



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT

Reference: Review of Auditor-General's reports first quarter 1998-99

FRIDAY, 28 MAY 1999

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: <http://www.aph.gov.au/hansard>

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Friday, 28 May 1999

Members: Mr Charles (*Chair*), Senators Coonan, Faulkner, Gibson, Hogg, Murray and Watson and Mr Andrews, Mr Brough, Mr Cox, Mr Georgiou, Ms Gillard, Mr Griffin, Ms Plibersek, Mr St Clair and Mr Somlyay

Senators and members in attendance: Senator Gibson, Mr Charles, Mr Cox, Ms Gillard and Mr Griffin

Terms of reference for the inquiry:

Review of Auditor-General's reports first quarter 1998-99

WITNESSES

BARRETT, Mr Patrick Joseph, Auditor-General, Australian National Audit Office	2
.....	18
.....	36
BELLAMY, Mr Christopher Eric, Audit Manager, Transport Portfolio, Australian National Audit Office	2

BINKS, Mr Lloyd Thomas, Director (Operations), Department of Transport and Regional Services	2
BONNEY, Mr William Graham, Director, Business Assurance Services, Australian National Audit Office	36
BUCKPITT, Mr Jeffrey, National Manager Budgets, Australian Customs Service .	36
CARLTON, Mr Timothy Joseph, National Manager, Business Support Branch, Australian Quarantine and Inspection Service	36
CASS, Mrs Barbara Ann, Director, Audit Team Member, Australian National Audit Office	2
CROSSFIELD, Mr Leonard, Senior Director and Audit Manager for Performance Audit, Australian National Audit Office	18
DANIELS, Mr William Laurence, Division Head, Quarantine and Exports Operations, Australian Quarantine and Inspection Service	36
FRENCH, Mr Bryce William, Director—Cargo and Mail, Aviation Security, Aviation Division, Department of Transport and Regional Services	2
GRAHAM, Dr David, First Assistant Secretary, Aged and Community Care Division, Department of Health and Aged Care	18
GREAVES, Mr Andrew Mark, Executive Director, Business Assurance Services, Australian National Audit Office	36
JACKSON, Mr Matthew, Director, Planning and Access Section, Residential Program Management Branch, Aged and Community Care Division, Department of Health and Aged Care	18
LEWIS, Mr Michael Kenneth, Executive Director, Performance Audit Services, Australian National Audit Office	2
MOODY, Mr John David, Director (Intelligence and Training), Aviation Security Branch, Department of Transport and Regional Services	2
MURPHY, Mr James Andrew, First Assistant Secretary, Budget Group, Department of Finance and Administration	36
NICOLL, Dr Paul James, Executive Director, Performance Audit Services, Australian National Audit Office	18
PROTHERO, Mrs Marilyn Claire, Corporate Financial Controller, Australian Quarantine and Inspection Service	36
ROCHE, Mr Michael John, Deputy Chief Executive Officer, Australian Customs Service	36
STUART, Mr Andrew, Assistant Secretary, Residential Program Management	

Branch, Aged and Community Care Division, Department of Health and Aged Care	18
TOLL, Mr David Barry, Assistant Director-General, Corporate Services, National Library of Australia	36
WOLFE, Mr James, Assistant Secretary, Aviation Security, Department of Transport and Regional Services	2

Committee met at 10.51 a.m.

CHAIR—The Joint Committee of Public Accounts and Audit will be taking evidence as provided for by the Public Accounts and Audit Committee Act 1951 for its inquiry into a number of Auditor-General's reports. Today we shall be inquiring into three reports in the first and second quarters of 1998-99. I welcome everyone to the meeting here this morning.

Before we begin, I must ask participants to strictly observe a number of procedural rules. First, only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me, and the committee will decide if it wishes to pursue the matter.

Second, given the length of the program, statements and comments by witnesses should be kept as brief and as succinct as possible. Third, I remind witnesses that the hearing today is legal proceedings of the parliament and warrants the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege.

Before swearing in the witnesses, I refer members of the media who may be present at this hearing to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee's statement are available from secretariat staff.

We shall begin today with Audit report No. 16, 1998-99: *Aviation security in Australia* concerning the Department of Transport and Regional Services. The committee has received one submission from the Department of Transport and Regional Services. I now welcome representatives from the Australian National Audit Office and from the Department of Transport and Regional Services to today's hearing.

[10.53 a.m.]

BARRETT, Mr Patrick Joseph, Auditor-General, Australian National Audit Office

BELLAMY, Mr Christopher Eric, Audit Manager, Transport Portfolio, Australian National Audit Office

CASS, Mrs Barbara Ann, Director, Audit Team Member, Australian National Audit Office

LEWIS, Mr Michael Kenneth, Executive Director, Performance Audit Services, Australian National Audit Office

BINKS, Mr Lloyd Thomas, Director (Operations), Department of Transport and Regional Services

FRENCH, Mr Bryce William, Director—Cargo and Mail, Aviation Security, Aviation Division, Department of Transport and Regional Services

MOODY, Mr John David, Director (Intelligence and Training), Aviation Security Branch, Department of Transport and Regional Services

WOLFE, Mr James, Assistant Secretary, Aviation Security, Department of Transport and Regional Services

CHAIR—The first part of today's public hearing is to examine the main issues raised in Audit report No. 16, 1998-99: *Aviation security in Australia* and to take evidence on issues relating to aviation security in Australia. The Auditor-General's views are set out in the report, as are the initial responses from the audited agency. However, the committee would be interested to learn if any action has already been taken or is planned to address the issues raised in the Auditor-General's report. Does Mr Wolfe wish to make a brief opening statement to the committee before we proceed to questions?

Mr Wolfe—A very brief one, Mr Chairman. Thank you for the opportunity to provide any advice that we can to help you with your consideration of the report. The department fully concurs with the important conclusion reached by the Audit Office, which was that the department had established a regulatory regime which ensures Australia's compliance with standards embodied by the International Civil Aviation Organisation. I think you may have noticed in our submission that we are advanced in implementing the recommendations. We did in fact agree with all the Audit Office recommendations, with one slight qualification, and that was in relation to the best way forward for improving aviation security in the region as to whether we use existing bilateral or multilateral forums, which is through the International Civil Aviation Organisation's security panel, or adopt the Audit Office's suggestion, which was for more formal regional alliances. We think that probably all three can actually be used.

The actual implementation of the recommendations does involve quite detailed consultation with other security agencies and the aviation industry, which includes airports

and airline operators and other interested parties at the airport. But, as I said, our intention is to have all the recommendations implemented by 30 June next year. On that note, Chairman, I thank you.

CHAIR—Thank you for that. Does Mr Barrett have a brief opening statement?

Mr Barrett—Only to indicate your earlier agreement that we would table an opening statement. Broadly, the thrust of the report is as Mr Wolfe has just indicated. We considered that action had commenced to be taken along the lines of the recommendations as indicated and that, if so, we could have reasonable confidence that we would have in place a good security regime to give assurance to the parliament and the people in time for the Olympic Games.

CHAIR—Thank you. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The statement read as follows—

CHAIR—Considering that the Olympics are very close now, are we ready? What do you consider the most serious risks are, and what are you doing to manage them?

Mr Wolfe—I think we are well placed to have an effective aviation security regime in place for the Olympics. In terms of the major risks, we obviously are bound by the advice we receive from intelligence agencies in this country as to what the current level of risk assessment and threat is. Of course, there is some time to go before the Olympics in terms of how that threat might change on a daily, monthly or sometimes yearly basis.

Our system of measures basically ensures that airport and airline operators, who are the main ones who are responsible for implementing the measures we want them to adopt at the airport, have a well understood and established system. We do not believe that it is sensible or reasonable to suddenly pluck measures out of thin air that nobody has ever heard of before.

What we have got, which we can basically put in place at any time, is additional security measures which are well understood by industry and other agencies at the airport. The most important of those is the state police. It is not all that well understood that, if there is an incident at the airport, in fact it is the state police who take responsibility for handling that incident, and other agencies support them, including us.

In terms of our measures, we have put in place what we believe are improved passenger screening approaches. The most recent development is a practice called ‘check bag screening’ which we have asked airport operators to implement and have in place before the Olympics.

CHAIR—Is that proposed screening on a risk analysis basis, a random basis or a systematic one?

Mr Wolfe—In coming up with the measures, we have done it on a risk basis. We have looked at what the potential threat is. The good news in Australia is that at the moment we are a low risk country, which is why you do not see the same type of security as you would at Tel Aviv or in Lebanon or in a few other places around the world. Having said that, we have the capacity to crank up our measures should an identified threat come forward.

CHAIR—What would happen if a militant Palestinian or a militant Israeli organisation decided that that would be a good international showcase for them?

Mr Wolfe—That is certainly one of the threats on which we would expect to receive advice from our intelligence agencies. On the basis of that, we would then put in place the additional security measures which we believed were relevant to the type of threat identified. To give an example, certain organisations around the world have certain trademarks in terms of how they target particular facilities—aircraft are obviously one, although in recent times the targets and the reasons for their actions seem to have changed. But we would respond in what we believed was the best way to the most likely highest level of risk and what the particular terrorist organisation was likely to target.

CHAIR—Talking about risk, as we understand the Audit Office's statements and recommendations in this audit, it largely said that you basically had in place systems to try and protect Australia from overt acts of violence but that it was generally not on a risk assessed basis. While you have agreed with the recommendations in that direction, how far have you gone towards changing your procedures to manage the operation more on the basis of calculated risk?

Mr Wolfe—We have taken two major steps. The first one is that we are developing a risk assessment model ourselves which is adapted to aviation security. The Audit Office's specific concern, which we agree with, was that our measures and our processes were very heavily leaning towards politically motivated violence. That is not unusual—it tends to be what the main focus of activity in this area is. I think the Audit Office was suggesting that there were several other agencies that we could use in terms of advice and intelligence—particularly the Australian Bureau of Criminal Intelligence and the state police forces around Australia.

What we have done—and I will ask Mr Moody to comment on this—is initiate discussions with both those organisations to improve the amount of intelligence we have on hand, noting that criminal activities are generally dealt with by other agencies. I think the Audit Office was saying that they obviously can impact on aviation security.

Mr Moody—We have always dealt with the state police in the different jurisdictions and the ABCI. We are looking to formalise those arrangements more. With the ABCI, we are examining how useful it is to draw up a memorandum of understanding between our department and them, and we are looking at exploring different levels of liaison with the state police jurisdictions. We already liaise at airport level and at very senior levels through the counter-terrorist machinery. We are also looking now at building up formal relationships at the Bureau of Criminal Intelligence level on a jurisdiction by jurisdiction basis.

CHAIR—How do you mean jurisdiction by jurisdiction?

Mr Moody—Each state or territory police force.

Mr COX—I want to explore how thorough passenger scanning is. The audit report was written at a time when the scanning arrangements were in the hands of the airlines. Has that changed?

Mr Wolfe—It is in the process of changing. The airport operators will become responsible for it in relation to international traffic around Australia. In terms of the handover process, some of them are taking it up on 1 July and I think it will all be in place by October. We see that as a positive for two reasons: we think the airport operator relationship with the contractor will improve the screening and it is a great opportunity for an improvement in the equipment they are using.

Mr COX—What about the domestic terminals?

Mr Wolfe—They are generally in the control of either Ansett or Qantas. In some places they have a joint facility because there is only one screening point and so one of them takes

responsibility for it. They are also taking up the opportunity, with the major terminal works that have taken place around Australia, most notably in Sydney, to improve the way in which screening practices are taking place. One of the more positive developments in that respect is an international challenge—that is, the training of screeners—because at the end of the day the equipment can be fantastic, but the human factor is still the vital element in determining how good your screening is. We are working with the industry to get a certified course for screeners.

Mr COX—What happens when they detect something?

