



**COMMONWEALTH OF AUSTRALIA**

# **JOINT COMMITTEE**

of

**PUBLIC ACCOUNTS**

**Reference: Review of financial reporting requirements for Aboriginal and Island  
Local Government Councils**

**CANBERRA**

**Tuesday, 8 April 1997**

**OFFICIAL HANSARD REPORT**

**CANBERRA**

# JOINT COMMITTEE OF PUBLIC ACCOUNTS

## Members

Mr Somlyay (Chair)

Senator Crowley  
Senator Mackay  
Senator Watson  
Senator Woods

Mr Anthony  
Mr Beddall  
Mr Broadbent  
Mr Laurie Ferguson  
Mr Fitzgibbon  
Mr Georgiou  
Mr Griffin  
Mrs Stone  
Mr Vaile

## WITNESSES

<b>ALLMARK, Mr Richard, State Manager, Queensland, Aboriginal and Torres Strait Islander Commission, MLC Tower, Woden, Australian Capital Territory</b> .....	<b>2</b>
<b>BLAKE, Mr Alexander Robert Leslie, Director, Infrastructure and Services Section, National Office of Local Government, Department of the Environment, Sport and Territories, 1 Bowes Place, Woden, Australian Capital Territory</b> .....	<b>29</b>
<b>HAMBURGER, Mr Peter John, Assistant Secretary, Central Agencies Branch, Department of Finance, Newlands Street, Parkes, Canberra, Australian Capital Territory 2600</b> .....	<b>54</b>
<b>HAY, Mr Edward McGovern, Group Director, Australian National Audit Office, GPO Box 707, Canberra</b> .....	<b>38</b>
<b>HOLLIS, Mr Roger Geoffrey, Managing Director, Indigenous Affairs Section, Department of Finance, Newlands Street, Parkes, Canberra, Australian Capital Territory 2600</b> .....	<b>54</b>
<b>LENNIE, Mr Douglas Stuart, Executive Director, Financial Audit Business Unit, Australian National Audit Office, GPO Box 707, Canberra</b> .....	<b>38</b>
<b>MASEYK, Ms Sylvia, Assistant Manager, Continuous Improvement, Continuous Improvement and Client Support Section, Aboriginal and Torres Strait Islander Commission, PO Box 17, Woden, Australian Capital Territory</b> .....	<b>2</b>
<b>McLUCAS, Mr John Allen, Assistant Secretary, National Office of Local Government, Department of the Environment, Sport and Territories, 1 Bowes Place, Woden, Australian Capital Territory</b> .....	<b>29</b>
<b>NICOLL, Dr Paul, Executive Director, Performance Audit Business Unit, Australian National Audit Office, National Circuit, Barton</b> .....	<b>38</b>
<b>O'CONNELL, Ms Lyn, Assistant General Manager, Information Technology and Client Services Branch, Aboriginal and Torres Strait Islander Commission, PO Box 17, Woden, Australian Capital Territory</b> .....	<b>2</b>
<b>PATON, Ms Susan Margaret, Manager, Continuous Improvement and Client Support Section, Aboriginal and Torres Strait Islander Commission, MLC Tower, Woden, Australian Capital Territory</b> .....	<b>2</b>
<b>SCHNIERER, Mr Peter Noel, General Manager, Corporate Services, Aboriginal and Torres Strait Islander Commission, MLC Tower, Woden, Australian Capital Territory</b> .....	<b>2</b>

JOINT COMMITTEE OF PUBLIC ACCOUNTS  
QUEENSLAND PUBLIC ACCOUNTS COMMITTEE

*Review of financial reporting requirements for Aboriginal and Island local government  
councils*

CANBERRA

Tuesday, 8 April 1997

Present

Mr Somlyay (Chair)

Mr Beddall

Mr Griffin

Mrs Stone

Senator Gibson

Mr Harper (Chair)

Mr Hayward

Mr Malone

Mr Mulherin

Mr Pearce

The committee met at 10.45 a.m.

Mr Somlyay took the chair.

**ALLMARK, Mr Richard, State Manager, Queensland, Aboriginal and Torres Strait Islander Commission, MLC Tower, Woden, Australian Capital Territory**

**MASEYK, Ms Sylvia, Assistant Manager, Continuous Improvement, Continuous Improvement and Client Support Section, Aboriginal and Torres Strait Islander Commission, PO Box 17, Woden, Australian Capital Territory**

**O'CONNELL, Ms Lyn, Assistant General Manager, Information Technology and Client Services Branch, Aboriginal and Torres Strait Islander Commission, PO Box 17, Woden, Australian Capital Territory**

**PATON, Ms Susan Margaret, Manager, Continuous Improvement and Client Support Section, Aboriginal and Torres Strait Islander Commission, MLC Tower, Woden, Australian Capital Territory**

**SCHNIERER, Mr Peter Noel, General Manager, Corporate Services, Aboriginal and Torres Strait Islander Commission, MLC Tower, Woden, Australian Capital Territory**

**CHAIR**—I welcome everybody. It gives me great pleasure to open the first public hearing by the Joint Committee of Public Accounts and the Queensland Public Accounts Committee for their joint review of financial reporting requirements for Aboriginal and Torres Strait Islander local government councils. As you are aware, the two committees are reviewing the financial accountability requirements faced by Queensland Aboriginal councils and Torres Strait Island councils in their dealings with Commonwealth and state funding agencies. This is the first time that committees from different parliaments have conducted a joint inquiry. The committees hope that their cooperation will overcome the usual Commonwealth-state jurisdictional barriers—that is a very nice way to put it—and allow a holistic review of this issue.

During the inquiry, the two committees will work closely together. Tomorrow the committees will take evidence in Brisbane. In the coming months, committee members will travel throughout rural Queensland and the Torres Strait Islands to learn first-hand about the issues facing Aboriginal and Islander councils. The committees will then produce separate but complementary reports from their respective parliaments.

Both the Commonwealth and Queensland parliaments have passed resolutions authorising joint public hearings by the two committees. Accordingly, witnesses may be asked questions by members of either committee. Copies of the resolutions are available from the secretariats. For the purpose of today's hearing, I would ask that all questions and answers go through me as the chair of the host committee.

Today we will take evidence from ATSIC, the National Office of Local Government, the Australian National Audit Office and the Department of Finance. I wish

to remind all witnesses that the hearings are legal proceedings of the two parliaments and warrant the same respect as proceedings of their chambers. The evidence given today will be recorded by Hansard and will be fully protected by parliamentary privilege.

We will begin by taking evidence from ATSIC. As this is the first hearing, I understand that ATSIC will start by giving us an introductory briefing on ATSIC's role in relation to Aboriginal and Torres Strait Island councils. This should take some 20 minutes. There will then be time for members to ask their own questions. Of course, members should feel free to ask questions as the briefing goes along. I encourage members to, if they are not clear about anything, interrupt Peter—Peter is in agreement with this—to get clarification. Peter, I now invite you to begin your briefing.

**Mr Schnierer**—Our presentation is structured around four to five points that we were advised the committee would probably be more interested in in terms of how we should approach this. We are going to cover an overview and the purpose of ATSIC's relationship with local councils in Queensland; the nature, size and scope of ATSIC's grants to local government councils; the process of steps and conditions necessary for local councils to apply and acquit grants; the current review of ATSIC's grant procedures that we have under way; and the extent of coordination between ATSIC's various authorities and Queensland government agencies. We will try to be as quick as we can but we understand those are some focus points that the committee is probably more interested in. I would like to open with some broad comments about ATSIC and set the scene and then I will hand over to various members here from ATSIC to cover some of the more particular points.

The first point is the broad role of ATSIC and its purpose, and the relevant functions that relate to the issue at hand. As you are probably all aware, ATSIC is a unique organisation in public administration terms. That is largely based on the idea that we have an elected arm and an administrative bureaucratic arm. The elected arm has two dimensions to it: one is the national board and the second comprises the regional councils. In our structure each part of those elements of the commission interacts to a certain extent with the councils and their programs, their funding, and their acquittal of our grants and reporting on those grants.

There are four relevant functions of the commission in relation to this area. The first is the purpose of formulating and implementing programs for Aboriginal and Torres Strait Islander people. The second is our function to monitor the effectiveness of programs, which very much relates to what we are talking about today. For ATSIC now there is a dual accountability element in terms of our accountability to the parliaments and also to the indigenous communities, particularly as represented by the elected arm. We see a dual accountability there for the funds that we provide to organisations, including councils, and the outcomes that flow. The third relevant function relates to our role to develop policy proposals to the three levels of government and to establish the regional needs and priorities of indigenous people. The fourth relevant function is to advise and

cooperate with communities, organisations and individuals at the national, state and regional levels. They include, obviously, councils.

In addition to that, other specific relevant functions of the regional councils include formulating and revising from time to time regional plans for improving the economic, social and cultural status of Aboriginal and Torres Strait Islander people in each region. That starts to set up the planning framework in terms of our expectations of the grants that we provide to all organisations, including councils. Regional councils also have the function of advising and cooperating with other Commonwealth bodies and state and territory local governments in relation to the implementation of that regional plan. These provisions of the act summarise the broad legislative framework for us and our role in terms of where we are at with the councils.

Moving on to program matters, ATSIC has two major overarching programs which are relevant to the councils. One is the economic program, a major component of which is the CDEP program. The other is the social and cultural program which has the components of community housing infrastructure programs and environmental health projects. They are of relevant concern to the councils and focus on the kinds of projects for which they seek funding from ATSIC.

In terms of the interaction with the commission on a day to day basis, that is mainly achieved through contact between our regional office staff and the staff of the councils. I will hand over now to Richard who will set the scene a little bit in terms of ATSIC in Queensland and how that framework applies there. Then we will talk about more of the nitty-gritty processes and about what we expect in our grant procedures. We will talk about our review as well.

**Mr Allmark**—Within Queensland we have 14 councils established under their particular act and two shires which have been declared under the Queensland Local Government Act. Each of these organisations receives funding from a number of sources, through the Queensland government and its programs and through ATSIC and our program. Over the years there have been attempts to try and coordinate those activities and we will be addressing that a little later in the paper.

We have regional councils in each of the areas that are covered by these community councils or shire councils. Almost to the exclusion of every dollar, applications for grant funding from ATSIC funds go through our regional councils, either directly through a regional council program in which regional councils have the capacity to approve the projects directly themselves, or through a series of endorsements in which the project is put before the regional council for endorsement by the board of commissioners for centralised national funding. In each case regional councils are overseeing the grant applications which come from community councils and shires.

This is to some greater and some lesser measure related to their regional plans.

Some regional plans, due largely to the capacities of the regional councils themselves, have been more thoroughly prepared, more thoroughly researched and are a more finely detailed document than some of the more rural councils may have. As far as possible, the regional councils are required to relate grant applications to their regional plan to ensure that there is some uniformity of effort across their regions.

At that stage of the process they are also required to assess the performance of the grantee, whether it be a council or indeed any Aboriginal community organisation, as to how it has performed both physically in terms of getting work done in the project outcomes and as regards accountability from the financial prospects as well. There is some measure of partnership between the regional councils and the community councils and shires. I do not think I need to say too much more about that at this stage.

**Mr Schnierer**—I would like to hand over to Sylvia who will run us through the basic outline of our processes, steps and conditions. She will outline what the pressures are on organisations, including councils, in terms of our administrative demands.

**Ms Maseyk**—We previously provided to the Commonwealth committee a copy of ATSIK's grants procedures manual and we do have another copy available for members of the Queensland committee. The manual itself sets out the processes for applying for funds, how those applications are assessed and approval or declines of grants made. The manual itself is in the process of being reviewed at the moment and later on Sue will speak about that review. The manual is available for anybody who wants it. They can come to a regional office and receive a copy of the manual.

The application process up to date has been that we will advertise in the press calling for applications for funding under a range of programs. Applications are received, assessed by the regional offices and a rating applied to that assessment on a range of criteria, including the past performance of the applicant in terms of managing previous ATSIK grants, the size of the grant that is sought and the management capacity of the applicant based on what we already know about the way they have managed past grants and also information provided in the application. The applications and that rating are then provided to the delegate, which in most cases is the regional council as Dick said earlier, and then the regional council will make a prioritisation of the applications.

In the 1997-98 financial year, however, there were cuts in the ATSIK budget. We normally get a ratio of about four applications to every one grant approved. That means that there is a lot of work for staff in making those assessments and, in a lot of cases, a grant will not be approved. Now that the funds have been cut even further, it will mean that there will be even more applications for which a decline will have to be made. The board had decided that, for the next financial year 1997-98, applications for ongoing priority areas will be sought from grantees that are already receiving funds from ATSIK and after that process has been completed, if further funds are still available from regional councils in local areas, they may then call for local expressions of interest in grant



activities that would meet the regional plan. Those would then be assessed and approved or declined in the usual way.

Once a grant has been made to a grantee, there are a range of ongoing monitoring and reporting requirements that the grantee must comply with, and those are set out in the letter of offer that ATSIC makes to the grantee and need to be accepted in the letter of acceptance before there is an agreed contract between ourselves and the grantee. Those requirements include reporting and that can be monthly, quarterly or six monthly depending on the risk assessment that we have applied to the grantee during the assessment stage.

That report is a financial report and then there is a six-monthly performance report that is also done and, at the end of the year, the grant must be acquitted. Once again, it depends upon the nature of the grant as to the type of acquittance documentation that is required. For larger grants, it is almost always a copy of the grantees annual audited financial statements but, for smaller grants, it can be a certificate from the organisation's chairperson as well as evidence of the expenditure on the purpose that the grant was provided for.

**CHAIR**—Have you audited the statements by the—

**Ms Maseyk**—In the case of the Queensland community councils, it is the audit prepared by the state Auditor-General, yes. In other cases, the grantee would be just required to appoint an auditor as is the requirement for any other corporation in Australia and then to provide us with that audit.

**Mr Schnierer**—The next thing that we wanted to touch on to a certain extent was the current review that we are undertaking of ATSIC's procedures, and it is timely and coincidental that both your process and ours is unfolding at this point in time. I will hand over to Lyn and Sue to cover that as we need.

To set the context of that, what drove us to focus on this in a much clearer way was the special auditor process that the commission underwent last year in relation to the administration of our grants. The committee would probably be aware that a special auditor had a look at all our organisations across the country and the grants that they were made, including the grants to councils. Out of that, came a very extensive and comprehensive process—in the sense of covering all of those for the first time in one national snapshot, if you like—about how we were going in relation to the administration of our grant process.

Out of that process, the special auditor identified problems that organisations were having in terms of our grant procedures and policies. We have two sorts of processes happening now. One is an individual focused project, focussing on the individual organisations, and the ones that have had the problems. We are following each of those

through and you can imagine that that is a fairly extensive process in terms of the numbers of organisations involved.

