreement, and the accounting treatment is in accordance with the Australian Accounting Standards.

Non-salaries and wages expenditure: approach

The most recent financial statement is for the period to 31 December 2009, we note that the National Program Manager's allocation of costs to budget lines and the current or predecessor grant has been completed up to this date.

KPMG therefore obtained a transaction report of the 2008-2011 MMHA project expenditure for the period to 31 December 2009 from the MMHA finance database.

MMHA finance database transactions have been inputted from a cost centre transactions report and predecessor grants transactions have been excluded from this transaction report.

Prior to selecting a sample, income and salaries and wages transactions were excluded from the population. A sample test of transactions was selected using KPMG Sampling Methodology to test:

1. if the expense can be matched to supporting documentation and has been processed in accordance with SWAHS procedures;
2. if the expense relates to current MMHA project grant activities;
3. if the classification to budget line appears reasonable;
4. if the transaction appears reasonable under the terms of the Funding Agreement; and
5. if the expense indicate the existence of a potential sub-contracting arrangement.

In addition MMHA cost centre reports were reviewed for significant or unusual items.

Non-salaries and wages expenditure: findings

Section 2.5 highlights the compliance test sub-contracting finding over the Partnership Arrangement with the Hunter Institute of Mental Health.

The results from the compliance tests were that sampled transactions:

- had been processed in accordance with SWAHS procedures and appropriate supporting documentation was available;

COMMERCIAL IN CONFIDENCE

29

- had been assigned to the current grant and individual budget lines on a reasonable basis; and
- appeared reasonable under the terms of the Funding Agreement.

Salaries and wages expenditure: approach

We have reviewed the salaries and wages balances in the MMHA cost centre. This included checking that the total salaries and wages costs included in the financial statement agreed to the total costs per the MMHA cost centre report.

To test whether the salaries and wages costs charged to the MMHA cost centre are reasonable:

1. For a sample of three months over the 18 month period a *departmental controllable cost report – payroll details* was obtained to identify those employees charged to the cost centre; and
2. We enquired with the National Program Manager to test that these employees' roles are 100% on the MMHA project.

Salaries and wages expenditure: findings

The National Program Manager has verified that the employee costs charged to the sampled months are for employees who work exclusively on the MMHA project. The MMHA structure was reviewed to check these employees' roles in MMHA.

Compliance testing: summary of findings

The compliance test identified one potential instance of sub-contracting. MMHA has entered into a Partnership Agreement with the Hunter Institute of Mental Health. This finding is raised in **Section 2.5 Funding Agreement and sub-contracting**.



Appendices

COMMERCIAL IN CONFIDENCE

31

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Appendix 1 – Summary of methodology

The below table summarises the activities KPMG performed in conducting the financial review:

Phase	Testing approach
1. Planning and mobilisation	
1.1	Meet the Department to discuss approach with key personnel and understand issues and concerns.
1.2	Collect background information such as the Funding Agreement, financial reports and correspondence.
1.3	Develop a detailed compliance testing program to based on key contractual requirements in accordance with the Australian Accounting Standards and Australian Audit Standards.
1.4	Check that MMHA and SWAHS personnel are contacted prior to the review.
2. Understanding the project and mapping processes	
2.1	Through interview of SWAHS key personnel and review of SWAHS internal procedures, map key processes in relation to financial management practices, financial performance and general financial reporting processes.
3. Compliance testing	
3.1	Select a sample of revenue and expenditure transactions for testing based on the KPMG audit sampling methodology.
3.2	Check selected revenue and expenditure transactions are supported by adequate documentation, and where applicable, comply with the Funding Agreement, and the accounting treatment is in accordance with the Australian Accounting Standards.
4. Financial analysis	
4.1	Analyse key accounting policies to consider conformity with the Australian Accounting Standards.
4.2	Review financial statement disclosures and the audit certification to consider conformity with the Australian Accounting Standards and Australian Auditing Standards.
4.3	Review the auditor's management letters and any audit qualifications to check for significant departure from the Australian Accounting Standards and Australian Auditing Standards and that issues raised have been adequately addressed.

Phase	Testing approach
4.4	Analyse the nature of line items disclosed in the financial statements to check conformity with Australian Accounting Standards.
4.5	Perform an analysis of line item amount changes over the years to check explanation provided is adequate and appropriate.
4.6	Consider whether the above sampled transactions indicate the existence of sub-contracting arrangements. In addition, inquire of management regarding any sub-contracting arrangements.
4.7	Identify tools that are appropriate for assessing the financial stability, financial accountability of the project as well as determining if funds are being expended in accordance with the requirements of the Funding Agreement.