Mr Wolfe—The process at the moment involves a resolution of what has led to the equipment going off, whether it be the X-ray or the walk-through machine. In situations where the person does not ‘comply’, there is a duress alarm, which they activate which requires a response from the police agency. At some airports that would be the APS, who are responsible for the Counter Terrorist First Response function, and at other places that would be the state police.

Mr COX—Which airports have got state police?

Mr Wolfe—The state police would be at any airport where we do not have the CTFR. The CTFR is, I think, at the nine major airports in Australia. Lloyd, is that right?

Mr Binks—We have a mandated requirement that there be a minimum response time at our nine largest airports and that response at the moment is provided, at eight of those airports, by the Australian Protective Service and, at Canberra airport, by the Australian Federal Police.

Mr COX—How long is the response time?

Mr Binks—It is two minutes. The regulatory requirement specifies that the response be a rapid response—that is mandated in that legislation. Administratively, as we have agreed with industry, that is a two-minute response.

Mr COX—If somebody’s baggage has gone through the scanning machine and it has got a submachine gun and three hand grenades in it, and they have grabbed it already as it has come through, two minutes is an extraordinarily long time.

Mr Binks—The two minutes is a maximum time. The provision essentially requires an overlay of various measures within those terminals. The first is a mandated continuous patrol in certain areas, so the security aim is to have a person who is circulating and who is able to respond from a direction that cannot be predicted. The second overlay is a mandated response time, if there happens to be an alarm at the screening point—that is a maximum response time. There are many ways you could skin that regulatory cat. However, if you mandated that the person had to stand there, for instance, then your response is actually visible but unfortunately vulnerable. If the person knows where your response is, they can take appropriate measures. So we adopt a dual regulatory model to try to have a reasonable response.

Mr Wolfe—Also, if the person operating the X-ray saw the machine guns and hand grenade on the screen, we would be ensuring that the person standing behind them and the screening point tried to make sure that that person did not get access to the bag by grabbing it off at the other end of the line.

Mr COX—That is probably fairly optimistic, though. The people who are doing that screening are not necessarily trained to do that, are they?

Mr Wolfe—No, they are not there as a police force as such. If you have seen the screening practice, there is generally a person behind the screening point who is there for secondary wand of people who set off the magnetometer, but they can actually be used to conduct a bag search. So you do not hand the bag over to the person. You say, ‘I’m searching your bag and this is what I’m finding. Please explain.’

Mr COX—In the extreme circumstances that I have described—

Mr Wolfe—In the extreme circumstance, yes, they may have trouble overpowering the person trying to grab a hold of the weapon.

Mr COX—In effect, apart from the fact that it is electronic screening, it is not all that different from Athens airport during the mid-1980s when civilians would do a hand search of your bag and there would be absolutely nobody around who was evidence of enforcement, to do anything about it if they found anything.

Mr Barrett—Just as an interested observer, all of us would have seen that, if there is a suspicious article, usually the thing is trapped in the machine area and there is quite high protection for at least seven, eight or 10 feet. As you know, you have to go around, so it is not quite as accessible from that point of view.

Mr COX—It is not totally inaccessible either. What about lesser forms of contraband?

Mr Wolfe—Our screening is designed basically for our purposes. We are not there to pick up drugs or other items of that nature. That is really a matter for Customs.

Mr COX—There is no Customs response, though, for example, at domestic airports?

Mr Wolfe—No, not unless they have intelligence that leads them to be there, which would generally probably involve a joint operation with the Australian Federal Police.

Mr COX—You said that the state police have primary responsibility for criminal activity at most major airports. What would the procedures be, if drugs were detected going through one of these scanners, for armed police to get through the scanning point? Is there any inhibition on their movement? Are there any arrangements to facilitate them getting through to apprehend somebody who is carrying drugs?

Mr Wolfe—I might get Mr Binks to explain the procedures in relation to what police can and cannot do at the screening point.

Mr Binks—We have a general rule in this country that, if you are a person who is going on a certain type of aircraft, you are screened. There are comparatively few exemptions to that. One of those exemptions, however, is police. If police are responding or are on their normal duties, all they need to do is simply identify themselves as police and they can go through the screening point.

Mr COX—I have had a state commissioner of police give me information that was somewhat different from that in relation to them attempting to apprehend a large amount of cannabis that went through Adelaide airport on a particular Sunday night. One of his explanations for passengers being able to pick up the cannabis and board the aircraft was that when the policeman, who was standing behind the scanner and observed a large quantity of vegetable matter consistent with eight pounds of cannabis going through the screening device, called for his backup they were not able to apprehend these people because they had difficulty getting through the screening devices with their weapons.

Mr Binks—I can only say, once again, I am not aware of that incident. But I can well understand how there could possibly have been some problems in practice if the policeman was in plain clothes and he presents at the screening point and says, 'I'm a policeman.' Then the screeners must take steps to ensure that this person is who he says he is. I can understand that, in a response where you might have a non-uniformed policeman who may not be known, who may not be part of the normal police contingent of that airport, there may be delays. But, unfortunately, if we have a screening process which says that you should be screened, then really we do expect the screeners to make sure people who say they are policemen and may be in plain clothes do actually produce some form of identification.

Mr COX—So there is not an established procedure? It is not as simple as either them showing their warrant card and automatically being let through or having some password if they are operating in an airport? Is there an established procedure?

Mr Binks—From our point of view, we have essentially a legislative instrument which sets down the process or the outcome which we are seeking, and that is that police in the normal course of their duties are able to go through the screening point without being screened. Administratively, the airlines who currently contract screening pass on specific instruction to their screeners to that effect. In terms of arrangements like code words, I am not aware of those procedures, although there may be a specific code word.

Mr Wolfe—In terms of smart police practice at airports, what generally happens, of course, is the screening operators become aware of state police operatives. I think the situation that Mr Binks described is the one that causes the difficulty. It is where you get the unknown undercover policeman who is not normally at the airport who wants to hurdle the barrier and chase after somebody. Normally the police would get in touch with the airport operator or the airline concerned and say, 'We have an operation in place. We may need your cooperation.'

Mr COX—In the incident that I am referring to, the police had been operating in the airport for several hours. There was in fact one detective standing behind the scanner, so he was obviously known to the scanning people. You would have thought that he would have

been able to facilitate the passage of his backup through the scanning procedures, since he had in fact called them.

Mr Wolfe—That does surprise me.

Mr COX—I just find it mightily curious that they felt so impeded that they could not get through—firstly, that their response time was low, which suggests to me that there might not have been enough of them there, and, secondly, that they felt that there would be some inhibition in getting through the screening point and apprehending suspects that they had identified.

Mr Wolfe—It does surprise me. If he was already there he should have been able to facilitate the other policemen's access.

Mr COX—Are you aware of arrangements between state police in different jurisdictions—for example, for apprehending suspects that do get onto a plane with something that they should not? Are there any formal arrangements?

Mr Wolfe—I suppose it depends. The thing is that we certainly do not get involved in any drug raids or anything of that nature or criminal activity per se unless it is as a result of an activation of one of our screening points. Generally those arrangements are the responsibility of the police concerned, who work in cooperation with either the airline or airport operator, depending on the circumstances of the flight. So we are not generally in that business.

Mr COX—So it is something that is a mystery to you.

Mr Wolfe—Let us just say that we are a part of a group called the airport security committee, and if the police feel that cooperation of a group of people at the airport, including ourselves, would assist them, then I suspect they would tell us. But if they wish to go covert and have an underground operation that is their choice.

Mr COX—Mr Barrett, you are not aware of any formal arrangements between police jurisdictions for dealing with criminal elements that may get on to planes?

Mr Barrett—No, none of my officers has knowledge of any formal arrangements in that respect. I think that comes back to—if I could just make a comment, Mr Chairman—the risk assessment and dealing with the parties concerned. I think what we are really trying to get at is: if there is a greater sharing of intelligence and a mutual agreement about what are the risks and the implications of the risks, one of the problems we have seen is not necessarily in relation to the department and what to table today.

It is a bit like the audit problem of what you do not know, and it really is trying to get the intelligence that will allow you to do the best risk assessment that you can. Obviously, as for the question that Mr Cox just raised, if they were looking at various risks and how those risks were going to be assessed and treated, people would say, 'These are the procedures in place.' So at least when there is a sharing of the knowledge of an identification of the risks involved, people should then automatically be saying, 'This is how we would treat those

particular risks,' and then a decision would be made by those parties that have responsibility for the particular function and then there would be a sharing. They may not be responsible for the individual treatment of risk but at least they know then that, having identified the risk, what is going to be done by whom and in what circumstances. I think that is really the point that we would be making.

CHAIR—Mr Barrett, isn't the line of questioning which Mr Cox is pursuing true—that we do not have procedures in place for detecting whether or not illicit drugs are transported by motor vehicle between Melbourne and Sydney and, likewise, we do not have particular procedures in place in that respect on airlines or on trains?

Mr Barrett—You are taking us out of our area of competence and knowledge here and I should not make any further comment, Mr Chairman. But here we are talking about security risks per se and I think you have heard from Mr Wolfe in particular and the distinction he made about particular criminal and drug elements, as opposed to more traditional, say, security type threats.

Senator GIBSON—Can I follow up some comments that the Auditor-General has just made. Obviously, the nub of the risk assessment is the quantity and quality of the intelligence gathering and effective communication around those people who need to know. On page 92 of the audit report in the chapter on intelligence there is this comment:

Australian airline-industry representatives have expressed concern about the lack of intelligence data being supplied by DoTRD in relation to offshore terrorism and civil unrest in destination ports and countries they overfly.

It goes on to say that something has been done about that. I just want those of you here to perhaps expand that a bit. The other point I would like you to expand a bit is the proposal about cooperation with ASIO and the suggestion in this report about possible secondment of officers from ASIO to work within the industry in order to have a better understanding. Could you elaborate on those two points please?

Mr Wolfe—Yes, certainly. I will get Mr Moody to expand on just a few points that I might make. We certainly did have some concerns raised by the airlines about the intelligence that they were being provided with, I do not think so much in relation to Australia but certainly with what was happening overseas.

Senator GIBSON—Sure.

Mr Wolfe—One of our responses to that was to actually get ASIO to target a document for our audience. Rather than do a general advice in terms of threat, we have said, 'How about putting out one while remembering who the audience is, which is the aviation industry and most particularly our international airlines?'

So we have done that and we have got very positive feedback from the airlines on the initiative we took in that regard, including actually arranging meetings one on one with those airlines and ASIO. The other thing is that we have actually developed our own internal organisation arrangements, whereby we are actually asking ASIO to do a document for us which we can then distribute to those people who need to know. John might expand on that.

Mr Moody—The airlines said that, whilst they were getting excellent information from ASIO with regard to the threat within Australia to Australian airports, they were concerned about their operations overseas. What we have done to remedy the situation, as Jim said, is that we have had liaison with ASIO. Bear in mind that ASIO are responsible for domestic intelligence. They are the clearing house, if you like, for all threat assessments, but they are gaining their information on threats overseas from their overseas intelligence partners. We have improved that.

We are undertaking, with ASIO's full knowledge and appreciation, direct intelligence liaison with areas in Foreign Affairs and other parts of the Australian intelligence community, targeting specifically information that could be of use to Australian airlines operating overseas. We have also organised a number of formal meetings with the intelligence managers of Ansett and Qantas and also members of the Australian intelligence community. They occur on a fairly frequent basis. What we do beforehand is we find out exactly what the airlines want—we talk with them—and then we target the talks to focus on specific geographic routes or overflight locations where there is potentially a threat to Australian airlines flying overseas.

Senator GIBSON—On another dimension, there is mention in the report that most of the bomb threats that have occurred here domestically have come from people who are disturbed—nut cases, in other words. Is there a system of gathering potential nut cases who might offer threats, and does that flow through your system to the airlines so there is a flag on potentially disturbed people going through the system? Does that work? Is there such a system?

Mr Moody—There are systems that cover not only the airlines but anybody who misuses the telephone system to make such threats. That is largely coordinated through the police. The airlines are part of that.