There is second process going on in addition to the special auditor having a look at the individual organisations. The special auditor also made a series of recommendations about ATSIC's policy and accountability framework and, in those recommendations, I want to draw attention to the fact that there were three recommendations of direct relevance to what we are looking at in terms of the future. One was about ATSIC approaching grants on a holistic basis in relation to the organisation and having a look at the organisation in toto rather than on a separate grant basis. Some organisations of ours can have to fill in documentation for 10 or 12 grants and that creates a lot of unnecessary work for them in some ways and has been seen as excessive and even unnecessary in a way, and we are looking at streamlining the process.

The other recommendation that was of relevance was the shift that the special auditor suggested or recommended—and that is, that we shift from an intense focus on financial reporting and change to more of an outcomes/outputs basis, not losing sight of the need to maintain an acceptable standard of financial reporting, of course, but shifting us away from that and putting the emphasis on outputs and outcomes.

The third relevant recommendation was the need for us to simplify our documentation in terms of the process that Sylvia has just outlined. I will hand over to Lyn who will take you through a bit more of that and let you know where we are up to in that review process.

**Ms O'Connell**—As Peter mentioned, ATSIC has initiated this review of our grants procedures and the terms and conditions relating to those procedures largely in response to the special auditor last year. There are a couple of other threads and links with the review of grants procedures. They are the Commission of Audit report that talked about contestability and contracting out of ATSIC services and, linking with that, the review of grants procedures and also a review of decision making that ATSIC conducted during 1995 which identified in its recommendations the need to review the grants procedures.

We expect that the objectives of the review are to achieve straightforward and unambiguous grant procedures and terms and conditions of grant which will be able to be readily understood and complied with by ATSIC staff, the grantee organisations and elected representatives; that the review terms and conditions will enable improved delivery of ATSIC programs to Aboriginal and Torres Strait Islander people; and that it will change the emphasis to the reporting of outcomes rather than solely the financial performance reporting, which was one of the direct recommendations of the special auditor, while still maintaining an acceptable level of overall public accountability.

In terms of the timing for the review, our expectation is that we will have the new

procedures by the end of this financial year, and that these new terms, conditions and procedures will come into effect for the 1998-99 grant round which, given the timetable for applications and assessments, actually commences in December of this year.

**Mr Schnierer**—Mr Chair, the last point we believed you thought it relevant for us to cover was the extent of coordination between ATSIC, the Torres Strait Islander Authority and Queensland government agencies. I will hand back to Richard who will touch on that, and we will wind up our presentation.

**Mr Allmark**—The formal process of coordination between ourselves and Queensland government agencies is a group called the Joint Ministerial Advisory Committee, which comprises a number of Aboriginal representatives from housing organisations from the Aboriginal coordination council, the island coordination council. It advises the ministers for public works and housing, and for local government on planning, on matters related to the allocation and prioritisation of funds for housing infrastructure general works throughout Aboriginal communities. It looks at funds which are targeted under the Commonwealth-state housing agreement, at funds which are sourced from within the Queensland government and at funds which are also sourced through ATSIC.

We have formal representation on that committee through the membership of our portfolio Commissioner for Housing Infrastructure, which is Commissioner Lester Rosendale from Cape York. He sits on that committee, as does a staff member from my office. That has been working particularly well, I think, in the last 12 to 18 months. We have not quite got to the stage that was achieved in the Northern Territory where there was a formal joint authority for those types of funding, but we are getting towards it. We are comfortable that we will be able to achieve that in the not too far distant future.

There is in place a joint action plan at officer level between my office and the offices of those Queensland departments. With the change of government in Queensland, there was a reordering of who actually did what up there, so we have needed to revisit the joint action plan and that is presently in the process of being amended; it should be completed in the near future.

A new committee has been established by the Queensland government which is called the Indigenous Advisory Committee. That committee does not have terms of reference yet, but it has a much broader goal in that it is also going to be advising government about Aboriginal policies in general. Its terms of reference are still being worked up. The committee is presently headed by Neville Bonner and works in consultation with an interdepartmental committee which is chaired by the Minister for Family Services in Queensland, Mr Lingard, and the heads of relevant departments. It has the prospect of being a very powerful group, and we are looking forward to being part of that.

At each regional office there is informal, if you like, contact between ourselves

and the relevant state agencies. That seems to work reasonably well. I do not think I need to say much more than that at this stage. We welcome questions about that issue.

**Mr Schnierer**—That concludes our presentation, Mr Chairman.

**CHAIR**—Thank you very much for that presentation. It was quite comprehensive. Before we go into general questions, there is a problem that the Queenslanders want to raise in connection with their relationship with ATSIC. I will hand over to Mr Pearce.

**Mr PEARCE**—Thank you, Mr Chairman. I would like to do is develop a little bit of a picture of a matter at Woorabinda in Queensland, and it may help the committee to develop questions and go on from there. It will take me a couple of minutes, but I would like to present that to you so that everybody understands the situation that occurred at Woorabinda.

On Wednesday 2 November 1994, a show cause notice was served on Woorabinda Aboriginal Council because of the financial position that it found itself in. As a result of the show cause notice, the community development employment program, known as CDEP, was closed down and the community members employed under that scheme were progressively moved to jobsearch allowance.

Mr Jim Wauchope, the Director of the Office of Aboriginal and Torres Strait Islander Affairs, in a brief to the then Director-General of the Department of Family Services and Aboriginal and Islander Affairs, said:

The Council is entitled to some outstanding funding from ATSIC. It appears that ATSIC have not been providing the level of funds expected by Council, thereby requiring Council to shift money from other funds to cover shortfalls in ATSIC funding. This appears to have had a "snow ball" effect on depleting the Council's liquidity.

Problems caused to the community with the withdrawal of the CDEP are the serious personal hardships for the people, which arose as a result of third party deductions from those people in receipt of the CDEP. Council was unable to collect house rents, which exacerbated the council's financial position. Other third party deductions—such as insurance, loan repayments, payment of fines, car repayments—seized, causing unexpected social problems to the community. I say 'unexpected' because they were not aware that they were going to have the CDEP council.

The community as a whole bore the brunt of negative media comments, and it will take years to repair the damage done. This is where I am really coming from—the damage done to the people of communities when it is really other people in government departments, other departments or at the local level who should be taking responsibility. The people are the ones who get the finger pointed at them all the time.

One of the most stinging attacks at the time came from a then member of the

opposition, now a minister of the government. In the *Morning Bulletin*—this will give you an understanding of what is being said—this person said:

Woorabinda Aboriginal Council was a bunch of cheap crooks that should be thrown in jail  
 . . .

‘Why has nothing been done when the council has managed to get its sticky fingers into all the trust funds?’

‘If it happened anywhere else, those people would be in jail.’  
 ‘The book should be thrown at these people.’

Despite the comments of this particular person and subsequent investigations by federal police, I am not really aware of any charges being made against any people in the community. I understand that the Queensland CJC has also investigated a number of allegations, and I am unaware of any charges being made against any person in the community.

The MP, the media and the broader community I believe missed the real culprits in the financial demise of the Woorabinda council. I blame, without any reservations, the way that ATSIC behaved in this situation. ATSIC failed to take appropriate action more than a year—16 months, 18 months—before the whole affair exploded into the public arena.

A motion put to Central Queensland Regional Council, at a meeting in Longreach between 20 and 25 June 1994, headed ‘Funding for Community Development Employment Program Wage Over-Run’ and dated 30 June 1993, reads:

ENDORSED and SUPPORTED the application from Woorabinda Aboriginal Council for the amount of \$680,439 for Community Development Employment Program (C.D.E.P.) wage over-run at 30 June 1993 provided that:

i) Woorabinda Aboriginal Council ensure strategies are put in place to prevent the problem arising again even if that means appointing a Grant Controller.

I have in my possession a computer print-out which confirms that, at 30 June 1993, there was an overrun of \$680,000. A letter to then Minister Robert Tickner, dated 26 May 1994, from the now deceased chairman of Woorabinda council, provided details of the council’s problems and advised him, the minister, that it was now eight months since the matter had been brought to the attention of ATSIC.

I am aware of a similar situation that existed at the Mornington Shire Council. *Auditor-General’s report 1995-96* said that council is trying to resolve a dispute with the Aboriginal and Torres Strait Islander Commission in relation to the payment of ATSIC grants totalling \$1.4 million dating back to 1992-93. I am saying that, as to the situation at

Woorabinda, ATSIC were well and truly aware of what was happening but sat on their hands and just allowed the problem to grow.

The problem, as I understand it, started in 1993 when the CDEP guidelines were changed. The planning that went into it would appear to be very poor. The implementation process was undertaken without the involvement of council. As I understand it, there was a major reduction of training funding following the poorly planned handover of the training funding responsibility from DEET to ATSIC. During the 1991-92 year, council received from DEET \$864,000 for practical CDEP training programs. During the 1992-93 financial year, council received \$118,000 from ATSIC for training. That was not formalised in 1993.

What had happened was that council had continued to train the same number of people based on the 1993 participants schedule. There develops the problem. It is a problem that ATSIC walked away from, leaving council to suffer the consequences. My question is this: why did ATSIC not act earlier to fix what was obviously a serious problem that could only get worse?

**Mr Schnierer**—I might ask Richard to go into more of the specific details of that. You have gone into a lot of detail about the situation at Woorabinda. We have not come prepared to go into a lot of detail about the actual situation. Perhaps we should think about coming back with a more thorough brief in terms of some of the facts, figures and dates and what our perception of those are.

As a general comment, ATSIC takes quite seriously what happened at Woorabinda. We fully understand, particularly through our elected arm, what it has meant in terms of the pressure and problems it has created in the community. We have acted on the matters. As you say, the referral to the AFP occurred. To a certain extent we were in their hands to follow through on that. That took some time, as did the referral of matters to the DPP, before we could get advice back about what was going to happen. We are following through on those matters as they relate to our staff and appropriate action is being undertaken.

I do not want to get into the detail of that but I want to assure the joint committee that ATSIC takes the matter quite seriously. The timing problem was certainly an issue, and that is something that we are having a look at. Rather than deal with it more generally, I would like to reserve the right to come back to the committee later with a more detailed comprehensive response. I will hand over to Richard to deal with some of the points now.

**CHAIR**—Before you start, the two committees will be visiting these communities. I could not imagine that not coming up. We would like to get a fairly detailed response to the points made. We will send a copy of the *Hansard* to you, as per normal, and you will have details of the question there. If you would like to make a comment now, please do.

**Mr Allmark**—I cannot comment in-depth on that without doing some research. It predates my time in Queensland, unfortunately, or I would be able to give you some more detailed responses. However, I do think that ATSIC has questioned Mr Wauchope's advice. We do not believe that it was our short funding that caused the major problems at Woorabinda. The bottom line is that they spent money they did not have. We can argue backwards and forwards about how they did not have the money, but the essence is that they did not have the money and, as you rightly said, they went ahead spending.

One of the other things they did was transfer a number of funded positions on to the CDEP—positions which should formally have been funded through the municipal service of the state government. It did cause endless problems for Woorabinda—hardship and heartache. I agree with you absolutely and completely. In hindsight, we would say that as soon as the alarm bells rang, we should have gone in and suspended the CDEP instead of suspending it 12 months later. But we are in the business of trying to assist communities to work their way through those problems, giving them the capacity to work their way out of problems in that nature. In this instance we may have left it too late before we did take action.

I think we also need to be quite up-front in saying that ATSIC is a supplementary funder to these communities. It is not supposed to be the first and foremost and only source of funding to Aboriginal communities. It is supposed to be a supplementary funder. Often we are left holding a very large bag where there have been deficiencies in other levels of funding coming into the communities.

There are still actions for this committee. There are still actions occurring as a result of the AFP investigations. Whilst they are themselves not taking any actions, there are actions now being taken within ATSIC to address some of the shortfalls that we see on an individual basis.

My understanding is that the CDEP at Woorabinda was due to recommence on 1 April. It has taken a long process of negotiation and planning to get them back on to the CDEP step. One of those steps that has been taken—similar steps have been taken in Palm Island, which I think the committee may be visiting—is to separate CDEP administration from the community council. It has become increasingly clear to us that the community council administrations are having difficulty administering CDEPs the size of Woorabinda, Palm Island, Yarrabah and those types of communities. The community councils themselves have recognised that and have incorporated other bodies to run the CDEPs and administer them in their communities.

We will probably be getting to the stage of financial reporting. There may be a question coming on that or you may like me to address that now. One of the issues that we have with our communities is the length of delay in which financial reports are received by ATSIC. We rely upon the Queensland Auditor-General to prepare his reports for the Queensland parliament, which is one of the reports that you have been quoting

from. Our guidelines require those reports to be with us at the end of the first quarter.

The Auditor-General has his own schedule for preparing those reports. They are generally not available between February or March of the following year. This means that not only ourselves, but obviously the Queensland government as well, is relying upon reports which are nine months behind the final reporting period. This does present a problem to us. We have had to change our terms of grant and condition to recognise that so that the organisations are not being put into breach for failure to acquit their grants. It does give us a problem in that we are already well into the next year's budget cycle. In instances such as Woorabinda, we are relying on reports which are coming to us from some considerable distance.

**Mr HARPER**—On that basis, are you saying that you have no report whatever from a particular council until February, March, April or do you have a preliminary report?

**Mr Allmark**—No, we get quarterly reports, which are due with us within two months at the end of each period.

**Mr HARPER**—So you are saying you do not have the audited copy?

**Mr Allmark**—Correct.

**Mr HARPER**—What emphasis and use do you make of the audited copy and the fact that it has the auditor's seal on it in the judgments that then flow for the following year's grants?

**Mr Allmark**—It is an integral part of our grant acquittal procedures. We cannot acquit a grant without the audited statement.

**Mr HARPER**—I am not talking about the acquittal. You mentioned that you are into the next year's grants and you rely on those reports in assessing what you do with the next year's grants. Are you saying that until you get the audited copy you take no notice of the preliminary copies?

**Mr Allmark**—The regional office makes an assessment, but we do rely heavily upon the audited financial statements as our key document for acquitting then being able to report to the regional council the performance of the organisation in prior years. One of the things is their unacquitted grants status. If there are a number of unacquitted grants, then the regional council tends to look at their prospects for the coming year. It does not delay the process but it does make life more difficult for the regional councils to frame their budgets.

**Mr HARPER**—Do you find many differences between the preliminary reports and



the final audited copies?

**Mr Allmark**—In general terms, no, but it is a document that we have to rely upon. for a quarter as what the annual report does that is done by the auditor. Correct?

**Mr Allmark**—Yes, it does. The annual report is an expanded version of a quarterly report, yes.

**Mr GRIFFIN**—So essentially the quarterly reports, in your experience, are generally accurate and are then in the annual audited report mirrored through that result unless there is a problem with the particular operation of the organisation.

