

Ernst & Young response to Questions on Notice from Public Hearing 29 August 2014

CHAIR: I am just wondering about the case study you referred to in Madhya Pradesh. From your information to us, it sounds like it had a very good outcome. How was it funded? Were you engaged by the state to do this piece of development work? Did you undertake it yourself with partners?

Mr Nixon: I will talk through it. The why is probably well known; the how is not.

CHAIR: Yes, that is what we are on about.

Mr Nixon: We submitted with funding from DFID, which sponsors us—

CHAIR: How much did DFID put in?

Mr Nixon: There is a commercial contract—

CHAIR: Is there?

Mr Nixon: Yes. We have a commercial contract deal with them. We can take that on notice and come back to you.

EY Response to question on notice: The project conducted by EY in Madhya Pradesh is a commercial contract with the Madhya Pradesh state Government, who in turn have a funding partnership with the UK Department of International Development. This is a common model; state Governments will partner with a donor organisation for a particular type of program and will jointly monitor the program outputs. EY were selected to deliver the Madhya Pradesh project via a competitive open tender process; it is being delivered independently, without the engagement of subcontracted parties.

CHAIR: Do you use such instruments as social impact bonds or something to that effect? **Mr Nixon:** No. Part of this was linking with external entrepreneurs and capital inflows, whether that was angel investors or mezzanine investors, as we like to call them. It was not done on a social impact bond base; it was based on a commercial return, linking up with opportunities. Also it was about working closely with the Madhya Pradesh government to reduce red tape. I identified commercial opportunities within that state.

CHAIR: Have you looked at those instruments?

Mr Nixon: We will take that on notice, but we have not looked at those in this specific case. It is purely about inflows of capital.

EY Response to question on notice: The EY engagement team do not use social impact bonds on the Madhya Pradesh project. Social bonds are used in some cases to manage Access to Finance issues, whereby EY have brought state governments together with the national banks in order to provide ease of funding to the investors and small entrepreneurs in particular. However, this is not the model employed in the case study we have put forward.

CHAIR: You would have heard a little of what our previous witness was saying about ensuring that particularly women, people with disabilities and both same-sex and racial minorities are targeted for investment. In either of your projects that you have described here, did you explicitly spell out to your partners that they had to address the opportunities for women or any other minorities to become better economically empowered? Was that an explicit objective?

Mr Nixon: I will take the question as to explicit objectives on notice. One of the outcomes that I know is that there was a lot of education and training for women with finances. I will take it specifically on notice about whether there was a directive for part of that. We do with financial inclusion, so it is open.

EY Response to question on notice: Within our case study project, there were no specific objectives prescribed to address the needs of women or other minority groups, as this project was not specifically identified as a social development program. However as a part of overall economic reforms, this project will have benefits for minority groups including women, people with disabilities, same-sex and racial minorities.

Senator GALLACHER: You need to get paid—

Mr Nixon: Yes.

Senator GALLACHER: and you need to make a return on your investment. So who have you dislocated in this particular project? Was there a not-for-profit trying to do it for nothing, but not very well?

Mr Nixon: I will take that question on notice. I do not know who we dislocated from it. Part of it was from our own activities and from seeing a gap in jobs creation globally that we have taken this on. So I do not know who we dislocated.

EY Response to question on notice: To our knowledge, the engagement of EY to deliver this project has not caused dislocation to any other parties.

Senator GALLACHER: How long were you auditing AusAID?

Mr Layton: I think this is the fifth year.

Mr Nixon: Yes, it was to be the fifth year.

Mr Layton: The fifth year is the conclusion, so as the merger of the two organisations occurs we are closing off the books—at the end of September, I think. That is the conclusion of our contract.

Mr Nixon: We will take it on notice to confirm that.

EY Response to question on notice: EY would like to correct the statement made at the Committee hearing: EY were the auditors of AusAID for four years. As a result of the merger of the two organisations, EY completed the audit of the AusAID component of DFAT this year, and the contract concluded on 23 September 2014.