Ms GILLARD—Can you tell us why it is the department's view that Australia should not enter into proactive alliances with regional aviation industry regulators, like New Zealand and Canada have?

Mr Wolfe—We might clarify that slightly. It is not that we should not. We agree that it is obviously an objective to increase security standards in the region. What I think we were saying is that there are different ways which you can achieve that objective. The one suggested to us by the Audit Office talked about formal regional alliances. I suppose I have had some experience that suggests that sometimes that is easier said than done, and in fact you may achieve the same objective through an international forum like ICAO, which has its security panel and is basically the major policy making body in the world for aviation security. It is fair to say that, while we are not on the panel, we are actually a respected observer—I think that is the best way to describe it—and we do have the ability to influence the debate thanks to Australia's historical aviation presence.

The other way is through our bilateral negotiations with countries in the region. We have set about having specific security clauses in all those agreements which reflect what we believe is something to improve the standards in the region, and we mutually do that through a bilateral negotiation process. I think now we are getting to the point where we have

common agreed bilateral objectives in terms of security with a lot of the countries in the region. Because of that, we are certainly not ruling out the regional option. If opportunities come up in regional forums—whether they be APEC, South-East Asian forums or whatever—we do not rule out the possibility that we can influence the debate and get something through that process, but I think we are just saying that there are other ways of doing it as well.

Ms GILLARD—In terms of those bilateral negotiations with countries in the region, where are the worst spots, the ones where negotiations are least advanced?

Mr Wolfe—Nearly all our bilateral agreements in this region have a security clause which we are comfortable with. I cannot think of too many offhand that do not. We do have some highly competent carriers come into this country, whether it is Singapore Airlines or Cathay Pacific. I cannot think of any where we have not got a security arrangement in place. We expect that, because all those countries are members of ICAO and the expectation would be that they should have those standards in place. If we got intelligence, and obviously one great source of intelligence is our own carriers who fly to these countries, that made us concerned about the security there, I think we would take that up with our bilateral partner in that country.

Ms GILLARD—What is the explanation for our having observer rather than member status?

Mr Wolfe—It is historical. I think that panel has been going for a long period of time. ICAO tends to ration out who is on what panel. The good news is that Australia is on the ICAO Council, which is the peak body, and any recommendations of the panel have to go up to the council. So I think we are still pretty well placed to influence security in the world. The panel has got some interesting countries on it.

Ms GILLARD—I have another question for ANAO. Do you believe that the department's arrangements adequately take into account the effects of airport privatisations, the changes on airline alliances, the changing dynamics of the market and possible offshore threats?

Mr Lewis—I guess all those sorts of changes, including code sharing as well, are changes that have happened in recent years. I suppose one of the things we were saying when we were talking about risk management was that we would like the department to pick up on those sorts of changes that have happened. As Jim was saying, developing a more formal risk assessment process is certainly a great step along the way. In terms of the privatisations, for example, of the airports, I guess it has got some pluses and some minuses. On the minus side, there are more players there, so it is a more complex environment. On the positive side, a lot of the people who are now owning or leasing the airports are big international operators who are used to security arrangements in their own countries. They are still required to follow the departmental requirements of having airport plans and that sort of thing. So it is hard to say whether or not those sorts of changes are improving security or reducing security. They are adding another dimension to it. As part of a dynamic risk assessment process, we would be looking to the department to take those factors into account in their targeting and their planning.

CHAIR—Ms Gillard, would you like to ask the department for a risk profile between Jakarta and Dili?

Ms GILLARD—Not so much Dili as Kupang.

CHAIR—Could the department tell us if you employ interpreters or provide foreign language training for your auditors?

Mr Wolfe—We do not per se. We are aware of a concern that has been expressed to us about the fact that we can come across people, particularly from the foreign airlines, who have a reasonable grasp of English—my view is that if we confront a situation where we cannot get across the message that we need to from a regulatory point of view, I think we have to examine whether or not that can be achieved through another means. If that is an interpreter, that is one option. As to how we are handling it at the moment, I think what we would try to do is actually find someone who represents the airline whom we can probably get a proper regulatory message across to.

In terms of the future, we have noted the ability for us to suggest that our staff be better off in understanding the languages of some of the airlines they are dealing with. But I would have to say that there is an expectation in international aviation that, whoever we are dealing with, English is still the universal language. So the airline itself should not be presenting people who cannot speak English to us.

CHAIR—But if your auditors are auditing a particular airline, how do they get behind the scenes to really nut out whether they have compliance?

Mr Wolfe—It is probably a good opportunity to point out that one of the recommendations of the Audit Office, which I totally agree with, is that we need to review the way we audit international airlines. The fact of the matter is that while those airlines are in Australia the vast majority of the security outcomes that are being delivered are not delivered by the airline; they are actually delivered by the handling agent, which just happens to be Qantas or Ansett. In my view, we should be spending far more time focusing on those people who are delivering most of the security outcomes before the aircraft takes off.

What we should be doing in relation to international airlines is targeting those parts of the security regime which they are responsible for and, in that respect, the best person to contact. At the moment we tend to have a situation where we look at what I describe as individual transactions at the airline level. While the crew is on the ground and just about to take off again we start asking them some questions. I do not think that is all that effective in terms of auditing an international airline while it is in this country. We are probably better off finding someone else in the airline who is ‘responsible for their security systems’ and finding out from them what practices they have in place to ensure they comply with our requirements. That is something we are certainly moving towards.

CHAIR—I recall that in the last week or so there have been a couple of high-profile incidents at airports reported in the daily press—of people getting through security, through check-in desks and onto aircraft without tickets and so on. I am reminded that several years

ago I had a constituent who is an inventor who came to me with a device to detect movement of people going around screens, around check-ins, through the exit part. He was told by all the regulatory authorities he came up against—whether it was you or not I would not have a clue—that it just was not necessary to have any prevention on the outgoing lane. But I myself notice frequently that there is no real security to stop people bypassing the whole operation. Do you have comments on that?

Mr Wolfe—Yes, I think the first thing we might do is clarify exactly what the concerns are that were raised by those incidents that you refer to. Firstly, from a security point of view, the person who got on board that aircraft had gone through security screening, so it is not to suggest that the person had somehow got around the screening point. What appears to be the case is that the person got through customs, which I think Customs is having a look at, accompanying their wife and child, because they were concerned about the safe passage of that person onto the aircraft. It is obviously that the person should not have gone on at that point. But they still went through the screening point and then they got on board the aircraft without a boarding pass, which is certainly a fault which we have taken up with the airline concerned.

In terms of the practices that are in place—and we have obviously discussed this with Customs, because their barrier is the first one that has been breached here—we have considered what methods we can put in place to reduce the number of people who get through their barrier point. The good news is that at the major airports—particularly at Sydney, Melbourne and Brisbane—they are looking at and in some cases have implemented increased barriers. At the moment you will see some which are soft—I would call them—walk-throughs. If you put hard barriers there, then people cannot just bypass the customs point; they actually have to go past the customs person. Previously you had arrangements where staff had to get past. What we have done there is move to put ID cards in place that you have to push through to get the door to open up before you go round so the customs person knows you are a staff member, not just someone walking through.

The other aspect with what happens with the boarding card review process is that—fortunately, it does not happen very often—under pressure, particularly to get the aircraft out, you get a build-up of people and the person and the airline staff who are boarding the passengers tend to become very keen about getting the people through rather than saying, ‘One boarding pass, one person.’ What we will be stressing to the airlines is that that is a mandatory requirement and, should it become necessary, we can, for example, require airlines to do face-to-passport checks. Obviously, that slows down the boarding process, but from a security point of view it increases the likelihood that you will not get someone on board the aircraft without a boarding pass. So far we have had I think three incidents in a couple of years. That is not bad considering the number of people who get on board an aircraft every year, but nevertheless it is something we are looking at.

CHAIR—To get back to the specific issue I raised: this bloke’s invention would have, for relatively low cost, sensed anyone moving in the opposite direction around the barrier, rather than having to put up automatic doors and punch cards or magnetic cards, and all the rest. I would have thought that that sounded like a pretty good idea.

Mr Wolfe—Yes. I am not aware of that. Mr Binks might be aware of it. I am just thinking how it might go for staff who had a right to go around the barrier, whether or not they activated it.

Mr Binks—I think there are two different issues which are crossing over here.

CHAIR—Yes, I understand that.

Mr Binks—I will take the easiest question first. The first issue is: would such a device as you described have prevented the person from entering the Customs controlled area and ultimately the sterile area in this particular case? Although we have a fair amount of preliminary advice at the moment—there are still other investigations going on—it says that it would not have made any difference simply because the person who got on the plane essentially accompanied his family through Customs—

CHAIR—Regardless of that, in domestic airports you walk out past the scanner and there is no control to prevent somebody going against the traffic and going around the thing, except that theoretically somebody who saw them ought to stop them, but if they having a coughing fit or looking the other way it is entirely feasible that people can do that.

Mr Binks—It varies depending upon the airport. We have a requirement that there be no ability to pass back the wrong way through the passenger stream into the sterile area. That is achieved in different ways at different airports and, indeed, at individual airports it may be achieved in different ways in each terminal. Some terminals have devices that you described which basically determine automatically whether somebody is going the wrong way—an alarm. Some airports have people who are designated specifically to look. Some terminals have that as one role of one designated member of the screening team, usually the secondary screener. That varies depending upon the infrastructure and is really determined by the size and layout of the terminal.

CHAIR—We have to move on. Mr Barrett, do you have any response to the answers the department has given us today?

Mr Barrett—No. We have been in contact with the department on a range of these recommendations. That is why we were aware of a number of the issues that had been taken up. The action that has been taken in accordance with the recommendations is satisfactory from our point of view. Also, the answer that was given by Jim on the potential three-pronged approach to that issue on which there was a reservation I think is a reasonable position to take.

The fact of the matter is that we know in a lot of international agreements they are sometimes a bit loath to do things bilaterally for some time, until everyone agrees, and sometimes the bilateral agreements can be very effective as long as the option is not ruled out. Jim is saying that it is not ruled out, so that is fine.

CHAIR—Thank you very much. We appreciate your attendance and cooperation.

[11.49 a.m.]

GRAHAM, Dr David, First Assistant Secretary, Aged and Community Care Division, Department of Health and Aged Care

JACKSON, Mr Matthew, Director, Planning and Access Section, Residential Program Management Branch, Aged and Community Care Division, Department of Health and Aged Care

STUART, Mr Andrew, Assistant Secretary, Residential Program Management Branch, Aged and Community Care Division, Department of Health and Aged Care

BARRETT, Mr Patrick Joseph, Auditor-General, Australian National Audit Office

CROSSFIELD, Mr Leonard, Senior Director and Audit Manager for Performance Audit, Australian National Audit Office

NICOLL, Dr Paul James, Executive Director, Performance Audit Services, Australian National Audit Office

CHAIR—We now come to the second report in today's public hearing, Audit report No. 19, 1998-99: *The planning of aged care, Department of Health and Aged Care*. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings in the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. I welcome representatives from the Australian National Audit Office and representatives from the Department of Health and Aged Care to the second part of this morning's session.

From the committee's perspective, the main purpose of this session is to examine the key issues identified in Audit report No. 19, 1998-99: *The planning of aged care*, and to determine what action has been taken or is planned by the Department of Health and Aged Care to address issues raised in the report. We welcome representatives from these two agencies. I would like to take the opportunity for a brief opening address from Health and ANAO. Does Dr Graham wish to make a brief opening statement to the committee?

Dr Graham—Thank you, Mr Chairman. The department found the performance audit very valuable. The ANAO provided a great deal of assistance in suggesting further improvements to the planning process that have been incorporated in the 1999 coordinated approvals round which is now under way. The industry has responded very positively to the coordinated approvals round. Improvements to the legislation, the application forms and the handbook have been very welcomed, as has the new approach to communicating information about the round through seminars, a video broadcast and the Internet.