**Mr Allmark**—That is generally true, yes.

**Mr HARPER**—What do you see as the reason why those audited reports do not become available till February or March?

**Mr Allmark**—It is a matter of timing for the Auditor-General. It is a matter for the Auditor-General.

**Mr HARPER**—No, not a matter of timing. What do you see as the reason?

**Mr Allmark**—I cannot comment on why the Auditor-General would do them at the time he does rather than earlier in the year. I do not know.

**Mr HARPER**—You have never made inquiries of the Audit Office as to that?

**Mr Allmark**—I think a number of people have made inquiries of the Audit Office, but it is not a Commonwealth body. We do not feel that it is our position to be questioning the Auditor-General of Queensland.

**Mr GRIFFIN**—It gets down to the question of when the Auditor-General of Queensland is able to get to those reports, given his overall work load.

**Mr Allmark**—His work load, yes.

**Mr GRIFFIN**—It is a question of the information being provided to him in order to allow that to proceed.

**Mr PEARCE**—Does that mean that ATSIC cannot pick up any developing problems within the community until you get the Auditor-General's report?

**Mr Allmark**—No, it does not mean that at all. The quarterly reports are the early

warnings signals for us.

**Mr Schnierer**—In relation to one of the aspects of the problems that you are talking about in Woorabinda, since Woorabinda we have brought in a new computer system to help us check participants schedules. That was a key problem in relation to Woorabinda about checking who was on the program and who was not. That becomes another tool for our CDEP program to monitor what is happening in relation to participants in individual projects and to, from there, act if there are problems. There are a number of tools like that that we use.

**Mr MALONE**—What departments and agencies do you deal with? Which are the ones you find it easier to deal with and which are the ones who are more difficult?

**Mr Allmark**—We deal principally with the Department of Public Works and Housing and the Department of Local Government and Planning. We used to deal extensively with the Office of Aboriginal and Torres Strait Islander Affairs but that group has been contracted in its function, if you like. Its functions have been mainstream to the larger bulk of the department, so we do not have as direct contact with them as we used to have.

**Mr MALONE**—Department of Local Government and Planning and what was the other one?

**Mr Allmark**—The Department of Public Works and Housing. We have considerable interaction with the Premier's Department.

**Mr MALONE**—Do you have good ongoing relationships with those departments? Do you have any particular problems?

**Mr Allmark**—In relation to the two functional departments, public works and housing and local government, yes, we have good relationships with them.

**Mr MALONE**—What about the Premier's Department?

**Mr Allmark**—The relationship with the Premier's Department is up and down depending on the issue. We are desperately trying to work through the Century zinc mine at the moment. That is creating the odd friction, but it is generally very good.

**Mr HARPER**—Richard, could I extend a little further as to what you actually rely on in the reports that come through from the Auditor-General. Are they the comments of the Auditor-General or are they strictly the financial figures that are there, or both?

**Mr Allmark**—Both. Principally, we rely on the financial figures that come through from him but we also, obviously if he is reporting efficiencies as he sees them in the

training or the effectiveness of the community organisations, would clearly be taking notice of that.

**Mr HARPER**—Do you get those reports directly from the councils or from the Auditor-General?

**Mr Allmark**—We get them from the government bookshop when they come out. The organisations themselves—the community councils—send them to us directly as they get them. We usually get a copy from the bookshop first.

**Mr MALONE**—It is a new definition of user pays if you have to buy them from the bookshop.

**ACTING CHAIR (Mr Griffin)**—In real and practical terms, if you were able to get the audited reports earlier, would that have an improvement in terms of ATSIIC being able to do its work in terms of planning, et cetera?

**Mr Allmark**—Yes, it would. It would allow us to formally acquit the grants which are remaining unacquitted for up to nine months. If there are problems at that stage then we are able to work through them with the community and the organisation prior to entering into the budget cycle which commences towards the end of the calendar year and gets into full flow in January and February.

**Mr Schnierer**—On an informal basis, obviously it builds our confidence in terms of dealing with that organisation. It is a simple thing. We would expect our staff to be vigilant until we got the Auditor-General's statement. Everyone would expect that obviously.

**Mr HARPER**—Given that a lot of those reports are actually finished and audited by September or October and the Auditor-General is waiting—as any auditor does, no matter whether it is a government or commercial organisation—until the organisation completes its accounts and then sets about finally approving those accounts and putting his stamp on it, given that the individual councils have to sign off with the Auditor-General the financial statements for the year, and they would have those available immediately that is done, have you ever tried to then ask them rather than waiting to go to the government bookshop, which may well be months later, to get a photocopy of that at that immediate time?

**Mr Allmark**—My apologies to you. The remark was a little flippant. The organisations do send us their copies as they get them as part of their formal acquittal documentation. As soon as they get them, they send them to us. But these are not coming back until February or March.

**Mr HARPER**—None at all?

**Mr Allmark**—No.

**Mr HARPER**—That is an issue that certainly fascinates me. I can see that it is a problem for you, and that is an issue that certainly we will take up as joint committees. While we cannot tell government policy, it is certainly an issue we can take up and see if it cannot be resolved.

**ACTING CHAIR**—Have you got any experience outside the ATSIC situation in terms of other areas of government where you would be looking at a nine-month delay from the end of the financial year before audit reports would be completed? Is that usual?

**Mr Allmark**—No, it is not usual.

**ACTING CHAIR**—Normally, it would be more like two, three or four months?

**Mr Allmark**—We expect to have documentation from other organisations outside of government completed by October.

**Mr BEDDALL**—The Queensland members may be able to refresh my memory on this but, at some stage, the Auditor-General did not report annually on departments. Has that changed? I am just wondering if what is happening here is common in Queensland departments—that is, it is nine months before you get audit reports.

**Mr HARPER**—No, basically the minister has to table the department's report within three months and 14 days of the end of the financial year. If the minister does not do that, the minister has to make a statement as to why not and when they will be tabled. That is an issue that certainly, jointly with the Commonwealth, we will pursue.

**Mr HAYWARD**—I want to ask a couple of questions to cover some of the areas I want to catch up with from before because I was not sure of what you said. Firstly, I thought the point was made before with regard to the CDEP program, for example, that some of the councils were having difficulties handling it because of the sheer size of it. Given the discussion about the audited acquittal that you are going to need and the examination of that, how were you proposing, should you separate the CDEP program from any other general grants—for want of a better word—to have the CDEP program audited? For instance, the state Auditor-General would not be able to do it because the activity probably would not be controlled by the councils. What were you proposing?

**Mr Allmark**—The organisation would appoint its own private auditor, as do all other Aboriginal organisations which are not covered by this particular act.

**Mrs STONE**—Right at the beginning of Mr Schnierer's statement, he talked about the fact that you were looking at past performance, grant acquittal and program management capacity when you assess the grant applications as they come in. Then you

talked about the new fairly tight budget environments that are now with us and how you are looking in particular at those who performed well in the past and how you can be sure that the funds will be used in the way they were intended to be. Is that a worry to you? Is there a situation developing where those who are most able get even more funds to support them, whereas the most remote communities, the least able, end up always with the poor end of the deal? Is that the situation? How are you planning to deal with that so it is not a case of the least able having less access to funds?

**Mr Schnierer**—In terms of identifying needs within separate programs—and it is done slightly differently in each—when I talked about the social, cultural and economic programs, you also have to understand the dimension that we have in terms of what we call regional council discretionary budgets. Some of those funds flow to regional councils in terms of the level of funds. Funds are then distributed across the country through the regional councils. So in relation to those particular program elements, that is one way the resources flow. We make sure that remote areas are covered in that situation.

As for CDEP and housing and infrastructure needs, we look at needs and planning processes that need to go on there. We work with the state government—particularly, as Richard hinted earlier, we work closely with the NT government on housing and that. Through those sorts of arrangements, we can better target where the areas of greatest need are, so we are very aware of the need to make sure that remote communities are serviced properly.

We get into the difficult question of what is a fair cut of the cake sort of thing as well, because needs are fairly high in any one of these areas. So that is a difficult challenge for ATSIIC to satisfy everyone, like it is for any person who has control of the purse strings.

As I said, each regional council has a discretionary budget. The size of that discretionary budget is determined a bit on past history and previous funding. It has been hard for the commission to come to grips with things like a needs based formula, if you like, because some of the historic allocations that were made are a little difficult to undo now because it is hard to take away what you have given before.

There is an assumption to a greater degree that needs are pretty high right across-the-board, whether they are in remote, urban or just rural areas. Obviously, spreading it through the regional council network makes sure that, for those discretionary programs, funds flow to remote communities and also their quite particular needs in the other major programs—like CDEP and the community housing and infrastructure program, the CHIP program. That dimension is addressed specifically in those programs as well.

**Mr BEDDALL**—I thought Ms Maseyk said before in her evidence that, because of the cut in funding, previous grants were now carried through. Any money that was left

over through the regional councils was then advertised rather than the whole thing being advertised. Is that right?

**Mr Schnierer**—Yes, that is right.

**Mr BEDDALL**—That is what happens now. Mrs Stone is making the point that those people who are getting the money always get the money and the other people cannot get into the loop. That is the point.

**Mrs STONE**—My concern is that you are saying to us that you are trying to separate needs out from ability to manage the funds. You inferred that a minute ago in your evidence. Are you having the same requirements for accountability for those less financially or accounting experienced regional remote communities to ensure that they are able to compete and get their hands on regional council discretionary funds? Are they are as able as they might be?

**Mr Schnierer**—Because of the reduction in relevant programs, with the loss of what we call CTP—the community training program—which was a specific program that we had available for all people to participate in, and because of the quarantining that has happened with ATSIC's budget, decisions had to be made about which programs are reduced. In relation to remote communities, our regional office in particular and regional councils are responsible for getting out to communities to let them know what programs are available, to advise and assist with applications and the like. As Ms Maseyk says about the advertising process, that is also backed up in relation to the information that we would make available through our regional offices across the country and particularly those in remote areas.

We take a lot of effort to make sure the information flows out there and try to support communities and organisations as much as we can with their ideas. But we also need to work through in our policy and practice how far we go on that because we are, as an organisation, committed to empowerment and self-determination in those local areas. We think they are the best people to determine how to identify their needs and to come up with the ideas for projects and programs. That, obviously, requires a high level of skills and expertise. It is a difficult problem that we are aware of.

Unfortunately, the loss of CTP is going to cause difficulties. Organisations that still get funded are going to have to look at other ways of funding the training and skills development. We are hoping to look to other agencies, for a start. There is a problem there. That is one of the reasons we are looking in our review to simplify and streamline our grant procedures. We accept that it is onerous on small organisations in isolated areas to be able to come to grips with that.

**Ms O'Connell**—As part of that review of the grants procedures, we are looking at using that past performance history more as a measure of what type of monitoring we

should use for those organisations. We would do less monitoring of those that have a good history in terms of their acquittance of grants and financial performance than of those that perhaps did not have the same performance. Rather than use it as an indicator of whether or not to fund to an organisation, we would more use it as an indicator of to what extent we should monitor a particular organisation. Having said that though, there must be some threshold minimum standard of financial performance that an organisation must achieve in order to get funding. There is a question about where that minimum standard rests.

**ACTING CHAIR**—Okay.

**Ms Paton**—I think it would be reasonable for us to use the opportunity, nonetheless, going back to the question raised by Mrs Stone, very much picking up Mr Pearce's point in relation to the chaos created in Woorabinda when funds were withdrawn. This is what we are faced with across the spectrum now. Very many of the organisations have been funded historically over a period of time. The same chaos would emerge if we withdraw funds from them at this stage. So the answer is yes. New communities or those who have had a shorter history are the ones most likely to be affected at the moment by the cutbacks which we are experiencing. It is an issue of overall levels of funding rather than selecting who is better or not. You have to maintain levels of funding to major organisations who have been on the boil for a number of years. They may be CDEP or other types of organisations.

**ACTING CHAIR**—Yes, when you cop a major funding cut, it requires real consideration of what you do with the organisation.

**Ms Paton**—Your freedom of choice is very limited when you come to the crunch.

**Senator GIBSON**—I am pleased to see that the special auditor has recommended to your organisation that greater emphasis should be placed on performance reporting and outcomes and outputs. So that I can have a better understanding of the financial reporting problem and accountability, can you say how much money ATSIC is spending this financial year on these 14 plus two communities in Queensland? What would be a rough split-up of that amount between capital grants and operating grants? I ask that question basically to understand how the push to move into accrual accounting can apply to the work that is carried out.

**Mr Schnierer**—We have available a spreadsheet which will show you the amounts to each council over the last three financial years, including this one. The problem is I just noticed we did not have the totalled up at the bottom, so I cannot give you the overall view through each program. I apologise for that. But that is available for you.

**Senator GIBSON**—Thank you.

**Mr Schnierer**—That will show you, down to the program level, social, cultural and economic data. Underneath that are some of the specific programs in terms of housing

and infrastructure, CDEP wages and that sort of thing.

**Senator GIBSON**—So it is easy when I get this kit.

**Mr Schnierer**—Yes, you can have it.

**Senator GIBSON**—Will I be able to see roughly amounts either of a capital nature or an operating annual nature? Or is that not available yet?

**Mr Schnierer**—I would have to have a look at that to get that information for you. At this point it is just a subprogram level, so I cannot give you the second part of your question, which is how much goes into administration. We will endeavour to provide that for you.

**Mr BEDDALL**—Can you give us an overview. I know there is a little bit of confusion in the sense that Brian is talking about 14 councils and I realise now that there are 17 island councils. What is the reporting mechanism? You talk about regional councils. There are all these different sorts of councils and we want to be very clear on what we are talking about. How many regional councils are there in Queensland? Who do they report to? Do they report to ATSIC Queensland management? How are these councils broken up in the way they report to regional councils? What is the structure?

**Mr Allmark**—Each regional council reports through its regional office. We have five regional offices and six regional councils that operate within Queensland.

**Mr BEDDALL**—Is there a matrix which shows us which of these Aboriginal and Torres Strait Islander communities reports to which council?

**Mr Allmark**—Yes.

**Mr BEDDALL**—It is not necessary now, but just so that we actually know who we are talking about.

**Mr Schnierer**—Sure.

**Mr BEDDALL**—When we intend to visit, it might be best if we break up that information so that we can see that sort of structure.

**ACTING CHAIR**—It would be handy to have an example of an indigenous person in X location, their local Aboriginal council, their regional council and how that all fits in together—even having an application that is made at that level, where it goes and how it ends up.

**Mr PEARCE**—Applications for funding are called for, they meet the criteria,



funds are approved by the responsible officers and a cheque is paid. Can somebody explain to me who within ATSIC is responsible to ensure that those moneys are disbursed in accordance with the application?