5. Reporting

5.1	Summarise key findings for discussion with the Department and identify potential improvements and actions to address these findings.
5.2	Prepare draft report for the Department review and collect comments from the Department for incorporation into final report. Conduct meeting with the Department to discuss draft report and how key issues will be communicated.
5.3	Submit final report to the Department

Appendix 2 – Summary of issues and concerns raised by the Department

In the introductory meeting with key Department personnel, the Department outlined a number of issues and concerns that were identified as trigger points for this financial review. In addition, a summary schedule brought together key reports and correspondence from the Department files to provide background information and to demonstrate the context of the review.

Financial management

- The Standard Funding Agreement held between the Department and SWAHS states under Clause 7.1(a) that “*the participant not sub contract the performance of any part of the project without prior approval in writing from the Commonwealth*”. The Department has raised concerns over agreements with third parties that may in breach of clause 7.1(a).
- The Department has provided funding to MMHA over separate Funding Agreements from 2006 to 2010. The Department has expressed concerns over the under spend of these funds in this period of time.
- On 2 March 2010 MMHA advised the Department that funds carried over from the predecessor grants had been used to fund expenditure under the current Funding Agreement. The justification for this is that MMHA has continued to incur costs through ongoing provision of MMHA services.

Financial reporting

- MMHA provides the Department with both periodic and yearly financial statements for each of the grants in place. The Department has expressed concerns over the accuracy of these Financial Statements specifically in relation to the actual grant income MMHA has received versus the amount of grant income MMHA has accounted for in their financial statements and the segregation of the balances brought forward from the predecessor grants.

Appendix 3 – Income and expenditure

For the income and expenditure analysis in **Section 2.4** KPMG obtained financial ledger reports for the MMHA cost centre to 31 May 2010 detailing income and expenditure per month for each account code. We note that expenditure for the current and predecessor grants is included in this cost centre.

Month	Funding carried forward / received \$'000		Salaries and wages expenditure \$'000		Other expenditure \$'000		Total expenditure \$'000
	Monthly	Cumulative	Monthly	Cumulative	Monthly	Cumulative	Cumulative
31 July 2008	518	518	20.6	21	27.9	28	49
31 August 2008	-	518	24.1	45	48.6	76	121
30 September 2008	-	518	22.1	67	9.6	86	153
31 October 2008	700	1,218	28.9	96	12.5	99	194
30 November 2008	-	1,218	23.4	119	103.3	202	321
31 December 2008	-	1,218	21.7	141	35.6	237	378
31 January 2009	-	1,218	25.4	166	1.2	239	405
28 February 2009	-	1,218	30.3	197	48.6	287	484
31 March 2009	-	1,218	26.9	224	12.1	299	523
30 April 2009	-	1,218	28.0	251	26.5	326	577
31 May 2009	-	1,218	27.2	279	15.4	341	619
30 June 2009	-	1,218	26.2	305	38.5	380	685
31 July 2009	-	1,218	47.9	353	10.2	390	743
31 August 2009	-	1,218	38.4	391	26.9	417	808
30 September 2009	-	1,218	44.9	436	18.0	435	871
31 October 2009	-	1,218	46.6	483	42.2	477	960
30 November 2009	-	1,218	41.6	524	58.9	536	1,060
31 December 2009	-	1,218	42.5	567	14.9	551	1,118
31 January 2010	-	1,218	27.3	594	20.5	571	1,165
28 February 2010	-	1,218	57.4	652	75.3	647	1,298
31 March 2010	-	1,218	37.5	689	9.9	656	1,346
30 April 2010	-	1,218	35.7	725	44.2	701	1,425
31 May 2010	300	1,518	63.7	788	92.1	793	1,581

Appendix 4 – Glossary

AASB	Australian Accounting Standards Board
CALD	Culturally and Linguistically Diverse (backgrounds)
MMHA	Multicultural Mental Health Australia
MMHA finance database	MMHA's Access database recording all MMHA income and expenditure transactions
SWAHS	Sydney West Area Health Service
The Department	The Department of Health and Ageing
The Funding Agreement	The Standard Funding Agreement between the Commonwealth of Australia as represented by the Department and SWAHS
The MMHA project	The Multicultural Mental Health Australia Project
The Partnership Agreement	The Partnership Agreement between MMHA (SWAHS) and the Mindframe Project Team at the Hunter Institute of Mental Health (Hunter new England Area Health Service)

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