Prior to the audit, the department had been through a period of concerted practice improvement in the planning and allocation process. The ANAO acknowledged this and found that the department had made major improvements in the 1997-98 selection process,

and the efficiency of the department's planning processes improved over the last two rounds that have been examined.

The ANAO also found that the planning has reduced inequities in distribution between states and regions and changed the mix of places in line with the policy objective of shifting the emphasis of the program away from nursing homes towards hostel type residential services and community care. A major issue highlighted in the report is that, despite a marked improvement in the equitable distribution of places, inequities still persist between urban and rural areas. The ANAO noted that the options for addressing this important issue are limited.

The planning review announced in the federal budget will provide greater flexibility and responsiveness for communities in rural and regional Australia. Some \$5.3 million has been allocated over four years to ensure that aged care services are structured in ways that will best meet the needs of local communities. The planning process has considerably improved rural services and delivery. Around 30 per cent of places are allocated in rural and regional areas—about equivalent to the proportion of older people living there. The current approvals round also provides opportunities for restructuring rural services under the uniting in care program, and multipurpose services offer economies of scope in situations where economies of scale are not available.

Another major issue highlighted in the report is that the total number of available aged care places have not kept pace with the growth in age population over the last decade. A contributing factor is that the planning process involves timelags of up to three years between the estimation of residential places needed for a particular year and their becoming operational. The report notes the steps the department is taking to reduce the lag in provision and suggests measures that could further reduce this. The report also notes that recent policy initiatives accelerating growth in community care will bring provision back to the target of 100 places per thousand people aged 70 and over by the year 2001. Thank you, Mr Chairman, for this opportunity to give that opening address.

CHAIR—Mr Barrett, would you like to make a brief opening statement?

Mr Barrett—Thank you for agreeing that we can take it as read. I reiterate that we did find that the department had established a planning framework which satisfied the requirement of the Aged Care Act 1997 in a comprehensive and effective way. We accept the 'practical points' that Dr Graham has just raised. I reiterate, though, that in the planning process it is essential that all stakeholders have a full understanding of the basis on which the planning has been undertaken.

CHAIR—Is it the wish of the committee that the written statement from ANAO be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The statement read as follows—

CHAIR—Dr Graham, to what extent does your planning take into account expected changes in demographics?

Dr Graham—The way we do the planning is based on the growth rate in the population over 70. We use future predictions of the demographic growth rate to work out the age places. Within the audit report there was some discussion whether we use current demographics or whether we use future estimates. I might leave it to my two colleagues to comment in greater detail, but we do use future estimates.

Mr Jackson—Yes, that is correct. We do use future estimates.

Dr Graham—The Australian population is ageing at a fairly rapid rate. This is a fact in many countries now. Therefore, the demographics are particularly important.

CHAIR—I understand that. As a representative from an area in Victoria that is the fastest growing area in the state of Victoria and I think either the second or third fastest growing area in all of Australia, I have noticed a huge reluctance on the part of your department and others to consider that expected continuing future growth when taking into account requirements for hostels, for nursing homes, for in-home care and for child care. Would you like to comment on that?

Dr Graham—I am not aware of that, but there are probably two aspects to that.

CHAIR—I bet you will check it out.

Dr Graham—One is the demographics of the population as it is. You are also talking about growth rates in particular areas and the changes in the population within those areas and how we accommodate those. That is more of a variable in effect because an area might be growing rapidly at one point of time but it is not as predictable as the demographics of an ageing population, trying to estimate in a regional area what the growth rate of that population might be.

Mr Stuart—We use the best data that we can get hold of from the ABS. On current and expected growth of the 70 plus population as our starting point, our second port of call is to look at the existing number of aged care places in aged care planning regions. Then we compare the expected growth against the number of existing places and we look for those regions that have the greatest apparent deficit for targeting of the places. We do not stop there with just the statistics. We also have aged care planning and advisory committees which are drawn from the community from people with expertise in aged care. They provide further advice about issues of population growth, for example, or particular kinds of needs such as services for homeless or services for people from a non-English speaking background, for example.

CHAIR—Can you tell us where those ‘people from the community’ are drawn from and how many there are?

Mr Stuart—In each aged care planning committee, they would range from about eight to 10 people. They are chaired by a senior officer of the department at the state level. They

also include representation from the state department of health but, beyond that, they are drawn from people with expertise in particular areas of aged care—for example, community care, residential care, care for people from a non-English speaking background and people able to represent the needs of the Aboriginal and Torres Strait Islander peoples.

CHAIR—How do you get local input—or don't you?

Mr Stuart—Local input is intended to be directed through those planning committees.

CHAIR—For instance, one of the reasons why I ask these questions is that the area that I represent happens to be a metropolitan electorate. Notwithstanding that it is very large, it has quite a number of very small villages spread through the hills, and the demographics are quite different from broadacre suburbs. At almost every level—whether we are talking about provision of doctors, the need for regional services, child-care places, hostel and nursing home places—your department continues to refuse to take the real demographics of the area into account because it is considered to be part of the 03 telephone district. I have some difficulty understanding why. Why can't your planning take into account local representation that could explain to you on the ground what it is like in a local area?

Mr Jackson—I would certainly consider that we do get local input through the aged care planning committees. We seek representation from people who can access that kind of input and can represent that to the department.

Mr GRIFFIN—Whom from? Whom do you consult locally?

CHAIR—That is the question—who is it locally?

Mr GRIFFIN—Is it the council, local economic development bodies, local hospitals or senior citizens groups? I understand the process you are talking about and, although I have some disagreement with the chair about the actual issues of his own area, which is not far from mine, there is an issue there. When you talk about local, what do you really mean by local?

Mr Jackson—We certainly would not have extensive consultations with all senior citizens groups or councils, but we try to seek representative community input through the planning advisory committees from people who have good standing in the community, have good local knowledge and are able to represent local issues through the committee.

Mr GRIFFIN—Can you name some examples, Mr Jackson? When these committees work, do they have a process whereby they seek public expressions of views, or is it a situation where there is some form of consultation process? You are losing me a bit there.

Mr Stuart—Perhaps I could describe the three-step planning processes that we use from the beginning. The first step, which we call the level 1 decision, is set out under the act as being the ministerial decision as to how many aged care places are made available in a given state for that year. For example, for Victoria we have made available for this year 70 high care places, which equates to nursing home level places; 657 low care places, which equates to hostel level care; and by far the majority are community care places, with 1,090.

Those numbers of places are determined basically by our planning ratios. The government has had a long-term objective to deliver 100 aged care places for every 1,000 people aged 70 or over. That has been an objective that has been enshrined since the mid-1980s. We plan on 100 per 1,000 people aged 70 and over. We are looking for 40 of that hundred to be high care places, 50 to be low care places, and 10 to be community care places region by region. The first step is the state level distribution, which the minister decides.

The second step is the regional distribution of those places that are made available to the state—to which regions are those places targeted. That is the point at which we use further data on the regional break-up of people aged 70-plus and the current availability of aged care and we start looking for where the biggest gaps are, so we target the places made available to the biggest gaps. That is the point at which the aged care planning committees also have input with their advice.

The third level of distribution is the one we are engaged in right now. That involves inviting applications for the places that are made available on a region by region basis. It is a competitive process and existing and hopeful aged care providers apply in the round and we assess them against the criteria, basically looking for the best available care for older Australians from the available pool. This year, for example, using Victoria—and I gave the numbers for the level 1 distribution just a moment ago—only 70 high care places being available reflects at the moment that Victoria as a whole is close to the required ratio. So there are 90 made available and the first priorities that we have set are where the biggest current gaps are.

Low care: there seems to me to be a reasonable smattering of additional low care places including, for example, 150 to the southern metro region, 120 to the northern metro region, 90 to the western metro one and 75 for the eastern metro region. So there are at least some hostel places available this year for distribution in all quarters of the metropolitan region and reaching out from it.

Community care: because we are moving from a situation where we have currently six per cent—or rather a ratio of six per 100—and we are moving to double that over a two- or three-year period, we are currently distributing far more community care places than any other kinds of places—and I mentioned the number of 1,090 for Victoria. They are very broadly available because almost all regions are currently under the required ratio for community care and it is a recent government objective to increase community care considerably. They are basically available all over Victoria.

CHAIR—In regard to that planning process, while you are planning how many additional places you need, at the same time—either because of cost or because of quality considerations—existing nursing homes and hostels are closing down. To what extent does the planning process allow for intervention in what is happening?

Mr Stuart—We talk about nursing homes and hostels closing but, in effect, the places never disappear. People do not just hand back aged care places to the department. In the community sector they either pass them on to another area or another community organisation. In the private sector they are most often sold. The department's role then is to

assist in guiding or limiting where those places might be used. Any unused places which actually do not have people in them at any point in time feed into our planning formula as well and lead to an additional distribution of places in the planning round. So there is no leakage, there is no disappearance, of aged care places ever as a result of closure.

CHAIR—Say, in a particularly defined area, several nursing homes close down over a short period of time and those involved try to sell those places. As you point out in your documents, there is a lag time between having a place appointed and getting the physical facility and the staff to take care of the patients. Don't you then wind up taking places away because they have not filled them?

Mr Stuart—No, not at all. With particular buildings that are being closed we very often require ongoing operation, often in those buildings, as a condition of their sale even if the new operator is then building a new service elsewhere. I can only reiterate that there is no disappearance of aged care places, although it can happen at times that there may be a small number of places that are not in use at a point in time.

Mr GRIFFIN—On that planning issue, I note in the report recommendation No. 2 that the department 'agreed with qualification', et cetera—and we have talked about that before. I would like a comment from ANAO as to issue and the response from the department.

Dr Nicoll—In terms of that particular issue, we noted that inevitably in the planning process there is a lag because after a place is approved a constructor, if it is a residential facility, must confirm the bank loan, get the land and build something. So there is no way that lag can ever be eliminated; it is just a natural part of the planning process. We suggested that there might be some measures which can still be taken notwithstanding to reduce that lag. In addition, perhaps some of the planning could be not just for the immediate year ahead but perhaps could take a little bit more account of one or two years off in the distance. That is not going to solve the problem, but it might actually have a cumulatively positive effect. It is not a fundamental change; it is just planning for the following year, with just a touch more out beyond that.

Mr GRIFFIN—Was the department's view that that was not feasible?

Dr Graham—No, we are responding to that in a couple of ways. One is that the new Aged Care Act in fact puts a life of two years on one of those approval-in-principles. Unless there are exceptionally strange circumstances, we would expect those beds to be operational within that time. In the past, I think it is fair to say, we perhaps were not vigorous enough in monitoring some of those, so there was a slippage on occasions. The other thing is that we are bringing forward some of the beds over the next few years, particularly as care packages, and this will increase the ratio up to a 100 or in fact exceed it—over 100 per 1,000, the ratio that Mr Stuart referred to earlier.

Mr COX—Has there ever been any trading in those places in the period between them being given in-principle approval and actually being put into operation?

Dr Graham—Sorry, I did not hear the second part.

Mr COX—Has there been a sale of beds between them being given in-principle approval and actually being put into operation? Has anybody been getting the licence and speculating on it?

Mr Stuart—No. That is ruled out, I believe, by the Aged Care Act. Obviously, there would be scope for speculation if the department did make available places which were then able to be sold on before they were built. The department, under the act, does not allow that to occur.

Ms GILLARD—Just going back to the question of the targets which you referred to in the answer before last, the audit report talks about having a target of 100 per 1,000 of the population over 70. It then talks in another spot about there being additional budget funds released to bring that target up to 102 per 1,000 and, as I understand it, the additional two are community care packages rather than a higher level form of care. Then the department is quoted as saying in the report that it will reach the 100 per 1,000 by 2001. I am wondering where the 102 is going to cut in, given that budget funds have been released to bring you up to that level per 1,000.

Mr Jackson—So the question is when will we reach 102?