**Mr Allmark**—In accordance with the—

**Mr PEARCE**—Who is the accountable officer once a cheque has been given out?

**Mr Allmark**—There is a series of delegations before the cheque is released to the organisation. Funds are generally released quarterly. We are not able to release in advance of need, particularly for capital projects. We cannot, for instance, release 100 per cent of capital money up-front. We do that on a stage basis as costs are incurred. There is a series of delegates in our regional offices who check on the progress of a project as it goes forward, the final delegate in the regional office being the regional manager.

**Mr PEARCE**—He would be the accountable officer?

**Mr Allmark**—He would be the accountable officer, or she.

**Ms Maseyk**—When the grantee accepts the offer of grant in a letter of acceptance, they are also accepting ATSIC's terms and conditions of funding, which include that the funds will be spent for the purpose for which they are provided. So once the cheque has left ATSIC, the grantee is under an agreement with us to spend the funds in accordance with the project budget which they have agreed to in the letter of acceptance. The way that ATSIC monitors whether that happens is through the regular financial statements that we receive, the performance reports and field visits.

**Mr HAYWARD**—In general, I am trying to learn something about this. The way the grant procedures have been painted to me, certainly as a member of this committee, has been that it is a fairly orderly procedure whereby communities make applications based on their regional plan or whatever to obtain them. But there does not seem to be any mention in that whole process, as I understand it, of the role of elected regional councillors. I would have thought that surely elected regional councillors would have been able to argue or advocate for their particular council or area and the particular grant or whatever it is that they wanted.

In that whole grant process there did not seem to be any mention of the position taken by elected officials to be able to argue the case for a particular grant or argue a case for not reducing a particular grant to an area. I do not know whether I have just missed something, but there does not seem to have been any mention of it. I would have thought that within this process elected councillors could have and, I suspect, do play a very strong role in ensuring whether or not grants go to particular areas.

**Mr Allmark**—What you have said is exactly right and that is what happens. The

regional council receives the application. It is not the regional office. The regional office of administrators goes through and ticks the boxes and does the assessment of how much they got last year, did they have an unacquitted grant and those sorts of things. But the discussion, determination and approval of grants is done by the regional council, which is the elected representatives themselves. They take those decisions and then we carry out the decision from there on. So it is in fact the elected councillors who are taking those decisions.

**Mr HAYWARD**—So when we talk about the issues that were mentioned before about priorities, need and stuff like that, would I be right in thinking that just occasionally sometimes those priorities like need and stuff like that can get chucked out the door because of an individual councillor's ability to be able to advocate a position or a particular grant?

**Mr Allmark**—I think that is the political process, Mr Hayward; isn't it.

**Mr HAYWARD**—There did not seem to be any mention of that. No-one on the committee mentioned that at all. It just seemed to be a straightforward procedure: you just whack in the grants and off they go. They cannot work that way.

**Mr Allmark**—It certainly happens.

**Mr Schnierer**—Richard is talking about regional council determining expenditure. We need to be clear that we are talking about only discretionary funds that are made available to them. Another process goes on with what we call our national programs, which we have to be frank about. The priorities and needs there are determined at the board level nationally by the elected commissioners, so a lot of debate and discussion goes on there about the merits of the funding.

The other issue you might need to be aware of—this is an internal issue of some concern for ATSIC and you might not yet be aware of it—is the debate about separating powers within ATSIC and moving the elected arm away from making decisions on projects, particularly because some people see there could be conflicts of interest and the like. That debate is going on and will be covered in a review of the ATSIC Act over the next year or so.

**ACTING CHAIR**—What sorts of figures are we looking at in that discretionary funding you are talking about?

**Mr Allmark**—In Queensland it is about—this is purely off the top of my head—\$50 million.

**ACTING CHAIR**—I know the councils vary in size but the grants they would be making would be for 10 grand, five grand?

**Mr Allmark**—No. It would be anything up to several hundred thousands.

**Mr MULHERIN**—I direct this question to Peter. In your response to the discussion paper the comment was made that a problem existed in Queensland in the ‘type and wording of certificates of fund usage and compliance with prescribed procurement methods’. What prohibits a standard wording of such a document between Queensland and ATSIC? That was item 2 of ATSIC’s response to discussion issues. You say:

It would be preferable if the State and ATSIC agreed on a standard wording for such documents . . .

What prohibits that now? I am referring to pages 3 and 4.

**Mr Allmark**—The procurement requirements were in fact altered by Queensland in October last year, I believe, and the procurement requirements are now almost identical to those of ATSIC. There is no further difference. There are differences in the degree of financial reporting requirement, and that is in relation to the provision of lists of debtors and creditors—for example, if the organisation is on a cash accounting basis. There are still differences there that are being addressed, I understand, in continuing reviews, but for procurement requirements we understand they are now almost compatible—or at least compatible enough that it would not affect any of our grantees going into breach.

**Mr MULHERIN**—Jim Pearce mentioned the Queensland Auditor-General’s report into Mornington Shire Council where the auditor stated that the council is also trying to resolve a dispute with the Aboriginal and Torres Strait Islander Commission in relation to the payment of ATSIC grants totalling \$1.4 million dating back to 1992-93. Is it possible that ATSIC could provide this group with some background information for that as well as the Woorabinda issues raised by Jim?

**Mr Allmark**—Yes, we could. The matter is also one of ongoing concern to the Commonwealth Ombudsman. There has been substantial documentation about that which we would be happy to release to the committee.

**Mr HARPER**—Peter, this is really a conglomerate, and it involves Sylvia. I think Lyn might have made some comments earlier as well. All the issues tie in together, but I want to look at risk management first. We are talking about grants of anything from \$3,000 onwards. The processing of small grants like that—there must be several of them, obviously, to spend the total funds—must be fairly onerous for you at ATSIC as well and eat into a lot of your office management time. I think Sylvia mentioned the annual reports are used partly to look at acquittal of grants. We have looked at annual reports for some 30 years. Some of them do not always give a lot of detail on individual projects. Do you have problems there? More specifically, do you feel there should be more or fewer bank accounts to try to help you see that specific grants are being acquitted properly, or do you feel you get enough from just one bank account?

I think broadbanding is also an issue. I would like some further comments, Peter, in regard to how you see you are heading with broadbanding and also with accrual accounting. Do you see that giving you problems?

**Ms Paton**—We have recently done some research on the number of small grants that ATSIC administers and, yes, something like 60 per cent of our applications are for amounts under \$50,000. So this is one of the things that have been put to the review of grant procedures: looking at ways of streamlining this. Currently we require the same level of assessment of a grant application regardless of the amount of the grant, so doing a 16- to 18-page assessment of an application for \$3,000 is quite time consuming.

We do not require an audited statement for a grant under \$50,000 to acquit it. We require just evidence of the expenditure and a certification by the chairperson of the grantee. In the grant procedures pertaining from 1 July 1996, we do not require an audited statement for a one-off large capital grant either, unless the grantee chooses to provide us with that. If it was for a large capital grant exceeding \$50,000, evidence of expenditure is also an acceptable acquittance of that.

With regard to the number of bank accounts, ATSIC's procedures require just that a separate bank account for ATSIC's funds be kept and that the grantee's accounting procedures enable the tracking of funds through that account.

**Mr HARPER**—That is a point that some of the communities we have gone to have raised: having to have a number of accounts becomes onerous for them and they would love to be able to get down to just one account. Do you feel that would be possible in the future? I know that would take away your ability to go to just one bank account and one statement and say, 'That's all of ours.'

**Ms Maseyk**—That is right. When we require an audited statement that shows us the health or otherwise of the whole organisation, we do not actually need to know the ins and outs of expenditure of funds from other sources. There is a bit of an issue there about whether we need to have that information and whether it is correct for us to have that level of detail of information. I can also see that, with ongoing improvements in accounting—software and so forth that is available—it would be easy for us, even if there was one bank account, to monitor the expenditure.

**Mr Schnierer**—We tend to be a little gun-shy about risk management because it is a bit difficult at times to see where the benchmarks are in terms of the acceptable level of risk, particularly coming from both parliaments. It is an ongoing thing and it seems to change over time. We can get into quite serious trouble—and have—down to the point of \$1,000 or \$2,000 grants. In our grant portfolio it is very difficult for us, because of the number of grants and the huge size of the funding, to make sure we have all the information that particularly politicians want in relation to each grant, what has happened to them and the like. When we talk about risk management, ATSIC in particular is a little

bit gun-shy. That comes partially from the special auditor exercise as well in terms of the level of detail that people want on every grant. Hopefully we might see some lead from this particular exercise in terms of where both parliaments see those benchmarks.

**ACTING CHAIR**—The problem with risk management is that it is a term that everyone likes but no-one quite agrees on what it means.

**Mr PEARCE**—On the same issue, could you go back over what you said about the \$50,000 and the auditor's statements? Is it under \$50,000 that you do not require one?

**Ms Maseyk**—That's right.

**Mr PEARCE**—What happens over \$50,000?

**Ms Maseyk**—For anything over \$50,000, if it is a capital grant only, the grantee is required to provide us with a certificate of funds usage and evidence of the expenditure. If they are also in receipt of the current funds they are still required to provide us with an audited statement. If they are only in receipt of capital they can opt to provide the audited statement rather than to provide the actual copies of invoices and paid accounts.

**Mr PEARCE**—Therefore you have a handle on exactly what is happening with that grant. You have an understanding of what is being done with the grant and the way the money is being dispersed. So why would you require the statement from the Auditor-General? To pick up any problems?

**Ms Maseyk**—Generally with these particular ones, because they are large CDEPs in a lot of cases, we require an annual audited statement in any case. The statement from the Auditor-General is what we use to acquit those large recurrent grants.

**Mrs STONE**—I would be very interested in looking at the terms of reference or the areas of the discretionary fund expenditure. Another major concern is the community training program. I think we have all agreed that in some communities, not just indigenous communities but right throughout Australia, there is a lack of expertise in project and financial management. You have told us about the substantial cutback in the community training program. You suggested, Mr Schnierer, that you are looking at other agencies perhaps providing some of that training. Can you tell us exactly what you are doing there? To what extent do you still have some capacity to carry out this training? Who are you looking to to provide that training in the future and what sort of significance or importance are you putting on finding those other providers who will pay?

**Mr Schnierer**—In terms of the sorts of training that we can provide already there have been established processes. Some of our state managers bring together representatives of organisations on a regular basis and work them through the latest situation in relation to what we require on the grants and the terms and conditions and how we expect them to

comply with those matters. That is not in-depth training by any sense; it is really just trying to raise their awareness about it and to make sure they are fully aware. The opportunity there is, to a certain extent, for our staff to be able to assist organisations in those situations. We also look favourably on those organisations who want to import the skills. Maybe it is not worth trying to develop the skills that are only going to be used not on a very frequent basis in terms of auditing and the like.

That is against a huge problem that we have generally, which is the difficulty we have with just the general level of education and training in the Aboriginal community. I think the problem may be even greater than we think. That means that we have to rely on other agencies in those sorts of areas, like DEETYA and state training authorities or whatever, so that organisations can look towards them in terms of training. These are things that will be explored in terms of us trying to develop a training program, if you like.

As I said and as you are indicating, it is a huge challenge for us to come to grips with, because for a start we have a complicated set of procedures. Particularly in the remote communities that you were talking about earlier, rural communities do not have an accountant around the corner and are relying on accountants 700 kilometres away to do their work. It gets even harder for them to be able to manage all of that.

We are acutely aware of the problem. We have an infrastructure there for our staff, but they are not trainers of organisations. The other dimension to this is that some organisations draw a line as well and say, 'No. We will do this ourselves.' To a certain extent we are happy with that, as long as the quality of reporting is kept high. As I said earlier, that is in respect of our commitment to them, looking after their own problems and dealing with them themselves. But I cannot escape the fact that the resources are more limited now than ever before because of the loss of that program.

Organisations might be able to look at the funds in terms of some of the grants creating opportunities for people to gain training, but it is very limited because of the purposes of the grants that we already provide. That is something that we have to look at. There is no doubt about it, but we are going to have to look towards other agencies, such as DEETYA hopefully or some of the state training authorities to come up with creative programs to get those skill levels up.

**Mr HARPER**—I have a very quick question that I will leave with you and ask you to come back with an answer on in future months. I put the proposition that, rather than have all of the grants and all of the work that goes into assessing applications, monitoring them, et cetera, at the beginning of each financial period you split up a total amount of money between a number of your councils and you say to them, 'This year you have X dollars. It is entirely up to you how you spend it. You are the ones responsible for ensuring that your community is maintained properly with all the things that you want to do', and at the end of the year all you will get is an auditor's report to ensure that there is

no fraud or misspending.

Could I leave that with you? I would be interested in your comments as to whether that is a more workable system and one that might overcome a lot of the problems for the councils and yourselves of assessing, making the grants and following up with the accountability side.

**Mr Schnierer**—I would like to take that question on notice. My general comment is that that is a huge leap away from where we are now in terms of pressure and the type of scrutiny that we are subjected to, plus the sorts of controls that we have over us in relation to major matters such as our program structure.

**Mr HARPER**—Can I comment that I came from an organisation that spends well over \$1 billion a year also. We looked at the managers and 40-odd officers wanted that and they just got an amount of money. It is a proposition that can be looked at and which some organisations do put into place. In that case the manager, and in this case the council, would be then responsible for delivering promptly.

**Mr Schnierer**—That is very consistent with what I was saying earlier about the application of the self-determination principle. We see that as being something that should be applied very much to regional councils. However, we at ATSIC tend to be alone on that at the Commonwealth level as opposed to some of the other central agencies who want to make sure that things are accounted for in a certain way. While we want to explore that and we do explore it, we are pretty well hamstrung by the accountability frameworks that are imposed on us.

**ACTING CHAIR**—I would like to thank you and your team for coming along today and giving us a lot of information that will help us with our considerations. As I mentioned earlier, there are probably some other questions that will arise out of what you have said and what has been raised today. We will probably write to you in the next several weeks with some other questions which we have not had a chance to ask. At this stage, thank you for your cooperation and assistance.

[12.27 p.m.]

**BLAKE, Mr Alexander Robert Leslie, Director, Infrastructure and Services Section, National Office of Local Government, Department of the Environment, Sport and Territories, 1 Bowes Place, Woden, Australian Capital Territory**

**McLUCAS, Mr John Allen, Assistant Secretary, National Office of Local Government, Department of the Environment, Sport and Territories, 1 Bowes Place, Woden, Australian Capital Territory**

**ACTING CHAIR**—I welcome representatives of the National Office of Local Government to this public hearing by the Joint Committee of Public Accounts and the Queensland Public Accounts Committee for their joint review of financial reporting requirements for Aboriginal and Torres Strait Island local government councils.

Both the Commonwealth and Queensland parliaments have passed resolutions authorising joint public hearings by the two committees. Accordingly, you may be asked questions by members of either committee. Copies of the resolutions are available from the secretariats.