Ms GILLARD—Yes, if you say you are going to reach 100 by 2001, when will you reach 102—given the government has made additional funds available to project to get to that level?

Mr Jackson—If I could take that on notice. I think it is 2002 or 2003, but I would need to check that.

Ms GILLARD—And that would be actual places being delivered in 2002 or 2003?

Mr Jackson—Yes, but I would like to confirm that.

Ms GILLARD—No problems, that is fine.

Mr GRIFFIN—You say that you will reach 100 in 2000, What are you up to now?

Ms GILLARD—2001.

Dr Graham—I just want to come back a bit on that first question. Many of these new places are care packages and they can come on-stream much faster than hostel or nursing home beds which require a capital investment. In June 1998 the ratio was 93.7 places per 1,000 of the population.

Ms GILLARD—And that is actual, being delivered?

Dr Graham—That is current provision. Yes, that is being provided.

Ms GILLARD—So that will increase to 100 by 2001 on your current projections?

Mr Stuart—Yes.

Mr COX—Is that ratio in June 1998 made up of 46.7 in high care, 40.6 in hostel and 6.3 in community care?

Dr Graham—Yes, it is.

Ms GILLARD—Moving from looking at the question of the numbers, I have a couple of questions about the purchaser-provider split and the process that you engage in. One that is essential to that model is the question of competition, and in a lot of remote and rural areas you would not really have competition. First, I would be interested in how the department uses that modelling view of the lack of competition in some sections of Australia. Question No. 2 is that I am interested in how quality is assessed in dealing with the selection of providers, either in terms of historic experience with that provider or any other quality measure that the department has at its disposal. How is quality assessed in your selection process?

Mr Stuart—I guess the issue about purchaser-provider split is a bit based around nomenclature. As a department we have always purchased services from aged care providers basically by paying subsidies to the aged care providers. Nothing has significantly changed there. The department is working hard to become more professional about its allocation process of new places, and a lot of that is documented in the audit report. But I think what we are doing there is more administrative improvement rather than a deliberate change in the nature of the way we go about our business. In terms of the purchaser-provider split, this is not an area where the Commonwealth government has ever been the service provider—or at least that I am aware of, going back decades—it has always been in the role of purchaser.

We have a tender-like process, a contestable process, when people apply for additional aged care places, but it does not involve—as a tender would—any price bidding. We have the government's set subsidy stream for aged care places and we are looking for good homes for those places. The competition is based on quality, not on price.

In respect of rural areas, we are not therefore asking rural providers to bid any price in any kind of competition with any city providers. We are basically asking rural providers to make their best case as to why their service is the best quality service to manage the additional places. It is true that there is more competition for those places in metropolitan areas than in rural areas, but nonetheless there are bidders in rural areas. We compare them with other bidders for the same region, not with bidders for metropolitan places.

Ms GILLARD—Given what you have just said, obviously it is a bidding process where price is fixed, so you are basically asking people what deal they will do you for the price, if you like. What independent departmental processes are gone through to check the veracity of tenderers' claims about their quality provision?

Mr Stuart—In particular in this applications round and in part based on recommendations of the ANAO, we are clearly telling service providers a lot more about how we do our work in the department. We have gone around to about 50 meetings of aged care providers basically addressing that question which you have just asked. We are making

it very clear that we are not only using the information that people put in their applications but also all information of a reliable nature that is available to the department. That includes our records of the existing provider's track record in appropriate subsidy claiming and their record in the past of complaints from residents. And now with the Aged Care Standards and Accreditation Agency in place we use information from their quality work with aged care providers. I do not think that is an exhaustive list, but it is fairly indicative.

Ms GILLARD—So from the accreditation area you would have available a quality assessment of a particular institution in terms of the service it is currently providing?

Mr Stuart—The accreditation agency does quality audits. That information is made publicly available, and we use it.

Dr Graham—There may be a new provider that we do not have that information about, but for existing ones we would have that information.

Ms GILLARD—And, with a new provider, what do you do to check the veracity of the claims they are making about the quality of the service they will provide?

Mr Stuart—There are a couple of elements to that. First, I should say that the department is being very clear in this round that existing performance counts. That existing performance can be either in aged care or in a related field, but of course where there are new applicants we have less internal information available to us about their claims.

A very important part of the assessment process is people's applications to become approved providers of aged care. In that area we are asking them about their previous experience as directors of companies and their previous management experience. We are also doing independent probity checks and police checks of the directors of the applying entity. Just to round that out, there is a good reason why the majority of aged care places in every round is allocated to existing aged care operators, and that is because track record counts.

Ms GILLARD—Would you agree with the statement that there is a bias to the not-for-profit sector?

Mr Stuart—No, I would not. The ANAO might like to comment on that. In doing their report, they had a look at a couple of very specific instances of alleged bias and found that the department's processes had been neutral as to the nature of the agency but had looked at the quality of the offering. That is not to say we cannot improve in our assessment processes, but we are working very hard to be neutral as to the nature of the agency.

CHAIR—I like would to comment on that before ANAO does. In section 5.7 up to recommendation 20 they clearly identify the fact that the for-profit sector seems to get short shrift in allocation of new places—full stop.

Mr Stuart—I guess the issue would be why that is the case. The current hostel sector, for example, is dominated by community sector providers for historical reasons. Nine-tenths or more of all service providers in that area are not-for-profit operators and, therefore, because expertise counts, you would then expect that the majority of new allocations would

remain with that sector. The Auditor, I think, suggested that it may also be the case that for-profit providers are not as successful because their track record has not been as long and they are not as aware as the not-for-profit sector of what the department is looking for.

CHAIR—With respect, hostels now do what nursing homes used to do, to a large extent, because of the change in the act and because it was going to happen anyway. You are saying that, if the private sector operated more nursing homes but did not operate hostels, now that we have changed the rules we will not give the private sector any of the new hostels; we will keep it in the public sector ones.

Mr Stuart—No, that is not at all what I am saying.

CHAIR—It sounded to me like that is what you said.

Mr Stuart—Perhaps I can try and be clearer. It is the department's wish and intention—and it is reflected in our processes—to make the competition between providers be entirely on the basis of the quality of provision.

CHAIR—So there will be no new providers?

Mr Stuart—No, I mean on the basis of the quality of either the current or future provision.

Dr Nicoll—We looked at this issue in a small sample of applications in New South Wales. That sample included tenders from both the private and the community sector—the not-for-profit sector. We could discern no obvious bias at all in the selection process. We looked with microscopic detail at the way in which departmental staff were proceeding. We could not see anything untoward there. But notwithstanding, at the aggregate level, the data included in the report show that the private sector is certainly less successful. I think Mr Stuart has indicated some of the reasons which may explain that.

CHAIR—Didn't you find it highly unusual, in paragraph 5.71, that the New South Wales for-profit sector had a zero per cent success rate compared to a not-for-profit success rate of 29 per cent?

Dr Nicoll—Yes, we did, and that is precisely why we recommended that the department with more time look at this issue more systematically.

Mr Graham—We also discussed that with the peak organisations. I think they accept that there is perhaps less experience in the private sector and, in this coordination round where we have been going out and giving quite extensive industry briefings, we have tried to really emphasise what a provider needs to do to be successful. That certainly has not discriminated between any sector.

Mr Stuart—Perhaps to round out the discussion, there are also very different patterns of bidding by private sector providers compared to community sector providers where, for example, private sector providers are much more likely to bid for a very much larger numbers of places—and predominantly in the nursing home sector and also predominantly in

metropolitan areas. I think we would need to do more analysis of that, but I think it explains at least a part of the differential. I would also note that the success rate of the private sector providers has doubled last year over the previous year.

Ms GILLARD—Do you get rural areas or remote areas where you are making places available and you only get one bidder?

Mr Stuart—I am aware that it does happen.

Ms GILLARD—And what do you do about quality assessments in that circumstance where the competition model cannot provide you with an answer as to who is promising to provide the best quality of care?

Mr Stuart—The first part of any assessment is whether a particular service would be suitable. The second part is to look for the service that is most suitable. So we would still assess the suitability of the provider.

Ms GILLARD—So it could be possible that that one bidder would be rejected, despite being the only bidder, because the quality was not right.

Mr Stuart—Yes.

Mr Jackson—The act obliges us to assess against the criteria and, if we find it unsatisfactory, we could not put that forward as a recommendation.

Ms GILLARD—Just for the record, I am not as concerned about the not-for-profit issue and the way the results have come out in terms of not-for-profit agencies; I think that is explicable. In the report, at the start of paragraph 24, there is a reference—and it is dealt with further on in the report—about a loss of experience of people who had worked in a liaison role with providers and with state and local government agencies. Can I get a comment on your view about the difficulties, if any, that the loss of such staff has caused?

Dr Graham—I think it is a fact that there has been a downsizing of some of the state and territory offices and therefore there has been some loss of corporate knowledge. As the accreditation agency starts to do the accreditation process, they will build up a knowledge that perhaps will replace some of that on-the-ground knowledge. That does not mean, though, that the state officers are not also gaining increasing knowledge. In the last budget, for instance, extra resources were put into a validation process. Again, there is going to be quite a strong interface between the department and service providers in carrying out that function.

Ms GILLARD—There is a recommendation about potentially contracting out to gain additional financial expertise to assess bids. Can I have a response from the department about what you are doing in respect of gaining that financial expertise?

Mr Stuart—Yes. We are certainly following through on that recommendation in this round this year. We have engaged a firm of consultants to devise a framework for us to ask intending service providers about their financial statements, their intended profit and loss and

their last year's record. We are engaging a separate firm of professional accountants to do the assessment of that information. That relates to the ANAO's finding that some of our staff did not feel themselves well qualified to do that kind of assessment.

Ms GILLARD—That means that, ultimately, the financial assessment will be done centrally through the firm of accountants or that they will be providing services in each of the states to the relevant officers, won't it?

Mr Stuart—No. It will be done centrally, with the information on the assessments going back to our state officers who do the assessment of applications.

Senator GIBSON—Following up on an earlier question from Ms Gillard, recommendation 10 on page 62—this is really for remote and special needs groups—says:

The ANAO recommends that, where there is insufficient competition between providers, such as in rural areas and among special needs groups DHAC continue to explore alternative ways to promote development of aged care provision more effectively to achieve satisfactory outcomes.

You have here, 'Agreed.' Could you elaborate on what you mean by agreeing with that and what you intend to do?

Mr Jackson—There are a number of strategies that the department has employed. One thing that we want to work on this year is a planning manual for staff to work with particular communities in rural and remote areas, or for special needs groups where there might not be a terrific amount of competition or a terrific number of bids, to put in some applications—in a very careful way, of course. Certainly the department might work with a community, for example, with an Aboriginal community, to submit an application and encourage that community to do so. So I guess the department would take a more interventionist role in some areas.

Dr Graham—We are looking at different models of supply too. The multipurpose services, for instance, have been around for a number of years, and in the recent budget there was the regional health service centres which will be networked across Australia. In some of these areas it is a matter of looking at a different way of supply of residential or aged care rather than the standard model.

Senator GIBSON—But in the overall scheme of things it is only a tiny proportion of your overall requirements.

Dr Graham—It is, but it takes a lot of attention because it is an area that is quite challenging in trying to get that supply.

Mr COX—Do you have any statistics on the progress of the accreditation process, and in particular the successful accreditation of private places as opposed to not-for-profit places?

Dr Graham—We have not at this time. The accreditation process as such has not started. The accreditation is for the standards of care—there are actually two processes under way. One is certification, which is building standards, and that is well under way, but the accreditation process will start in the very near future. Basically, service providers will need

to be accredited by 1 January 2001 to continue to receive government subsidy. We are just on the verge of starting that process. There has been quite a lead-up to that process in terms of assisting the industry to get their processes in place so they can comply with accreditation, but we do not have information on the outcomes at this point in time.

Mr COX—Would you be able to give the committee some data on the progress to date with accreditation of building standards?

Dr Graham—We can do that with certification.