The hearings are legal proceedings of the two parliaments and warrant the same respect as proceedings of their chambers. The evidence given today will be recorded by *Hansard* and will be fully protected by parliamentary privilege. For the purposes of today's hearing I ask that all questions and answers go through me as the chair of the host committee. I now invite you to make a brief opening statement before members ask questions.

**Mr McLucas**—I am head of the National Office of Local Government within the Commonwealth Department of Environment, Sport and Territories. The office manages the day-to-day relationship between the Commonwealth and local government and, in doing so, administers two major programs.

The first is the financial assistance grants program under which some \$1.2 billion is paid annually to local governments throughout Australia. The mechanism by which that payment is made is perhaps important to the deliberations of this committee because the payments are made as special purpose payments to the states and each state has its own local government grants commission which then divides the money up, if you like, between the local governments within that state. And in the hands of local government, when they receive their grant, that grant is totally untied so the local government can spend it on whatever priorities it has.

The effect of all that on the accounting requirements is that the Commonwealth does not have an accounting requirement on local government separate from the state



requirement. The state is the body which makes the final payment to local government and the acquittal requirements et cetera are those of the state. The requirement that the Commonwealth has is simply that the state acquits the special purpose payment by letting us know that the payments have been made to councils at what level. Just to repeat it: that means that we do not have a separate requirement from the state.

The other program that we administer is the local government development program. That program will run for another two years after this year, with approximately \$4½ million a year available throughout Australia for projects. The aim of the local government development program essentially is to complement the very large payments that are made through financial assistance grants—to help ensure that those financial assistance grants are being well spent and that local government is being efficient and effective and that it is addressing services to Aboriginal and Torres Strait Islander communities, and so on.

Those objectives are set out in the Local Government (Financial Assistance) Act as objectives of the act. The idea of the local government development program essentially is to complement those payments, and to help improve the way in which those funds are spent for the benefit of the communities which receive them.

Lastly, as set out in our submission to you, we have one major project under the local government development program—a project with the Northern Territory—which is about skill enhancement in remote Aboriginal communities. One of its objectives is to improve the financial capabilities of Aboriginal councils. But that is only one of its objectives. More generally, it is to improve the capability of remote Aboriginal councils in the Northern Territory to fulfil their full role of functions as a community council for their local community.

For that program, the Commonwealth is putting forward about \$1½ million over three years; the Northern Territory is contributing about \$1.8 million; and the Local Government Association of Northern Territory is contributing about \$50,000. It is a tripartite program. One of our intentions for that program is that, when it is fully developed, it may well be translatable to Aboriginal councils beyond the Northern Territory—and I think that is probably of particular interest to members of the committee.

**Mr HARPER**—Please pardon me if I have this wrong, but you have just spoken of the remote area management project. Northern Territory and Queensland have distinguished between the mainstream and Aboriginal councils. I wonder if you could give us a little more detail about RAMP, as I think you call it, what its goals are and to what extent Aboriginal councils will be, or could be, involved in that.

**Mr Blake**—The particular program was set up, as John said, on a tripartite basis to address what was recognised as a major shortcoming with the communities. It was easy enough to say that they were not capable of meeting a lot of the requirements, and there

are a number of training systems around that attempted to address that. RAMP was developed specifically to address a number of issues.

A lot of those issues relate to community self-management and self-determination. The program is to address or improve the delivery of services to the community; accountability requirements; to address the issues of the rights and responsibilities in relation to local government; and generally over time to put the communities in a position where they are able to meet the formal requirements of any sort of administrative structure or infrastructure existing there. Also, it is intended that these things be done in a culturally relevant fashion, to try to strike a balance between the cultural requirements of the communities and also the administrative requirements of the formal infrastructures that exist.

**Ms STONE**—We have just been talking about community training programs with ATSIC in relation to the Queensland situation. You have mentioned the players in the skill enhancement program of the Northern Territory. Is ATSIC involved in that program with you in the Northern Territory?

**Mr Blake**—They are part of the steering committee within the Northern Territory. But, effectively, that program was initially developed by the Local Government Association of the Northern Territory and the local government department within the Northern Territory to address a number of issues.

**Ms STONE**—What stage is this program at? How long will it be before you can look at it and see whether it has been effective and perhaps is transferable to Queensland, for example?

**Mr Blake**—We have been working on the program for about 12 months. It is a three-year process. The idea is to develop in the long run about six or seven accredited modules that will eventually be capable of being taken on in tertiary institutions for training purposes. It also involves the development of a CD-ROM.

A lot of communities do have the computer hardware and the capacity to use these particular pieces of material. Many of them have bought a lot of reading material which has not been very relevant to their needs. The idea has been to develop a CD-ROM which, again, is culturally relevant and interactive. In the territory it will be developed in up to seven different languages; they overlay different language tracks on the CD.

Effectively, this means that people within the community can use the CD-ROM. They can click on a particular subject that they want to learn about and animated figures will appear. This is being brought about through filming they have done using Aboriginal actors, if you like, or people from Aboriginal communities. Those people have walked around and undertaken certain activities. Then they have animated those so that you do not run into the difficulties of some of the cultural problems that exist.

Those animated figures then actually talk to the people who are using the CD about the particular subject that they want to learn about. Those subjects will cover anything from introduction to resource management, organisational skills and local government and community issues to some of the more specific to the community—financial planning, financial management, budgeting and physical resource management, and program planning.

While we are developing it, we actually have facilitators who go out and work with the communities. They work out what their priorities are and how they develop them. The modules are very much developed on an interactive basis with the individual communities.

**ACTING CHAIR**—You mentioned a 12 months to three-year program. Are interim results occurring, or is it really a situation that it will be three years before it is all up?

**Mr Blake**—Training is already under way in about 20 of the communities in the territory. A number of those have been done as pilots while the people have been developing the modules. There has been some very positive feedback from the communities. A lot of them are actually now bringing about some quite significant changes within their work. We are hoping that the CD will be available for launch in May. The intention is that it will be launched in Alice Springs.

**ACTING CHAIR**—Next month?

**Mr Blake**—Next month. We are also hoping to take the CD-ROM to the reconciliation conference in Melbourne at the end of next month to identify and to indicate to other local governments around Australia what is happening with the program. It is getting quite advanced.

**ACTING CHAIR**—Would it be possible for us to get a copy of that when it is released?

**Mr Blake**—Yes, certainly.

**ACTING CHAIR**—You mentioned that there has been quite positive feedback from some of the communities, and you have mentioned that there has been some piloting going on. Are there any reports on those pilots about what problems they face and how they have sought to resolve them?

**Mr Blake**—Yes, we certainly have had some reports from the particular facilitators about what has been discussed and the various issues and how they have gone about developing the programs.

**ACTING CHAIR**—Would it be possible to get a copy of some of those reports?

**Mr Blake**—Certainly, but they are mainly just progress reports on the development.

**ACTING CHAIR**—They will probably give us a bit of an idea of what is happening in that area and the question of the sorts of problems that people are facing.

**Mr PEARCE**—Can you identify any communities where training programs have been completed and you actually have had qualified or suitably trained people in place?

**Mr Blake**—We are not quite that advanced. We were fortunate enough to go with the facilitators, about six weeks ago, out to Yarralin, which is in the central west of the territory, or about 300 kilometres from Katherine. There are about five communities around Katherine that they have been working with. There certainly are not any qualifications that have come from that as yet. But there has certainly been a lot of advancement in relation to the understanding of the requirements and responsibilities that the communities have, and there has been a major increase in the communities' acceptance of the responsibilities. They are also taking on a significant role in their own self-determination. They are quite interested in how they can pursue this in their own right.

**Mr PEARCE**—I support the concept of training people in the communities so that they can stay there and make a contribution to the community. But I am also a little bit concerned because of comments made to me about the ability to retain suitably trained people within the community once they get that training. Sometimes I wonder whether we fix the problem temporarily and those trained people move on, and then we have to go through the whole process again. Do you have any comment on that?

**Mr Blake**—It certainly has been a problem. There have been a couple of other projects that we have been involved with which have targeted getting people who are experienced in road maintenance and in some of those particular activities, and they have moved on. We are hoping, though, that the training will be done in such a way that it will not be targeting only one or two within the community but that there will be significant involvement right across the community, including council members and administrative staff. We want it to encourage a lot more people from within the community to actually take a role in the local government within their area.

In general, the involvement is not just targeting one or two in a class; it is really working with as many within the community as possible. When we were in Yarralin, that actually involved the whole of the local government committee. There were about 12 who we were dealing with at that stage, and they were the elected members.

**Mr PEARCE**—Have you had any problems with accountability of grants provided to councils and shires?

**Mr McLucas**—As I mentioned earlier, we do not look for shires or councils to be

directly accountable to us. Essentially, they are accountable to the state government, through which the payments are made. There is the state legislation, which sets up local government or Aboriginal councils which have certain reporting requirements and accountability requirements.

**ACTING CHAIR**—Just so that I can get it clear in my mind, the circumstances are that a figure is allocated to each state for financial assistance grants and the state then decides how much goes to each council. Or does that come down from a federal level?

**Mr McLucas**—It comes down from federal legislation. The Local Government (Financial Assistance) Act 1995 actually provides that each state will set up a local government grants commission, and it says something about the structure of that commission. It also has within the act the basic principles on which the money will be divided. The centrepiece of that is that it will be on a horizontal equalisation basis which, without going into details, essentially means that less well-off councils get more money relative to the better-off councils.

In addition, that act also provides for there to be national principles, as they are called, which are made by the Commonwealth minister after consultation with the state ministers and the local government association. They provide extra guidance to the local government grants commissions. The split-up of the lump sum which the Commonwealth provides to the state is done by the local government grants commission in each state.

**Mr PEARCE**—Are you aware of any problems with accountability of the money that has been provided?

**Mr McLucas**—I believe that in Queensland, for example, there has been some qualification of the accounts of some councils that have come forward and so on. I am not aware of the details.

**ACTING CHAIR**—On the question of the actual carve-up of the money within any particular state, you are unable to comment on the nature of how that has been done other than the fact that there is this broad principle of horizontal equity?

**Mr McLucas**—I will mention a couple of elements of the national principles, as I think they will give you the flavour. The first one covers the horizontal equalisation. There is another provision that there be a minimum grant to every council. That is essentially what it says—it is in the legislation itself. But no council will get less than it would get if one-third of the total funds to the state were divided up on a per capita basis. That ensures that every council gets some money.

It says that if there is other grant support for the same sort of functions, that should be taken into account by the grants commission when dividing up the Commonwealth funds. It has a provision in regard to Aboriginal and Torres Strait Islander people, saying

that financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

There is a component of the grant, which is the identified local roads component. Broadly speaking, it is about road length, requirement of maintenance and so on. Each state grants commission has a quite detailed methodology which has to do with disability factors. For instance, in remote councils they take account of things such as distance from capital cities, cost of telecommunication facilities and a whole range of disability factors when they are actually allocating those funds.

My office produces a national report each year, which gives a breakdown of the funds to councils throughout Australia and some contextual information about those councils. It also covers the methodologies in every state of the grants commissions and how they go about their work. It also covers all the grants that are given out under the local government development program. Perhaps if I give that to the secretariat to make copies for all members of the committee, that might be useful.

**Senator GIBSON**—Is that financial reporting done on an accruals reporting basis?

**Mr McLucas**—It is not that sort of reporting; it is simply a reporting of where the Commonwealth grants went.

**Senator GIBSON**—So when your department reports on where the SPPs have gone, you are unable to split up what has been capital and what has been operating?

**Mr McLucas**—That is right because when the local government receives the money, it can spend it however it likes in accordance with its own priorities. Even the so-called local roads money is not tied and does not have to be spent on local roads.

**Senator GIBSON**—Do any of the state governments require identification on an accrual basis from the local government areas?

**Mr McLucas**—Most state governments require that their councils have their accounts on AAS27. That is within the Local Government Act. That gives that sort of split-up. Obviously, the Commonwealth grant is one of the revenue items within their accounts.

**Senator GIBSON**—In your experience in relation to Queensland, has that worked okay?

**Mr McLucas**—I am not totally aware of the Queensland situation. I can say that for some other states implementation of AAS27 has not been an easy process for some councils because it was quite a change for the councils in terms of what had to be taken into account, particularly in terms of valuation and depreciation requirements for parks and

roads and all sorts of things. I imagine that Queensland had the same sorts of difficulties, but I cannot bring to mind a particular example.

**Mr PEARCE**—I wish to go back to the training area again. The last dot point of your submission says:

the capacity to access other government programs, something that they find extremely difficult at that stage.

Could you go into a little more detail for us and identify the problems.

**Mr Blake**—There are a number of programs around either administered by Commonwealth departments or state departments that provide facilities or funding to carry out certain activities. A lot of local governments are quite expert at knowing what programs are around and how to actually access that funding for the purposes of certain activities.

A lot of the Aboriginal communities, not having the sophistication of their development at this stage, are not as aware of the programs that they may be able to access for the purposes of training, infrastructure, infrastructure development and those sorts of things. They are very much reliant on external agencies providing them with the advice rather than having that information contained within their own right and being able to make application if that is the type of program that is available.

**Mr McLucas**—I wish to add something to an earlier question about the enduring or non-enduring nature of any training that happens. It is just a postscript. I think that is one of the reasons why the CD-ROM was seen as important. It is something which would be an enduring resource—obviously it would date over time—to each community whereby a new person coming into the council or taking an interest in the matter could actually have an interactive device which would help them improve their skills.

**Mr HARPER**—That is an interesting comment. One thing stood out certainly to me and I think to the rest of my committee when we visited communities. People talk about the need for training councillors as apart from staff. There is a fairly high level of turnover each three years in councillors. A lot only serve one term and go, so you are getting a lot of new people coming in. In some cases, nearly the whole council is replaced. They are not in a situation where they are in the broader community like a normal council where they have been involved in clubs and associations and had at least some level of management experience or in businesses. They come in and are expected to act as councillors immediately without any experience.

**ACTING CHAIR**—In Victoria we have just had local government come back, so we have hundreds of new councillors running around. The only question I have there is that I do not know whether many of them have got that much relevant experience from

the community anyway. Are there any other questions? If not, I would like to thank you gentlemen for coming along today and sharing with us some of your thoughts, particularly on the RAMP project. The committee stands adjourned now until 2 p.m. for lunch. Once again, thanks for coming.

**Luncheon adjournment**



[2.07 p.m.]

**HAY, Mr Edward McGovern, Group Director, Australian National Audit Office,  
GPO Box 707, Canberra**

**LENNIE, Mr Douglas Stuart, Executive Director, Financial Audit Business Unit,  
Australian National Audit Office, GPO Box 707, Canberra**

**NICOLL, Dr Paul, Executive Director, Performance Audit Business Unit, Australian  
National Audit Office, National Circuit, Barton**

**ACTING CHAIR**—I welcome representatives of the Australian National Audit Office to this public hearing by the Joint Committee of Public Accounts and the Queensland Public Accounts Committee for their joint review of financial reporting requirements for Aboriginal and Torres Strait Island local government councils. Both the Commonwealth and Queensland parliaments have passed resolutions authorising joint public hearings by the two committees. Accordingly, you may be asked questions by members of either committee. Copies of the resolutions are available from the secretariats.

The hearings are legal proceedings of the two parliaments and warrant the same respect as proceedings of their chambers. The evidence given today will be recorded by *Hansard* and will be fully protected by parliamentary privilege. For the purpose of today's hearings, I ask that all questions and answers go through me as the chair of the host committee. I invite you to make a brief opening statement before members ask questions.

**Mr Hay**—I first off apologise on behalf of the Auditor-General for his inability to attend today. I hope that I am an adequate substitute and we are able to deal with the questions that the committee members might ask.

I thought that in the opening statement I should provide you with a broad overview of the mandate of the Auditor-General for the Commonwealth and how that mandate impacts on the terms of reference of your inquiry. Under the ATSI Act and the Audit Act 1991, the Auditor-General is empowered to undertake audits of the financial statements of ATSI and performance audits within ATSI. The Audit Act does not provide us with access or authority to undertake audits within the Aboriginal councils. In the submission that we have provided to the committee, we have tried to draw on analogies, our experience and information that we have available to provide answers to your questions and to assist in your inquiry.

We have also drawn a diagram which we think fairly represents the audit mandate and coverage of the activities of the council. I provide that to the committee. It may assist you in the directions in which your questions might go.

I would like to also introduce Dr Nicoll. As he indicated, he is an Executive Director responsible for the performance audits within ATSI. I will be asking him to

respond to questions that may cover that subject. Mr Doug Lennie is responsible for the financial statement audits of ATSIC. He therefore has perhaps a greater insight into some of the activities of Aboriginal councils as they are impacted upon by ATSIC. To put myself in context, Mr Lennie works for me and I am one of the group directors in the financial audit business unit and have ultimate responsibility for the activities of the financial statement auditing in ATSIC.

**ACTING CHAIR**—I might kick it off with an opening question which Paul and Doug might both like to comment on. Are there particular difficulties with ATSIC and the TSRA with doing audits in those areas, both on a performance level and also on a financial statement level, compared to other organisations and other parts of government?

**Mr Lennie**—If we take ATSIC first, as far as ATSIC's systems go there is no difference between that organisation and any other Commonwealth authority. As far as the sort of business they do—that is, making grants to Aboriginal and Torres Strait Islander organisations and councils—a good deal of our work in the financial statement area is spent looking at the grant acquittance process, which is a very material item in their accounts, to see that the grants for one year are acquitted in accordance with ATSIC's procedures before they fund the next year or, if they do fund the next year and the grants have not been acquitted, a certain delegation process is implemented within ATSIC.

Within the Torres Strait Regional Authority, which is now on its own, they have a lower level of expertise. They have employed a firm of accountants from Brisbane to write up their annual accounts for the last two years. The actual straight financial audit there is a little more difficult, I suppose, because of the lack of expertise on the ground up at Thursday Island.

**Mr Hay**—I think that is one of the interesting parts. In terms of comparing our audit involvement with ATSIC against some other Commonwealth agencies, the question of geographic disbursement—isolated locations in relation to where some of the regional offices are located—creates unique problems for the audit activity. It also creates unique problems for the management of the ATSIC program itself. In the past, we have made comments and suggestions about how those sorts of things can be improved. That is one of the unique parts of our mandate.

**Dr Nicoll**—In regard to performance audits, there are no special problems in conducting performance audits in ATSIC. We have good relations with them and they are very cooperative. I use the term performance to cover project and efficiency audits as well. We have done four or five audits of ATSIC over the last four or five years. In total, since the Department of Aboriginal Affairs was in operation, we would have done eight or nine performance audits since 1988-89. ATSIC does cooperate fully, as I indicated. The problems which we have identified are often to do with the quality of performance information. They are similar problems to what we find in many other organisations as well.

**ACTING CHAIR**—Doug, you sort of touched on that question of ATSIC's processes versus TSRA's processes. You seem to suggest it was an expertise question in that TSRA were a little further behind ATSIC in providing the information required in terms of audits. Is there a difference in the processes and in the procedures within each organisation and is there a preferred model from ANAO's point of view?

**Mr Lennie**—When the Torres Strait Regional Authority was established, it was prior to that issue that the committee was a regional office of ATSIC. So what it did initially was to takeover the ATSIC procedures and just adopt them in total. What it is doing now is revisiting those procedures to see whether they are appropriate for it as an organisation on Thursday Island. In the audits that we have done up there, it is clear that it is having difficulty with some of the grant acquittance processes. Its argument is that they do not apply to it as a separate authority. Our response to that is, 'You need to look at what should apply and apply something.' Currently it is trying to apply ATSIC procedures, some of which we would acknowledge do not need to apply because of their geographic location. But it is in the process of looking at those again to see what it actually needs up there.

**ACTING CHAIR**—Have you got a couple of examples of where TSRA is arguing that the procedure is not appropriate to its circumstances?

**Mr Lennie**—In ATSIC, if an authority is in arrears with its grant acquittance there is a particular delegation process which goes through the regional manager, to the state office and through to head office in Canberra. With the Torres Strait Regional Authority all staff are on-site from the chairman downwards and they probably have a lot more detailed knowledge of the particular communities they are dealing with at board level and at general manager level. So they do not need to have that process of delegations within the Torres Strait Regional Authority that they do within a geographically dispersed organisation like ATSIC.

**ACTING CHAIR**—So there are procedures within the organisation as to, if you like, a chain of command; but, in terms of actual details required about funds granted and acquitted, it is basically the same process?

**Mr Lennie**—The sort of information they need to acquit the grant is basically the same, yes.

**Mr HARPER**—With regard to comparing ATSIC and Torres Strait with other agencies that the Commonwealth deals with, and we have already touched on that, do you feel that the grant conditions and accountability requirements are more onerous for the grants provided to ATSIC and the Torres Strait Regional Authority than other agencies that you would have dealt with?

**Mr Lennie**—From our experience they may well be more onerous because of the

expertise that Aboriginal communities have to comply with them. From ATSIC and the regional authority's point of view, they have developed those conditions to put in place what they see to be necessary procedures to acquit the sort of grant that they are giving. If it is going to a sports organisation, or a university or whatever, then the procedures that the Commonwealth uses for those organisations is in keeping with that particular type of organisation.

**Mr Hay**—In some instances it may well simply be a question that you have to ask yourself in two ways: are the conditions themselves more onerous or is the capacity of the organisation to actually deliver the information that is being asked more difficult? In relation to the first one, the essence of the requirements will be asking for similar sorts of things, but I think in our experience there is clearly a difference in the capability of various agencies to deliver that. Therefore that becomes onerous, and that is for a variety of reasons—skills, experience and training. Those are issues that we have been talking to ATSIC and TSRA about over a number of years: that you need to get the levels of those skills up to make the meeting of the obligations less onerous on the organisation. But I think the underlying principles are essentially much the same.

**Mr HARPER**—That leads me on to a further question on that issue. Mr Hay, you might like to approach it first. Should the governments take into account, and then obviously it flows down to when audits are to be done, the background of the people involved and certainly their cultural backgrounds and abilities and their way of life that are different from a normal council in the requirements that we place on them for accountability and have substantial differences between what we would expect of an Aboriginal council and, say, an ordinary mainstream local council?

**Mr Hay**—That is an extremely difficult question for an auditor to respond to. There is a minimum level of accountability that we require in the context of being able to exercise our responsibilities of auditing a set of financial accounts. Therefore my inclination is to say no, as an auditor. But then you put the other side of it in there: are they in fact too onerous? I am not sure I can answer that. It is taxpayers' money. I am not sure that has actually provided you with anything, and has perhaps made it even a little more hazy.

**Mr Lennie**—We visit regional offices generally and ATSIC make grants to Aboriginal organisations throughout Australia. Some of those organisations are very good at meeting the conditions. They are able to maintain the level of expertise required, they are able to present their statements or whatever other information is required by due date and so on. So it is not as if all organisations are finding that onerous. Some of them find it very easy to do, or at least achieve it.

**Mr Hay**—That is why we have been tackling it from the aspect of enhancing the skills set, the competencies and the training to enable the conditions to be met in a less onerous way, as distinct from saying, 'Are the conditions themselves inappropriate for that

environment?’ I think that is, in a management sense, a better approach.

**ACTING CHAIR**—In other parts of government where there are ‘similar’ programs with a lot of small grants in them, do you find there are similar problems in terms of being able to meet standards? Is it a geographic thing or is it particularly an ATSIC and TSRA thing?

**Mr Hay**—I think that we could talk in relation to some of our past experiences. To a large extent it is a question of size: the smaller the organisation, the more difficulty they will have to apply the necessary level of resources to meet the accountability requirements that exist; the larger the organisation, clearly the greater capital that they have to apply to dealing with those sorts of issues. So I would not think it is a unique issue in relation to agencies that receive funding from ATSIC, no.

**Senator GIBSON**—I guess the Commonwealth’s move into accrual accounting comes into the same category, does it? I understand the two shires in Queensland are obliged to report according to AAS 27.

**Mr Hay**—Clearly, accrual accounting will create even greater difficulties for those organisations who are small. It causes great difficulties for organisations that are extremely large. Yes, there will be a new set of difficulties for all Commonwealth bodies and for all bodies receiving funding from the Commonwealth.

**ACTING CHAIR**—One issue that has been raised in discussions has been the possibility of broadbanding, where you might make a number of smaller grants into a larger grant but with a range of activities under that grant. That would avoid requiring one form of reporting mechanism rather than a series. Do you have any comments on whether that sort of approach might be applicable?

**Dr Nicoll**—In terms of our experience with AusAID, there may be some value in that. Last year we completed a performance audit of AusAID, and that involved looking at the accountability framework for the funding of non-government organisations. To refer to an earlier question, in some ways their size is similar to some of the Aboriginal and Torres Strait Islander councils that we are talking about here.

We found that a very significant proportion of NGOs funded by AusAID had difficulty in meeting AusAID’s accountability requirements. So it is a similar finding to what we are referring to here. One reason for that non-conformity was the plethora of rules and guidelines. As a result of our report, AusAID is now moving to broadbanding, if you like, and simplifying its accountability requirements so that they do not overlap and there are similar reporting deadlines, and what they have to provide by the particular deadline is consistent across the different subprograms of AusAID. So there might be something there by way of a partial step forward in terms of what the committee is addressing.

**ACTING CHAIR**—Could we get a copy of that audit?

**Dr Nicoll**—Yes.

**ACTING CHAIR**—Another issue which has come up has been the stricter accountability requirements on grant recipients that have had a poor record of accountability—I guess a greater concentration focus on those who have had difficulties in achieving the standards required. Would you comment on that?

**Mr Lennie**—As I said before, at present ATSIC has a system of delegation within the organisation so that, if an organisation is unable to acquit its grant properly, then additional funds can be made available after review at a more senior level. Where there are genuine difficulties, ATSIC sometimes appoints an administrator or a project officer to help the organisation fulfil its requirements. So ATSIC, we have found, is proactive. When we come to do an audit and some grants are in arrears, the first question we ask is: what is the regional office doing in order to obtain the information necessary?

**Mr HARPER**—The issue of the timeliness of audited reports has been raised. ATSIC have brought up the problem that that creates for them. With regard to some of the communities, some of the councils, not completing their annual reports till late in the calendar year, November-December, obviously they cannot be audited and reported on till after that. Do you have any suggestions on how we overcome that problem?

**Mr Hay**—Before I turn to Mr Lennie to outline some of the practical experience, one of the things that the Commonwealth has done to provide for the early submission and audit of financial statements is in fact to provide a legislative deadline; that is, all financial statements need to be included in annual reports, which are required to be with ministers by a certain date each year. I think currently the date is 31 October. I understand that it may even become a month earlier. There is now a legislative provision that says all financial statements of Commonwealth owned bodies will be submitted by a certain date and they will be audited. That is one way in which the Commonwealth has, over the last dozen years, improved to a very significant extent the timeliness of its own financial statements and those of agencies and Commonwealth bodies. In a sense it picked up the Corporations Law requirement which also exists in setting a timetable for the submission of financial statements. That is a practical way in which Commonwealth funded bodies actually are brought into line, and it might be an option that is available.

**Mr HARPER**—Just before Mr Lennie comments on that, given that Queensland already has that also, do you have any suggestions as to how we can get the communities, the councils, to achieve the deadlines that are placed on them?

**Mr Lennie**—The councils, as you say, currently have their statements in around November. ATSIC's general deadline is September. As I said before, a number of organisations are able to meet that. Generally, one of the things that we find delay the

Aboriginal communities is that the accountant or auditor they have does a number of councils. They follow a routine, and they might not get to council X until October. Because the councils rely on these external consultants to prepare their statements—we find that in some cases they are driven by what the consultants give them rather than it being around the other way—they are very much in the hands of the consultant and the consultant's timetable. That would be our experience generally, and that is one of the reasons why the position of November develops.

**Mr HARPER**—So it is really bound up in part of the overall expertise in the councils themselves. If we can improve their expertise locally so that they can do a lot of that themselves, we may well overcome some of those problems.

**Mr Lennie**—I would think so. Certainly the Aboriginal organisations that have the expertise are able to meet the 30 September deadline.

**Mr HARPER**—We feel that roughly a third—do not hold me to this figure—of our councils in Queensland come in by September, another third by October, and then it is your few stragglers that go on to December or January—that sort of thing.

**Mr MALONE**—I guess the focus of the media over recent years has been in outcomes in health, hygiene standards and all those sorts of things in Aboriginal communities. Do you think there is a role for performance auditing rather than very strict compliance auditing? Where would you see that sit in relation to the practicalities of doing that? Can some compromises be reached there?

**Mr Hay**—The two, the financial accountability-financial management and the performance outcomes, go hand in hand. You really cannot divorce the two. To some extent it is also true to say that you need to get your financial accountability- financial management systems robust and in place before you are mature enough to move into the performance outcomes. Performance outcome measurement comes from effective management information systems. Effective management information systems require strong financial management systems, and good competencies and capabilities. All of those things have to be in place before you can sit down and say, 'This is the outcome we are aiming for. How do we measure how well we are getting towards that?' Yes, they are both important but I think one flows from the other.

**Dr Nicoll**—I would agree with what Edward has said. In addition, you can have the strongest possible financial accountability requirements but those requirements will not tell us anything about whether the program has succeeded or not. So they go hand in hand. In some ways, perhaps, in this area as in many others it is a matter of making sure that there is the right balance between financial accountability and performance accountability. If there is an imbalance what can happen is that both management and government can be ill-informed about what is happening with the money.