Mr Stuart—If you are addressing certification of building standards, then I am certainly in a position to do that. We have 3,000 aged care services. After the first round of inspections, I think 305 were initially uncertified—around 10 per cent. The majority of those were nursing homes rather than hostels. That 10 per cent has since fallen considerably as aged care providers have done work—which, after all, is the intention of the program—so that now only 92 services remain uncertified. With the target date of January 2001, and if the current rate of improvement continues, there is an opportunity for all those services to pass. If improvement continues at the current rate, we will enter 2001 with none uncertified. However, I think we will end up with a handful that will struggle.

Mr COX—Are you able to give us a breakdown of profit and not-for-profit places in that unsatisfactory group?

Mr Stuart—I cannot statistically today but, based on what our analysis shows, the majority—about two-thirds—of uncertified services have been in Victoria. They are mostly nursing homes, often in the inner metropolitan area, and are typically small, private sector non-purpose built buildings. That appears to be the pattern.

Mr COX—Ones that were built years ago?

Mr Stuart—I am talking about old Victorian villas in the inner eastern area which are being used as nursing homes.

CHAIR—It does not even have to be in the centre of the city. I have several of those, thank you very much.

Mr COX—What are the main problems—fire risks, sanitation or what?

Mr Stuart—The main issues addressed by certification are safety, including fire, any obvious visible hazards, and we are also looking at residents privacy and space issues, cooling and heating, and so on. In Victoria, the privacy and space issues and safety issues tend to be the ones that lead to failure of certification.

Mr COX—Would you be able to take on notice giving us a breakdown of those figures for the profit and not-for-profit places?

Mr Stuart—Yes.

Mr COX—The other thing I am interested in is the ratios and the changes in them—both the number of places per 1,000 of population and how that was set, and the ratio within that of high care, hostel and community care packages. It would be helpful to me if you could provide some analysis of how those have been set against need and how they have changed over time. I do not mind whether you do it now or whether you take it on notice.

Dr Graham—I think we would need to take it on notice because the planning ratio came in in the mid-eighties, so I am not quite sure what the logic was at that point. We would need to check through that.

Mr COX—It seems interesting that, with an ageing population and increasing longevity, we are still shooting at the same sorts of targets as we seemed to be 15 years ago. I notice that in 1986 there were 65 nursing home beds per 100 and now we are looking at a much smaller number. If there has been any change in what is being done in hostels that has seen them taking over from that high number of nursing home beds, I would be interested in seeing some commentary on that.

Ms GILLARD—Part of the problem with doing that comparison is the changing community expectation about at what point you would enter hospital care and at what point you would enter nursing home care. So we are getting increasingly frail aged in those facilities and more people staying in their homes. You would know more about that than me.

CHAIR—Fifteen years ago, you went to a nursing home for a whole variety of reasons. Today you go to a nursing home if you are going to die. Some people that used to go into nursing homes are being taken care of in their own homes today.

Dr Graham—Yes, it is quite complex because there is a greater emphasis on community care packages and there is the HACC program as well as a number of other aspects. The environment is different from what it was in the mid-eighties.

Mr Stuart—The ratio actually ensures that the number of places will grow as the need grows. In 20 years time, we will still be delivering 100 aged care places per 1,000 people aged 70 and over for the number of people aged 70 and over then. That will lead to a doubling of aged care provision over the next two to three decades.

Mr COX—But if they are living longer—to a much greater age over 70—they are likely to be frailer and the profile of what their needs are going to be will be different. We might then need to go back to 65 nursing home beds per 100 in that sort of circumstance. The final matter that I am interested in is what sort of provision you make in your planning for the number of young adults with, say, brain injuries and so on that wind-up in nursing homes?

Mr Stuart—It is a decreasing number. I think it has been recognised over the years that a nursing home is often not the ideal environmental at all for a younger person with a disability. Other programs have been put in place to try to place those people more suitably, but there are still in the order of about 3,000 people, I think, under the age of 60 who are in nursing homes. The process to enter an aged care facility is to get an assessment from an aged care assessment team and if a person, even a younger person, has that assessment there

is the opportunity, if they need residential care, to enter a home. But, as I said, this is not the desired pathway in many cases.

Mr COX—I think it is the most undesirable place to put them. Would you be able to give us an age profile for those 3,000 people?

Dr Graham—Yes.

Ms GILLARD—Following the statistical questions that David asked, do you have data that tells you how long people are in high level nursing home care or hostel care? Given what you said, statistically it is a truism, isn't it, that if you have got 100 per 1000 then, as the 1000s go up, the 100s go up? However, in terms of what David said about increased life expectancy, you would then need to factor in whether people end up spending more or less time in a nursing home bed as life expectancy increases or whether physical fitness and community expectations about keeping them in their homes actually means that we still end up in nursing homes—notwithstanding that we are going to live longer—for the same amount of time as earlier generations. You need both pieces of data or it will not make sense.

Mr Stuart—Absolutely, and I think that is an important question. We do know that the average age of people in care is 85 to 87 years of age.

Ms GILLARD—And is that average age tracking up over time?

Mr Stuart—Yes, it is increasing over time, and the level of need or incapacity for people entering hostels has been rising. Research evidence shows that people are remaining fitter for longer as we have an ageing society and that residential care remains very much an end stage phenomenon, often involved with relatively short periods of need for high level residential care.

Dr Graham—Part of our charter is to encourage positive and healthy ageing. That is certainly an emphasis that many state governments and also the Commonwealth government is putting into the aged care program. There is a debate about whether an ageing society means compression of morbidity or expansion of it; in other words, you stay sicker over a longer period because you are living longer or you have a more intense period of ill health towards the end of life. The evidence is starting to suggest that it is a compression of morbidity. So it picks up your point that perhaps people go into care later but for a shorter period of time.

Senator GIBSON—Are you putting more resources into helping older folk to lead fitter lives? I know there was a trial program down in Hobart announced a couple of years ago. What is happening there?

Dr Graham—This year is the International Year of Older Persons and we have an office for older Australians. They are responsible for coordinating that process across Australia. There is a lot of activity going on. There is a group called Coalition 99, which is a group of about 600 different organisations that are introducing various activities around the international year. Part of what the government is doing is a national strategy for an ageing

Australia. We recently put out a discussion paper on the policy issues and policy implications of an ageing society and how the Australian society needs to respond to those. That is from areas such as income support, healthy ageing, aged care and health care to attitudes and lifestyle. So it is a fairly complex issue but Australia, from all accounts, is quite well positioned in what it is doing in dealing with an ageing society.

CHAIR—Can the sale of an aged care place move places out of a particular region?

Mr Stuart—Yes, it can. The act provides that the sale of an aged care place cannot move places out of a particular state but it can move places between regions. When looking at whether or not to approve such a transfer, the department has particular regard to the level of need in the area where the service is currently provided and the level of need in the area to which the provider wants to move the service. Of course, another key thing the department looks at is the continuity of care for the residents who are actually involved in that particular service.

CHAIR—Thank you.

Proceedings suspended from 12.48 p.m. to 2.15 p.m.

BARRETT, Mr Patrick, Auditor-General, Australian National Audit Office

GREAVES, Mr Andrew Mark, Executive Director, Business Assurance Services, Australian National Audit Office

BONNEY, Mr William Graham, Director, Business Assurance Services, Australian National Audit Office

CARLTON, Mr Timothy Joseph, National Manager, Business Support Branch, Australian Quarantine and Inspection Service

DANIELS, Mr William Laurence, Division Head, Quarantine and Exports Operations, Australian Quarantine and Inspection Service

PROTHERO, Mrs Marilyn Claire, Corporate Financial Controller, Australian Quarantine and Inspection Service

MURPHY, Mr James Andrew, First Assistant Secretary, Budget Group, Department of Finance and Administration

BUCKPITT, Mr Jeffrey, National Manager Budgets, Australian Customs Service

ROCHE, Mr Michael John, Deputy Chief Executive Officer, Australian Customs Service

TOLL, Mr David Barry, Assistant Director-General, Corporate Services, National Library of Australia

CHAIR—We now come to the final session of today's public hearing on Audit report No. 21, 1998-99: *Costing of services* of various agencies. The committee has received submissions from the Australian Customs Service, the Australian Quarantine and Inspection Service and the National Library of Australia. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. I now welcome representatives from the Australian Customs Service, the Australian Quarantine and Inspection Service, the National Library of Australia, the Department of Finance and Administration and ANAO to the final session of today's hearing. From the committee's perspective, the main purpose of this session is to examine the key issues identified in Audit report No. 21, 1998-99: *Costing of services* and to determine what action has been taken or is planned by various agencies to address issues raised in the report. We welcome representatives from these agencies, especially from DOFA, since DOFA has been providing guidelines and training to Commonwealth agencies in this matter.

With that background, I would like to provide an opportunity for a brief opening address from a representative of each of the agencies giving evidence today. We are in roundtable mode, so I ask that opening remarks be kept very short and focus on key points, as we have a full program for the afternoon. All questions are to be directed through the chair. Should any participant wish to raise issues for discussion, I would ask that their comments be directed to me and the committee will decide whether it wishes to pursue the matter. Does each of the participating agencies wish to make a brief opening statement? We will go from left to right. I will call on AQIS first.

Mr Daniels—AQIS has been obliged to take the issue of costing of services seriously for many years. In 1991 the government moved AQIS on to being a fully cost recovered agency for our service delivery activities, and in 1993 AQIS moved to establish a trust account and to adopt accrual based accounting principles for the organisation. So we have had six years of experience of working under the accrual accounting arrangements. Of the total expenditure of AQIS—about \$180 million—\$128 million is cost recovered, and a very large part of that is cost recovered through industry levies and charges.

We have partners in arriving at the appropriate level of fees for our services. The arrangements we have set up with the stakeholders and industry groups are outlined in our submission. If I could make a couple of brief points: there are 13 distinct, discrete industry groups that we deal with in costing our services and considering the level of fees for our services. There are 13 cost recovered programs in the organisation. There are about 30 business programs that we actually run, but, of these, 13 represent the recovery elements of our operation—the \$128 million.

What it means for us in corporate governance are formal and extensive reporting and monitoring mechanisms. We have a corporate governance body sitting at the top of the organisation, which comprises the executive, the corporate accountant and the financial controller. That body meets monthly. We have extensive reporting across all cost recovered and non-cost recovered programs and, as a matter of policy, this data is made available to not only our industry and stakeholder groups but also our staff. This is part of the culture of the organisation to ensure that our staff understand we are in a business where we are in partnership with others who are essentially paying our costs.

National business managers for each of the industry groups have a very large degree of autonomy. They are essentially responsible for managing all aspects of the business, including relationships with stakeholders. Along with critical staff in the organisation, whom we set out to recruit and to retain, and who have the necessary financial and business expertise in allowing us to operate in a business environment, we have a performance management arrangement for all staff in the organisation. By the end of this year this performance management system will be rolled out right throughout the 2,000 people who work in AQIS—right to our most remote regional staff.

The corporate culture of the organisation is very much one where we emphasise that we are in business, in partnership. We operate in an environment whereby we try to have our staff concentrate on the external elements of what we do as well as the internal elements. We are pleased to see that the Australian National Audit Office concluded in the advice to Minister Vaile that AQIS was in the secondary stage of the development model but noted

that we are on the verge of the final stage; and that it also considered that our framework for measurement and management of performance information was an example of better practice. Those statements are attached to our submission.

My final point is that the AQIS experience is that to get to a point where we are now cannot be done overnight. This has taken us six to eight years of trial—and error sometimes—and development to get to a point where we are comfortable with the way we cost our services and where industry generally is comfortable with the data that we make available. The issues with industry tend to come down to issues of philosophy and principle about cost recovery rather than on what it costs to deliver our services.

CHAIR—Thank you for that. I now call on the Australian Customs Service.