We have addressed this sort of issue in our Better Practice Guide on *Performance information principles*, which we put out at Christmas. I have copies here for members if they wish to have a look at that. In terms of making sure that the balance between performance and financial accountability is correct, it might be worthwhile mentioning the report of the National Commission of Audit. This was a matter which was very dear to the heart of that national commission because it also was emphasising outputs and outcomes quite consistently.

ATSIC is pretty strong on the financial accountability requirements but on the performance side it is perhaps not as well developed. That is why, for instance, this report which we completed a little while ago—about a month ago—on the community development employment project scheme addressed the issue of performance data. We note that ATSIC has made significant improvements there but ATSIC, like many other organisations, can still push that more.

**Mr MULHERIN**—My question is in relation to AS 27. Mr Hay, you said that some of the smaller councils would have some difficulties in attaining the requirements of AS 27. What practical help could be given to those smaller councils? Or should we make them attain that AS 27? If, because of their size, they have got no chance of obtaining the requirements or meeting the standards, should we impose that on them?

**Mr Hay**—Again, that is a difficult question. If an agency is receiving Commonwealth funding and to achieve that or to get that it is required to meet certain accountability obligations then you should not necessarily change the rules because of size. But if you impose those rules on them then you have to provide them with an opportunity or an ability to at least try and meet them. That issue again comes back to the questions of how do you leverage up the skill sets within those organisations or how do you provide assistance to enable them to meet the rigorous accountability obligations that are then imposed upon them? I am not in favour of exemptions; I am in favour of assisting agencies to improve. That, I think, would be the way I would respond to that.

**Mr Lennie**—When we look at ATSIC generally the information contained in audit reports from Aboriginal organisations varies considerably. Some of them are very heavily qualified. It then poses the question as to what use that report is. From our point of view—amplifying what Edward has said—we would prefer that they be brought up to standard rather than have audit reports with significant qualifications to the extent that it makes the financial statements upon which the report is given essentially meaningless.

**Mr MULHERIN**—But you have to have a situation to make them accountable. It could cost more to make them accountable than the actual money involved, over a period of time.

**Mr Hay**—That is a difficult question to ask a set of auditors. That, in a sense, becomes a policy decision. We are concerned to ensure that agencies, as the auditors of



that are spending the money in the manner in which it was provided to them; that they are meeting the accountability obligations. One would hope that, in that process, we can improve their performance. But I will have to stay an auditor, I am afraid.

**Mrs STONE**—We were talking this morning about the training issues associated with better project and financial management, particularly out in the more remote communities. We heard some reference to the Northern Territory efforts through local government. What is your view in terms of a role that the Commonwealth, and particularly the ANAO, might play in helping to direct or improve the financial management skills of the communities? Have you got a view about whether it is important in the short term to import those skills—if you like, even impose people with those sorts of skills on smaller communities which do not have them—or to try and, over a period of time, up the skills within the community so they become empowered through that knowledge? Have you got any views about that training dilemma?

**Mr Lennie**—When I was at Thursday Island last year, completing the audit of the Torres Strait Regional Authority, I did raise this question informally with the chairman, who said that he was keen on sending people down to Townsville to be trained and for his local people to come back. One of the dilemmas he said he had, though, was when they went down there they did not come back because opportunities were better down there.

**Mrs STONE**—Yes.

**Mr Lennie**—Even with the best of intentions, while communities wish to foster some skills locally, it is a question of them retaining these skills. I think there is a dilemma for them there—a difficulty in retaining the skills locally.

**ACTING CHAIR**—It is like most of your electorate, Sharman. They are all moving out of there.

**Mrs STONE**—Yes. Exactly, and you have selective depopulation.

**Mr BEDDALL**—To Townsville.

**Mrs STONE**—Not to Townsville.

**Mr Hay**—I also think that, where an auditor-general or a private sector audit firm is involved in providing audit services or accounting services to these councils and other agencies being funded by the Commonwealth, or the state for that matter—auditors are not simply there to provide an opinion on a set of financial statements; they are there to provide assistance, where possible, to make next year's job easier, if they were being totally selfish about it, at least to make next year's audit that much easier—let us help.

But also there is a long-term objective there of helping the agency improve their

own performance. We do some of that already, not in a formal sense but simply as part of our role as the auditors of agencies. I am sure that the state Auditor-General would be doing similar things. It is the nature of the auditing profession that we are helpful.

**ACTING CHAIR**—He says that with a smile on his face.

**Mr Hay**—I have always wanted to be able to say that.

**Mrs STONE**—We from the Auditor-General's are here to help you. The mind boggles.

**ACTING CHAIR**—Just following on from that, to an extent, a lot of the local government councils, as was mentioned, would use private sector auditors to actually develop up their accounts. Could you comment on the question of the quality of the work that they are doing and if you would see that as being a desirable approach to follow, given the question of being able to maintain expertise and all that in those sorts of isolated communities?

**Mr Lennie**—From the audit reports that we see on ATSIC files acquitting grants, the standard of service that the profession is giving these communities, I would say, varies significantly. A partner of one of the large firms in Darwin indicated to me that what the profession does in Darwin is to attend to these Aboriginal communities after it has met its other clients' responsibilities. He was quite open about that and that they tend to send junior staff. We as auditors of ATSIC see the product of that in the acquittance process coming through: issues not being addressed, reports being written with broad generalities. There is a problem there which the profession would probably have some comment on.

**ACTING CHAIR**—It is a pretty important issue.

**Mr Hay**—But to some extent, that is a by-product of a deficiency in skills issue within agencies. The more you understand about what the financial statements are, how you go about putting them together, the greater pressure you apply to your auditors in terms of what they are delivering to you. That is one of the issues that we see and it is certainly happening to us in Canberra when we are dealing with some of our agencies. They are getting a greater understanding of their financial statements and what it means, and it applies greater pressure on us.

**ACTING CHAIR**—But it also raises the question about prioritisation from outside an organisation actually having an impact on that organisation.

**Mr Hay**—I always thought that if you signed a contract with an organisation to deliver a service, there was sufficient penalties and the like in a contract for you to insist that it is done when you want it, rather than when the service provider wants to give it.

**ACTING CHAIR**—But that does not appear to be what is happening.

**Mr Lennie**—No, certainly. One Aboriginal lady said to me that her auditor takes three months to do her organisation and what should she do? My response is, ‘Well, I’d get another auditor.’ But she said, ‘The auditors come out and they are all dressed up and they go on with a lot of jargon that we can’t understand. So if they say they need three months, who are we to question that?’

**ACTING CHAIR**—I am like that with my tax accountant, yes.

**Mrs STONE**—Where you have noted, let us say, a less than adequate job done on an audit by a private auditing agency, do you ever follow that through yourselves and insist that that work be done again or improved or—

**Mr Lennie**—No. We take it up with ATSIC or the regional authority and indicate to them that, in our view, the acquittance which they have been provided with is not an adequate acquittance and ask them to follow it up.

**Mrs STONE**—Are you satisfied that ATSIC does follow up your recommendations in those areas?

**Mr Lennie**—In respect of those particular matters we raise, yes. Certainly we have seen a general improvement in recent years in that process.

**Mr Hay**—I think one of the incentives for ATSIC to take those seriously is that we provide a report to the parliament annually on our work—which I happened to bring a copy of. ATSIC is part of this report and it provides the information about what we found during the last audit and also provides follow-up in relation to the previous years. There is a good incentive, not only for good management purposes but also for accountability to the parliament purposes.

**Mr HARPER**—Mr Lennie, just following your point about the lady you mentioned—how the auditor comes out and speaks jargon they do not understand, et cetera—that takes me back to what I was asking before about whether we should try to take into account the local backgrounds and cultures, et cetera, when we define requirements. Obviously, if accountants go out, whether they be the accountants helping to prepare the annual accounts or the monthly accounts or the auditor, and the local client—in this case the community—is not understanding, do we need to fine tailor more to what that client will understand and their background?

**Mr Lennie**—I think there is definitely an onus on the profession to ensure that what it is doing is understood by the client. As far as developing different standards, as I said before, some organisations are able to meet them and the one or two that we have

been taken to during our audits have Aboriginal people as accountants, bookkeepers and so on. They are normally—the ones that we have seen—on the east coast where, I guess, the opportunities for recruitment and so on are better.

But the question is then how would you define an Aboriginal council which is of lower standard and cannot meet current standards and others that are able to meet them. Where would you draw the line? When we come in as auditors of ATSIC and ATSIC says, 'This organisation, which we have continued to fund, has not provided the information that we need, but we have somehow classified it as second-rate in terms of accounting or bookkeeping requirements,' how do we make that judgment that that is sufficient?

**Mr HARPER**—That probably fits in with comments that have been made to me by various leaders in different communities, where they have said—in Queensland there are 33 councils—'Don't classify us all of the same, because we have differences from council to council, from area to area.' Should we, again, perhaps, be taking that into account and not necessarily coming up with one set of requirements for all Aboriginal councils, but taking into account the way that that particular body was formed? Some are traditional. Some have been brought there. Some have a mix of families, their geographies having something to do with it. Should we maybe come up with a variance within those communities?

**Mr Lennie**—Certainly, from a grant acquittance point of view, there would be scope for looking at what information you would need from particular council, and that does not necessarily have to be the same for all. In fact, if it were the same for all, you might get situations where the information did not provide you with what you needed to monitor that particular organisation. One of the major issues was the point that you raised on how you differentiate between councils in particular categories.

**Mr PEARCE**—I have a blunt question. Given the recent controversy over the performance of ATSIC, is the ANAO satisfied that ATSIC has in place acceptable practices relevant to accountability of taxpayers' dollars distributed by them?

**Mr Lennie**—The best stance for that is contained in the report which Mr Hay has referred to. Certainly, our financial audit each year—particularly last year—has established that the grant acquittance procedures which they have in place are appropriate. The question is: are they adhered to in all cases? There are isolated cases where funds are released to a grantee when the grantee is in arrears and they have not followed the particular internal procedures to have that additional grant approved at the appropriate delegates level. Overall, we believe that they are adequate.

**Dr Nicoll**—To add to that in terms of the performance audit side, as I mentioned, the most recent performance audit that we have done is of the community development employment project scheme—and that is \$329 million or about a third of the ATSIC's

total budget. What we observed in that report was that ATSIC had made very significant improvements indeed in its management of that money across the various dimensions of public administration. There are still problems there but, as auditors, we certainly acknowledge the very big steps forward which they had made.

**Mr PEARCE**—And those would be in more recent times?

**Dr Nicoll**—Yes, very recent. This report was only tabled last month—maybe four or six weeks ago.

**Mr Lennie**—I will just extend slightly on that. When we do an audit of a regional office and we find a grant that is in arrears, that has not been acquitted properly, a long tale from the regional manager always accompanied that. The judgment that we have to make as auditors is whether the action that they have taken is sufficient to protect taxpayers' money. There is a story attached to each one. They are all different and he or she has made a judgment. What we then need to do is form a view as to whether that judgment was appropriate.

**Mr HAYWARD**—Mr Hay, you made a comment before about the varying standards of contract auditors.

**Mr Hay**—Yes, I did allude to that.

**Mr HAYWARD**—What I was interested in knowing is whether you notice a pattern, whether the same contract auditors tend to do most of the work in the area—if you understand what I am asking. I am trying to find out from you, given that you think that the quality varies, whether you sometimes find a lower standard auditor or contractor tending to do a lot more of the work.

**Mr Hay**—I think we need to make a couple of points in response to that. Firstly, what we are looking at is the outcome of the work that has been done. So, we are not actually seeing them out there in the field working. As Mr Lennie said earlier, what we find is that the same groups of people are doing audits of councils and going from one to the other, presumably under contract—but Mr Lennie can correct me. So, there is a theme that the same organisations are doing audits in more than one agency. But Mr Lennie ought to be able to confirm that for me.

**Mr Lennie**—As it has been explained to me, the reason that is done is that a particular firm can offer a better price if it is travelling to a number of communities rather than just going out to one community and then, if they have got a different contract, having to come from a town or a regional centre to do another community. So, the councils get a better price from the firm by doing a number of organisations. I just clarify one point. We see a difference not so much in the quality of the auditor; it is sometimes just the quality of the audit in a particular environment.

**Mr HAYWARD**—You mean the technical quality that we are talking about.

**Mr Lennie**—As Mr Hay said, it is the outcome, it is the report and that is all we can judge it by. It is the manner in which the report is addressed, the manner in which the issues that they have found are related to the general performance of the organisation. For example, one audit report that I recall seeing recently made a comment that two pay sheets were missing in a twelve-month period, but it did not go on to say what impact that had. It just said that the statements present a fair view, which raised the question in our minds, ‘Well, why say it all; why say that there are two pay sheets missing?’ I mean, there was no link between the two. It is not uncommon to see acquittances with these sorts of statements about the difficulties that an auditor had in obtaining certain information without linking that through to the opinion. That may well just be the environment in which they find themselves working.

**Mr Hay**—And it is also a problem in terms of improving the quality of what they see at the agency. If, in the example that Mr Lennie used, they were able to say why those two pay sheets were important or why their not being there was important, then the agency itself would learn something from that rather than just making the bland statement. So, looking at that sort of report and comparing it to the way we would report, we would make judgments about the quality.

**ACTING CHAIR**—But is not that a comment on the actual auditor themselves or are you saying that there might be environmental questions about why, in fact, that is the case? I mean, I am not quite sure on that. To be blunt, it might be a bad audit report that you are seeing but you seem to suggest that that may not mean it is a bad auditor, and I am a bit confused about the difference.

**Mr Lennie**—Some of the firms that carry out this work are quite reputable and generally their work is of a good standard. As you say, chair, what it indicates is the environment in which they find themselves, trying to put staff out there to get the best audit that they can complete with the records that are available, bearing in mind that, if the council has to pay for the audit, they do not want to send their top partners and so on because that is a costly process. So, they have to do a balance of the level of staff they send out on the job. Then they have to form a view based on the standard of records that they find. So, it is essentially an environmental issue.

**ACTING CHAIR**—But part of that environment could be an inexperienced auditor, and I thought you were suggesting that was sometimes the case.

**Mr Lennie**—Certainly in talking with partners of firms in Darwin where I have been recently, that was the message we got.

**Mr HAYWARD**—I am sorry, what was the message?

**Mr Lennie**—That it is the staff they put onto the jobs, because this is influenced to some extent by the cost which the community has to pay. You have a remote locality and you have to send staff up there for a period of time to complete the audit. Those staff would not be any more experienced than the rest of the staff in that firm at that location, whereas the challenges they find might be greater.

**Mr HAYWARD**—But—and I probably already know the answer that you will give—surely in the exercise of their duties as accountants, they have in their firms some basic quality control procedures which must be met.

**Mr Lennie**—Yes. When we see the outcome, the quality control would be on the audit that is carried out from the way they have defined the audit in order to provide that report. For more cost, I guess, they could extend that and do a lot of accounting work to produce an unqualified report, or at least significantly improve—

**Mr BEDDALL**—So the present question is: how big is the disclaimer? Is it ‘All care, no responsibility; we’re all dry cleaners, not accountants’?

**Mr Lennie**—The standard of reports that we see coming in on acquittance of grants, as I said before, does vary significantly. The problem that ATSIC then has is to determine when it reaches the stage where an audit report is of such a standard that it does not assist it in the acquittance process.

**Mrs STONE**—Do you also audit the discretionary grants which go to the regional councils?

**Mr Lennie**—Yes, because they are administered by the regional office. So the regional councils have the discretion, but we audit them because they are paid out through the regional office.

**Mrs STONE**—Do you find any difference in the standard of auditing and the standard of financial accountability for those discretionary funds expended by regional councils compared with, say, the CDP or other grants?

**Mr Lennie**—No, the standard of accountability coming from a particular organisation is similar.

**Mrs STONE**—Similar; there is no difference at all? Some are very small grants.

**Mr Lennie**—I would say ‘similar’; I would not say ‘identical’. But as I recall from the audits I have done in the regional offices, a particular community has a similar standard for all its grants.

**ACTING CHAIR**—Thank you for coming and sharing some insights from ANAO’s point of view in terms of this issue.

[3.00 p.m.]

**HAMBURGER, Mr Peter John, Assistant Secretary, Central Agencies Branch, Department of Finance, Newlands Street, Parkes, Canberra, Australian Capital Territory 2600**

**HOLLIS, Mr Roger Geoffrey, Acting Director, Indigenous Affairs Section, Department of Finance, Newlands Street, Parkes, Canberra, Australian Capital Territory 2600**

**ACTING CHAIR**—Good afternoon. I welcome representatives of the Commonwealth Department of Finance to this public hearing of the Joint Committee of Public Accounts and the Queensland Public Accounts Committee for their joint review of financial reporting requirements for Aboriginal and Torres Strait Islander local government councils. Both the Commonwealth and Queensland parliaments have passed resolutions authorising joint public hearings by the two committees. Accordingly, you may be asked questions by members of either committee. Copies of the resolutions are available from the secretariats.

The hearings are legal proceedings of the two parliaments and warrant the same respect as the proceedings of their chambers. The evidence given today will be recorded by *Hansard* and will be fully protected by parliamentary privilege. For the purposes of today's hearing, I ask that all questions and answers go through me as the chair of the host committee. I now invite you to make a brief opening statement before members ask questions.

**Mr Hamburger**—Our written submission is quite short, and I hope I can make an even shorter opening statement. This reflects the fact that Finance is a central agency in the Australian Public Service and therefore has little direct responsibility in the area of your inquiry. We welcome it, however, as a potentially valuable initiative, especially in its intergovernmental dimension. But most of the questions in your discussion paper are directly the responsibility of agencies like ATSIC which actually make the grants.

As we explained in our written submission, we have two main roles of relevance to the inquiry. Firstly, we advise the government on budget strategy, and we coordinate the budget process in which the funding for programs and agencies is determined. Secondly, we have responsibility for aspects of the public sector management framework, including management reform. We advise government on the overall efficiency, effectiveness and appropriateness of programs and reporting systems. The agencies which deliver services are responsible and accountable for delivery because they have better knowledge of the issues and greater skills in delivering their own services and because the intervention of central agencies in matters of detail is likely to confuse responsibility.

For example, we might be involved in argument within government about whether the making of grants to Aboriginal councils is the best and most cost effective way of meeting the government's social policy objectives in this area. We would not generally be



involved in argument about whether the particular reporting requirements are optimal.

Successive Commonwealth governments have explicitly decided that the framework which Finance sets for budgeting and financial reporting be set at a high enough level to allow those responsible for program management to design and operate systems appropriate to their purpose and circumstances. For example, a Finance direction issued under the Audit Act sets three procedural requirements for Commonwealth grants to individuals and organisations. Firstly, an offer must detail the nature and extent of assistance and any associated terms and conditions, such as documentation required for acquittal. Secondly, there must be written acknowledgment of the terms and conditions by the intended recipient before a payment is made. Thirdly, a grant to an organisation must be made to the organisation rather than to an office holder personally.

Within those very broad parameters, we expect that agencies will set up systems which best suit the purpose and circumstances of the program and for which the agencies themselves are then responsible. An agency is accountable to its minister, and through the minister to parliament. It is accountable publicly through a variety of mechanisms, including annual and budgetary reporting requirements, audits by the Auditor-General and reviews by this inquiry. It is not accountable to Finance directly for the design of its systems except within the broad parameters that we set.

We may, however, have to advise the government on whether there are better ways within the agency systems, or alternatives to them, to deliver the desired outcomes. Because we have that role, we are very pleased that you have identified issue No. 5 in the discussion paper—the question of whether public accountability would be better served by a greater focus on reporting outcomes than on compliance reporting.

We think it would, but not because we think compliance reporting is unimportant—it is clearly necessary, but, past the point of necessity, its costs can come to exceed its benefits. More importantly, we believe that outcomes reporting in the Commonwealth public sector is generally poor and that there is scope for governments to get better results for any given level of resources if better reporting of outcomes can be achieved.

Because of the perceived problems in outcomes reporting, and on the instructions of the previous government, renewed by the present government, Finance is coordinating a three-year, APS wide performance information review in which each agency, with Finance, is required to review its reported performance information in terms of clarity, measurability and focus on outcomes.

Agencies of importance to indigenous Australians, including ATSIC, DEETYA and DSS, are undergoing their reviews at the moment, as indeed is Finance itself. We are aware of the widespread belief that the reporting and accountability arrangements for grants to indigenous communities are too onerous and that this is aggravated by differences in the compliance requirements of different granting agencies. We would see some standardisation and simplification of those requirements as a valuable outcome of

this inquiry. But an equally or possibly more valuable outcome in our view would be an improvement to the reporting and accountability for outcomes.

Finance would be happy to discuss and review specific proposals for simplification of compliance reporting or improvements of outcomes reporting which might emerge from agencies with direct responsibility for the reporting system. We would be happy to facilitate reform within the broad reporting parameters for which we are responsible, but we are not in a position to lead or design any of those reforms.

**ACTING CHAIR**—So you would see a situation where if some options came up, you would be prepared to evaluate them?

**Mr Hamburger**—Very much so.

**ACTING CHAIR**—On that question of outcomes and performance reporting against compliance reporting, ANAO put the view that essentially they are not that separate or, rather, it is a building block approach—you have to have the compliance reporting right in order to be able to do the performance audit role properly. You can have one without the other but you certainly cannot have performance audit without having the other aspect of it correct. Would you agree with that?

**Mr Hamburger**—Yes, we would certainly agree with that.

**Mr HARPER**—Mr Hamburger, you commented partly on this. From your comments I take it that you do not see your department as having a lead role in talking to other agencies and convincing them to come to a point of greater uniformity.

**Mr Hamburger**—No, we do not. We are happy to facilitate that sort of role but we are simply not in a position to lead it. We are a central agency in a Commonwealth government system in which there are several hundred significant programs. We are talking here about a relatively small part of one of those. Finance's resources for budgetary advice on Aboriginal and Torres Strait Islander affairs is at the moment three and one-third people and one and one-third of us are here.

**ACTING CHAIR**—Which one is the one-third?

**Mr Hamburger**—I am the one-third; he is the expert. We do on occasion on very large issues get into that sort of thing on a leadership role. At the moment, for example, the Commonwealth is looking at moving a lot of employment and social security delivery arrangements to a single service delivery agency. Finance is heavily involved in a project of that size. It is really just not possible for us to get to useful, desirable things like this that are not of great budgetary significance.

**ACTING CHAIR**—It is a resource question otherwise?

**Mr Hamburger**—It is mostly a resource question. I should add that there is also a question of lack of expertise. We cannot run the whole Public Service and it is undesirable that we should try.

**ACTING CHAIR**—I never thought I would ever hear someone from Finance say that.

**Mr HARPER**—From your experience—I guess you have not had to have a look at a lot of it—do you see much difference between ATSIC and the Torres Strait Regional Authority in meeting the conditions and requirements of their abilities?

**Mr Hollis**—Not on paper. The TSRA has largely adopted financial and accountability requirements from what ATSIC has done. We just do not know on the ground how actively they are into enforcing compliance.

**Mr Hamburger**—And that is the case for any of the ATSIC council areas. In that sense, TSRA is equivalent to a regional council area. We do not get to that level of detail.

**ACTING CHAIR**—You mentioned in your opening statement the matter of reviews that are currently underway into ATSIC, DEETYA and several other departments. I did not catch when those reviews are due to be completed.

**Mr Hamburger**—They report to government in July. Is that right?

**Mr Hollis**—Yes. They are being conducted over three years. Second year agencies will report in July.

**Mr Hamburger**—The selection of agencies is done each year and ATSIC happens to be in this year.

**ACTING CHAIR**—How detailed are those reports when they come down normally?

**Mr Hollis**—They require an assessment of all of ATSIC's program objectives and an assessment of the performance information on which they have stated they are to measure progress against those objectives. Whilst there will be total coverage, the focus will be on the larger, more significant programs because of the sheer numbers of programs and subprograms.

The performance information review is of relevance at the project level. The ability of an agency such as ATSIC, which is heavily reliant on service providers and has a large number of grants to other organisations, to report at the program level is very much dependent on the data they are getting from the project level. This is a positive thing that has come from the PIR. ATSIC was already addressing these things to some extent.

It was recognised that as soon as they attempted to look at objectives and the appropriate indicators at a program level, they became acutely aware of the shortcomings of the data that they had at the project level. They did not have quantitative information at the project level that they could aggregate and they did not have ways of collecting qualitative information which, when brought together in Canberra to form a national perspective, could be assembled to report meaningfully nationally either.

**ACTING CHAIR**—I refer to the introduction and operation of the Audit Act, the FMA bill and the CAC bill, or acts as they are now. What impact will they have on ATSIIC in terms of its responsibilities?

**Mr Hamburger**—For the purpose of this inquiry, I suspect that they will have very little practical effect. The arrangements that already exist will continue. They have been set up administratively under the Audit Act. The FMA and CAC bills, or acts if they become acts, clarify to a greater extent the responsibility of chief executives and agencies and the line of accountability of agencies to ministers. In practice, that has been put on the ground over the last 10 years anyway.

**Mr HARPER**—Mr Hamburger, would you say that perhaps there are too many grants? I am not talking about the amount of money given but that the number of grants is too many. Should we try to combine them to cut down the number of grants while still giving the same amount of money? With each grant comes an application and the processing of that. Later, the council has to do the accountability and ATSIIC has to make sure that that is okay. Obviously, each single one adds to the amount of work. From where you stand and from what point of view you see, do you think there are too many grants?

**Mr Hamburger**—We have heard that argument, and it is certainly a plausible one. I would have to emphasise that we do not have the on-the-ground knowledge, but I suspect that is the case. Once a government decides that it is going to deliver services to people through the community organisation, some proliferation of grants is inevitable because everything else in the government is organised by ministerial portfolio. So if an organisation has health, employment and other responsibilities, it is going to at least be going to two or three agencies, quite likely to two or three programs within agencies. Then, as your presence testifies, there is the federal-state dimension as well.

One would certainly think there would be scope for quite a lot of collapsing of those grants together, but I do not know enough about the detail to suggest any particular way of doing it. Roger has worked in this area in ATSIIC. I do not know whether he wants to comment from his personal experience.

**Mr Hollis**—I had some time as a field officer in Arnhem Land. At that end of things, I think things have improved a little in rationalising some of the very detailed financial requirements. Requirements like a separate bank account for every single grant amazed me. These were in the days before everyone had computers through Arnhem Land. The proliferation of paper was pretty staggering in these small offices. As I

understood it, it was based on the fact that you could not trust people to keep their hands off the different grant money. There was little in place to bring about regular reporting and monitoring from agencies, so the only way to tie things up was to actually have separate bank accounts and have bank statements sent direct from banks to agencies in Darwin to monitor things that way, which did seem pretty crude.

I understand things have progressed from there, but I imagine there would still be scope for rationalising these things. No-one probably wants to take the lead on that. The people with the biggest stake are the people who are putting the most money in. We would think that ATSIC and DEETYA would be the sorts of agencies who ought to be getting together about that.

**Mr HARPER**—Instead of giving individual grants for various things to a community, what if we took the approach of simply saying to that community, ‘This year, because you’ve said you want to do this and this, we’re giving you X number of dollars. You can spend it however you want to. However, you’re accountable for making sure that your community continues with things such as health, education, roads, et cetera. But here’s your money. You go and spend it where you want.’ It is still to be audited to make sure that there was no corruption and no theft, et cetera, but they then made the decision of where they spent the dollars.

**Mr Hollis**—It is attractive. That was raised in the deaths in custody recommendations for block grant funding of communities. I think that is what you are talking about. It is essentially a massive coordination problem, as Peter mentioned, about the number of Commonwealth and state agencies. Mick Dodson and others have drawn attention to the proliferation of players. While you have that many players, if they were going to do that—say, Aurukun was going to have one big lump of funding—the prerequisite would be all those players sitting down and saying, ‘I’m happy to put my money in. This is what I expect back for it in terms of health or housing or whatever.’ It is attractive, but just how do you do it?

**Mr Hamburger**—There has been some attempt made to do this in the field of housing and in the field of Commonwealth funding for housing. That has been over a matter of four to five years. There has so far been one agreement signed by the Commonwealth and the Northern Territory, and that is the one social policy area. If we decide to give a block, the difficulty is defining who ‘we’ is for that purpose. It would be probably just manageable at the Commonwealth level if ATSIC were to be given all the money that other Commonwealth agencies have and then ATSIC were to make one block decision for the Commonwealth. It would be a fairly horrendous decision making process within ATSIC, but then there would be the whole state dimension also to deal with. There may well be a scope for identifying the two or three big blocks where that could be done in one or two policy areas. That may be a more practical, immediate step.

**ACTING CHAIR**—Are there any other questions? If not, thanks for coming today and assisting us with our inquiries. Hopefully some matters will come out of this process

which we can look at again and consider whether in fact they can be of value in terms of changes. We have a couple of housekeeping matters to do.

Resolved:

That, pursuant to the power of the Joint Committee of Public Accounts and the Queensland Public Accounts Committee, the Department of Finance submission dated 3 April be accepted as evidence and authorised for publication.

Resolved (on motion by Mrs Stone):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, the Joint Committee of Public Accounts and the Queensland Public Accounts Committee jointly authorise publication, including publication on the parliamentary database, of the evidence given before it at public hearing this day.

**Committee adjourned at 3.21 p.m.**