Mr Roche—Very briefly, we started work on activity based costing in early 1996—or even late 1995. Our approach was driven at that time not so much by cost recovery, as it was with AQIS, but by resource allocation within the agency. We were working much more on a risk managed basis and we were trying to line up what had previously been historical cost allocation or resource allocation processes with risk management.

We developed a list of about 130 activities within Customs, which has proved to be reasonably resilient and has stood up fairly well through some functional changes. It proved its worth when the government took a decision in the 1996 budget to move to cost recovery for our commercial processing, which involved about \$70 million a year of cost recovery. The activity based costing system survived two levels of external scrutiny—three if you include the Audit Office—as being a fairly accurate reflection of Customs' costs. We are still working on developing it. We initially used PC based spreadsheet software; we are now moving to incorporate a cost attribution submodule into our QSP financial system. So the process very much continues. We are actually in the process of moving to the final stage of the ANAO development model now.

CHAIR—Thank you. I now call on the National Library.

Mr Toll—The National Library agreed with the Audit Office's recommendations and certainly agreed that the library had only relatively simple costing approaches in place. The written submission that was made indicates the areas in which the library is moving forward to improve its costing approaches, especially in the area of the allocation of indirect costs to outputs. The library is intending to undertake quite a bit of review in 1999-2000 to test the effectiveness of what it has done in this area. I think at this stage we would say we are in the second stage and moving towards the third stage of the model that was put forward in the Audit Office's report.

CHAIR—Thank you. And now DOFA.

Mr Murphy—The ANAO report on costing of services provides a useful contribution to improving public sector management. The successful introduction of accrual budgeting provides a challenge and a great opportunity to public sector managers. Accrual budgeting, in the introduction of budgeting by outcomes and outputs, brings into stark focus the need for a proper financial assessment by agencies of their performance.

The Management Advisory Board's report on effective financial management stressed the importance of agencies ensuring that operational decision making, be it service delivery or policy formulation advice, should take place in an environment which placed due weight on financial considerations. Public sector managers will need to have in place effective systems for the costing of services and outputs. The usefulness of good costing systems has been made clear by those agencies that have already made progress in developing such systems. Some of these agencies have found that there has been significant cross-subsidisation between outputs, which has made good management of resources difficult. From our discussions with agencies, it is clear that the majority of agencies are aware of the need for and are moving to develop or to enhance cost information systems.

The Department of Finance and Administration strongly supports and encourages this action, as government will only reap the benefits of the new financial reporting under accruals and outcomes-output framework when costing systems are in place. This will enable the price of outputs to be compared and benchmarked against best practice, either in the public sector or in the private sector. In this way the government will have strong evidence of whether it is getting value for money from agencies.

DOFA has provided some guidance on costing of outputs and will be available to discuss with agencies ways of introducing costing systems. However, we see it as the responsibility of managers to ensure that they develop integrated costing systems. This is important because agencies must feel they have ownership of the system if they are to use their system for strategic and operational management of their resources at their disposal rather than just for external reporting. The other reason we have followed this path is that this is the only way to ensure that the costing system is fully compatible with their financial systems and meets their particular needs.

This will lead to different systems and methodologies being adopted by each agency. This need not compromise our ability to compare costs across agencies and with other organisations. Any sound methodology used to derive the full cost of an output should give the same result as any other. Furthermore, the problem may not occur at all as many agencies are currently looking at using activity based costing as their costing methodology.

These changes all take time. In order to hasten progress in key areas, in the recent budget the ministers have agreed on price reviews of certain agencies and on particular outputs of others. DOFA will work with agencies to determine the price that government should pay for the services that agencies provide. The first step will be to determine the correct allocation of costs for each output. This is only a first step. We need to also develop benchmarks that we can use to derive market or quasi market prices.

In order to determine whether the government is getting value for the outputs that it is purchasing, the reviews will also need to develop performance information systems. This is necessary so that we can determine whether the quality of outputs is at the desired standard. More importantly, we will need performance information that links outputs to outcomes so we can tell whether the right outputs are being produced to achieve the desired outcomes. It is important to realise that it will take a little time to have in place a good costing system using performance information valid benchmarks. The important first step is that managers

have accurate, timely and useable cost data so they can allocate their resources in the way that will allow them to best meet the government's desired outcomes.

Mr Barrett—Thank you, Mr Chair, for agreeing to incorporate our opening statement in *Hansard*. I just reiterate that this is a financial control and administration audit, which is basically looking at the state of play in a range of agencies on matters of financial administration of interest to all agencies. It is an awareness raising project as well and, in this case, will result also in a 'Better Practice Guide' to be released in July. The methodology was based on a model that was prepared by the then Coopers and Lybrand for use in review of costing systems and user charging, and that was commissioned by the New Zealand Treasury. On the basis of that methodology, while agencies were across the spectrum of the three stages, most agencies not surprisingly were in the primary and secondary stage of that particular framework.

CHAIR—Thank you, Mr Barrett. Is it the wish of the committee that the opening statement be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The statement read as follows—

CHAIR—We have finished the opening statements. I have a question for each of the four departments, including the ANAO because you are a department too. I will preface my question with a quote from the report. Under ‘Findings’, the last dot point states:

. no organisation had reached the stage where costing information on an accrual basis played a key strategic role in overall decision making.

When I read that, I must admit that I was quite frankly appalled. Then I found, going back and reading the first two dot points, that everybody is not using costing to make primary decisions in the first place—at least that is what I understand. My first question is: to what extent is your chart of accounts developed so it will allow you to segregate costs by activity? Secondly, do you record time so that you can allocate time at a standard cost to any particular project or any particular program? I ask AQIS that question first. I am not just talking about your cost recovery programs either; I mean across the entirety of the department.

Mrs Prothero—AQIS does not actually use a time recording system for its costing of activities. AQIS allocates costs on a full cost basis to cost centres. Those cost centres reflect our outputs, if you like. So, in general, most of our staff, individual staff members, the full accrual costs and everything else are attributed to individual cost centres, of which there are some 170. They add up to the organisational activities.

CHAIR—So you are telling me that, if you have inspectors at an export meatworks versus people working on plant quarantine issues, you are not allocating their time directly to that particular program?

Mrs Prothero—Sorry, no, that is not what I am saying. I am saying that the costs are attributed on that basis to that program. So the time of all inspectors working on meat inspection, for example, would be charged to a meat inspection service delivery cost centre. When they deliver the services to the clients, the time that they actually spend providing the service to the client is charged to them on a time, fee- for-service basis. But that is a pricing issue rather than a costing issue. For example, if we have an agreement to provide an inspector to a particular establishment for a particular period of time, we have a particular charge for that. It does not matter whether we, in fact, provide the inspector on overtime because of our own internal management processes; we would still charge the same standard cost. So we would manage the cost of delivering the service as a whole, having regard to the movement in the different drivers, but we would charge it out on what is an appropriate basis, as has been agreed in legislation.

CHAIR—I am not concerned about your charge out basis. I am concerned about your keeping of the information in the first place—that is, whether your chart of accounts and your wages collection system allow you to dissect costs so that you can develop a standard hourly cost and then collect variances at the end of the reporting period. Can you and do you?

Mrs Prothero—Not on an inspector by inspector basis. On a delivery to an individual program basis, we can.

CHAIR—No. I am asking: if you charge out an inspector at an hourly rate of \$65.20 and that is your standard cost—and if it is cost recovery, you had better not have a profit in it—which must include some overheads for the management of AQIS, do you then collect actual data on a periodic basis—month by month or six month by six month—and report what you have collected at the standard rate versus what it actually costs and report the variance?

Mrs Prothero—The answer to that would be that it is not collected in that form. However, the variation between what we charge, which is set at the standard rate, and what it actually costs us to deliver that service is that variation. That is monitored on a four-weekly basis.

CHAIR—Then you do collect variances.

Senator GIBSON—Only in aggregate, I suspect. Is that right?

Mrs Prothero—Only in aggregate for each industry.

CHAIR—What about DOFA?

Mr Murphy—From my knowledge of the core department, there is no time recording of activity. In relation to the costings, we cost our outputs so that we can tell you how much is allocated in costs for the outputs of certain areas within the department.

CHAIR—How can you do that?

Mr Murphy—It is virtually by appropriation. But, to my knowledge, there is no actual costing of how we produce things.

CHAIR—So you do not know what it costs to deliver one program versus another?

Mr Murphy—Yes. There will be an appropriation at the start of the allocation of funds throughout the department and the work programs would be allocated to those, matched up with the funds required. But I can give you formal advice on that.

CHAIR—You have not answered the question about chart of accounts: whether your chart of accounts allows you to collect information by program and by area of operation of the department so that you can ultimately, if you want to, segregate costs and apportion costs for a real output and determine the effectiveness or efficiency of any particular program delivery agent or any particular outcome from the department—whether it be advice to other departments or advice to the minister or whatever.

Mr Murphy—I will give you written advice.

CHAIR—Customs.

Mr Roche—Mr Chairman, I saw you raise your eyebrows about the comment about activity based accounting. I am not sure whether you are familiar with exactly how it works.

CHAIR—No, I did not raise my eyebrows. Go ahead.

Mr Roche—We have, as I said, identified 130-odd activities in Customs and these would be at the level of—reading from our activity dictionary—activity code 550, consignment tracking, sea cargo; 560, contraband targeting, sea cargo; sea cargo examinations; consignment tracking; air cargo; and so on. That is the sort of level of activity. We do not record on a continuing basis staff time to each of these activities because we do not believe that is productive, but what we do is conduct a census. We do this three or four times a year. During that census period staff are required to record their time to the activity out of this list of 130 activities. That is monitored from census to census. We look at the changes from one census to another. We also use it to track across various parts of the organisation to ensure that the recording is consistent.

There were a lot of questions asked early on when we moved to this census basis as to whether or not it would produce accurate data. There were some who tried to work the system in the early days. What happens now, though, is that when we have a change in function—for example, when excise was moved to Tax in the last review of administrative arrangements, the resources that went to tax were those determined by our activity dictionary and by the census recording. And so people understand that we will make decisions on the information we have against that activity dictionary without further reference back into the workplace. Because you cannot really predict how that might affect you, I think it actually encourages very strong accuracy in the data. The question as to our chart of accounts—the answer is yes. We do record by program and by organisational unit and we use that data to actually put dollar amounts on.

CHAIR—Is that all of your material costs and service costs?

Mr Roche—Yes.

Senator GIBSON—Just while we are there, your procedure of sampling through time the activity—

Mr Roche—It is actually a 100 per cent census. It is not sampling.

Senator GIBSON—No, but you are sampling the time dimension.

Mr Roche—Yes.

Senator GIBSON—Have you any feel for the level of precision of the results you are getting out of that?

Mr Roche—We have done some testing. We did this initially. I cannot put a figure on it within five per cent, but we thought it was pretty close. In fact we felt that it was closer than you would get with traditional time recording systems because there was not an element of routine and boredom. It actually forced people to stop and think and say, ‘What is it I am spending my time on today?’ or ‘What have I spent my time on over the last . . . ?’. We generally do it over a four-week period. It is true that there are elements of subjective

judgment in that, but my instincts are that we get pretty compatible data right across the agency and from On Time. I do not know whether Mr Buckpitt wants to say anything more?

Mr Buckpitt—As part of the process, we have a quality assurance aspect whereby we go back and review variances. We go back to the area and ask for explanations as to why things might have changed to the extent that they have. That is an important part of it. I would also suggest that doing this three or four times for probably a year, you would get to the point where people understand how to use the thing properly. If you were to ask us whether the first snapshot is a precise record, I would have to say that I think not. However, by the time you have done it for a couple of years, people understand it and can use it fairly well.

Mr Roche—The trick is in actually selecting the level of detail of your activity dictionary—if it is too detailed or too broad you get real accuracy problems with the census approach. The first cut of our activity dictionary was about 150 activities. It contracted to about 120 or 125 and has now balanced out at around the 130 mark. We think that is producing the level of accuracy and management information we need.

Senator GIBSON—I would have thought that any evidence about the level of precision—the number of activities as one dimension, and how often you do this in a year—would be useful in other agencies in letting them make judgments about what sort of sampling is required over time and over activities—

Mr Buckpitt—I think it also depends upon the nature of the agency. One of the considerations for Customs is that some of our workloads are seasonal—for example, the workload at the airports—and so we have had to be very careful about planning when the snapshots will occur. I think it will vary from one agency to another as to whether three or four snapshots would be sufficient or would be overkill.

CHAIR—Does your information allow you to develop standard hourly costs for, for example, an airport inspector versus a postal inspector, versus someone running boats off the north coast?

Mr Roche—We can get a standard hourly cost fairly easily for the system. The real issue is whether the hours allocated to the task and to the product are what you estimated. We do need a standard hourly cost because, for example, when we do examinations that are chargeable to the importer, we have to charge at that rate. But the more interesting question for us is—and we are not quite there yet in an automatic sense—how much it costs us to examine a container or to clear a passenger. Because we have a reasonably good estimate of the activity—passenger clearance, if you like—then you can relate that to number of products you are producing—the number of passengers flowing through the system. It is not automatic at the moment that we have to do that.

CHAIR—You can compute a standard, but you do not measure actual against standard, is that right?

Mr Roche—I guess we are coming at it in a different way. The issue for us is how much it costs to clear a passenger. In a sense, I am not concerned about whether that is achieved by three officers, or by two officers working overtime, or by one officer with a

considerable degree of computerisation. What I am looking at is the total cost per passenger cleared and the effectiveness of the procedure—what our drug seizure rate is like.

CHAIR—Is that real cost or standard cost?

Mr Roche—It is real cost.

CHAIR—So it changes all the time.

Mr Roche—Yes, it changes.

CHAIR—But it is real cost based on standard hours allocation.

Mr Roche—It is based on total salary expenditure, so it is not calculated by—

CHAIR—How can it be on salary expenditure if you do not time allocate?

Mr Roche—Because we are allocating the time of the individual on a proportional basis to a given activity. I am not looking at it as saying, ‘You have spent 55 seconds to process that passenger and I will multiply the whole thing out.’ What I am saying is, ‘Eighty per cent of your time in the last census was devoted to passenger clearance,’ and then I use the system to work through how many passengers were cleared through the system in that time.

CHAIR—Okay. Would the National Library of Australia representative like to make a comment?

Mr Toll—Within the chart of accounts, the Library allocates all direct costs to cost centres routinely. For indirect costs such as corporate overheads, they are allocated to those same cost centres on a monthly basis based on certain cost drivers. For the processing of accounts, it is based on the number of accounts that are actually processed for an output area. In terms of things like cleaning costs, it is based on the proportion of the building that is occupied and cleaned by that output area.

We recognise that we need to test those assumptions in terms of the allocation of corporate overheads, and we are intending to do that in the next financial year through having activity based costing exercises done on a sampling basis for those to see whether or not those assumptions have in fact been correct or sufficiently accurate to provide proper cost data for decision making purposes.

Mr COX—I want to ask the Department of Finance what assistance they are giving to agencies in developing costing methodologies.

Mr Murphy—In our accrual budgeting publication on specifying outcomes and outputs we cited seven different types of costing techniques which could be adopted by agencies. We set that out as an appendix to that publication. We have also been in bilateral discussions with agencies on how they should go about bringing in new costing systems. We published some material a few years ago on costings but that would need to be updated for the accrual

budgeting. So mainly it has been through consultations with agencies and responding to their requests.

Mr COX—What sort of level of resources is Finance putting into providing those consulting services?

Mr Murphy—It really is part of developing the accrual budgeting that substantial resources were put into working on the policy framework. Now we are moving to the stage where, as I mentioned in my speaking notes, the government has requested that certain pricing reviews be done on a number of key agencies' outputs. In that context Finance will be working with those agencies to develop costing systems, because that is the first step in delivering those pricing outputs. I would not put a figure on the number, but it will become a substantial part of the work of the budget group over the next 12 months, working directly or indirectly on costing systems in agencies, assisting them to develop their systems.

Mr COX—There has been a bit of a change in the structure of the Department of Finance. Is the budget group basically the general expenditure division, and what has happened to the accounting policy division?

Mr Murphy—The budget group is a substantial body. It picks up the old general expenditure division and what was called the supply divisions. Also there is an area of accounting policy within the budget group which can give advice to agencies on accounting treatments.

Senator GIBSON—I have a few questions for AQIS. Going back to the very useful New Zealand framework for thinking, how long did it take you to get from primary stage to secondary stage? The key criterion as far as I am concerned is ownership, and I just remind everyone else that ownership in the secondary stage is driven by finance section but used by all managers. How long did it take?

Mr Carlton—I think we have probably been in the secondary stage for quite a number of years. Before 1991 when the government put us onto full cost recovery, AQIS had been on various stages of cost recovery and I think for the previous two or three years to 1991 we had been on 60 per cent cost recovery. So there has been a degree of sophistication in the costing methodologies and the relationship with industry in building up the cost basis and the way the costs were recovered probably for most of this decade. I would say that we have been in that secondary stage for quite a number of years.

Senator GIBSON—Jumping onto the same criterion, ownership for the final stage, owned and supported by the whole organisation, have you got a feel for what proportion of the organisation would give that a tick today?

Mr Carlton—That is in relation to the ownership?

Senator GIBSON—Yes.

Mr Carlton—AQIS works in quite a devolved program management structure where the responsibility for the financial aspects of each program is taken by the managers and their

regional representatives. Unlike a lot of organisations where a lot of the cost recovery is worked out by a central financial cell or accountants, the actual ownership and development of fees is done by the program managers in consultation with industry charging committees which have a high representation of industry members on them. So I think that we have a high rate of ownership right throughout the organisation now.

Senator GIBSON—Do other agencies seek your advice and help? You seem to be out in front relative to a lot of other Commonwealth agencies in going through this costing.

Mrs Prothero—Not so much in relation to costing, but certainly in relation to the other business management steps that we have taken. They certainly are coming to us in relation to business planning and business risk management. There is some interest now in the performance indicator framework which links it together. But in relation to the costing as such, I am not aware of any.

Mr Carlton—We have had some interest from at least one other agency that was reviewed by the same auditors as AQIS, where the auditors had recommend that that agency contact us on our financial reporting framework because they considered that that was an example of better practice in the public sector. I guess that to some extent that is the reporting side of the cost recovery. But I am not aware of agencies that have come to us specifically to assist them in development of specific charges.

Senator GIBSON—Jim, does DOFA see itself in the future acting as a sort of coordinator to help transfer experience from one agency to another in order to speed up the process of implementation of costing across all Commonwealth agencies?

Mr Murphy—I think it depends on the role. DOFA is available to proffer advice to agencies and to encourage agencies to develop costing systems. We to some extent can be a clearing house of information, which we think will develop over the next 12 months on methodologies on costing systems. But, as I said earlier, we have made it clear as a matter of policy that agencies are free to adopt costing regimes best suited to their own needs. So DOFA does not see its role as imposing costing systems, but it is available to be consulted. As I mentioned, there are pricing reviews which will need costing systems for 13 agencies, which need to be done before the budget cycle and in conjunction with DOFA. So once that work is cranked up and is in place we would think that we would have a much better feel for the usefulness and the effectiveness of costing systems. So I think there is going to be a much bigger role for DOFA in this system leading up to the next budget.

Senator GIBSON—But, at the same time, the Audit Office is about to put out best practice notes on this topic—again, as an aid and a guide.

Mr Murphy—What we set out is very helpful to agencies and to the Commonwealth public sector of a whole.

Mr COX—If agencies are free to adopt any costing methodology that they like, what is DOFA doing in terms of coming to its own conclusions about costings of agencies' activities when it is providing budget advice to the government?

Mr Murphy—To be candid, in the last budget cycle it was very difficult from DOFA's point of view to make any qualitative judgments on the cost of outputs put forward by other departments if they did not have any costing systems in place. So we are hoping that through the development of proper costing systems by agencies taking responsibility for that they will come to their own judgments and we will have the information to make judgments as to the pricing of their outputs.

Mr COX—Their information or your separate information?

Mr Murphy—If it is a robust costing system being put in place, it is the start of the information for both the agency and for DOFA.

Mr COX—So it is the case at the moment that the sorts of numbers that are going into budget submissions are agencies' own numbers and not necessarily agreed by DOFA as being accurate or reasonable?

Mr Murphy—No, in the development of the budget, the estimates that come forward from agencies are in effect agreed with the central agencies and agreed with DOFA as being fair and reasonable for the pricing of those outputs. So they are agreed numbers that have come forward and been agreed with DOFA. There are negotiation and questioning of prices of outputs put forward by agencies. That is one of DOFA's key roles—representing or acting on behalf of the Minister for Finance and Administration in his responsibilities for public sector financial management.

CHAIR—Let us go back again. Outside of AQIS, who got forced into an at least reasonably accurate costing system by having to cost recover, how do you view that you can properly manage programs without knowing what it costs to administer the program, to drive it, on a cost per output, cost per dollar or whatever? How can you properly administer a department if you do not know what it costs to run a program versus what it costs to run another program?

Mr Roche—You cannot manage it. Indeed, you need to know not only what it costs to produce a particular product or output but you need to know what it costs to produce in different parts of the country. That was the sort of problem that drove us to introduce activity based costing in 1996. We just did not have that information and we were allocating expensive resources on rules of thumb or judgment bases. We not only did not have a good base for allocating them; we did not have a good base for measuring the outcome of that allocation.

CHAIR—Would you like to write that as an advertisement for all over the Public Service?

Ms GILLARD—You said in your initial presentation that you actually used the model to work out resources which would be moved to another department when there was an administrative change. Could you take us through that in a bit more detail.

Mr Roche—When a function is moved to another department, you have to agree at very short notice on resources to be moved—and that is staff, administrative resources and all

sorts of things. If you do not have an accurate cost system to try to work back and dig back through your chart of accounts and your various financial reports to work out what should go, it is difficult. There is always a huge amount of debate between agencies about whether you are cooking the books or not. In our case, we are prepared to open our books and show what our activity based costing system showed as being used on a particular function—and that was precisely what we transferred. That identified the number of staffing resources; it identified the proportion of support services that we allocated to them and so on. The debate that we had with the Taxation Office, for example, over a very complex transfer of staff was really relatively short, given the scale of the transfer.

Mr Barrett—In the past, those debates could have lasted up to 18 months after the event.

CHAIR—Mr Murphy, I have a hypothetical question. Hypothetically, JCPAA recommends some degree of sophistication in terms of the cost analysis and the integration of the financial management and information systems of departments and government accepts that recommendation as a policy recommendation: who would administer it? Who should this committee recommend to be the watchdog, make sure it happens?

Mr Murphy—Whether there is a need for a watchdog is, I think, the first question. I think that under the government now agencies and ministers have responsibility for their portfolios. The coordinating agencies play an oversight role. DOFA plays a special role in relation to proper financial management in the public sector. As to whether there is a need for a watchdog, I would suggest it would happen over time because of accrual budgeting and the outcomes/outputs framework. You make a rod for your own back whatever your agency is based on, whether it is policy or service delivery, if you do not have costing systems in place. As a matter of peer pressure, as further agencies develop the systems to be able to properly do accrualised accounts, I think it will happen, so I do not know whether you actually need a watchdog.

CHAIR—Then perhaps we do not need JCPAA?

Mr Murphy—No, I think you very much need this committee. DOFA sees this committee—and supports this committee—as playing a very good role, a questioning role, as to agencies' performance in financial matters.

CHAIR—But with an issue like this, is that enough? You say yourself that it is going to take time. I accept that. I accept that you do not bring into a major company structure—let's call an agency a company—a new chart of accounts, or expanded chart of accounts or differentiated chart of accounts together with a time recording system that can allocate resources—if they were really spent rather than where somebody thinks they went—without taking time. But you would not really suggest that we be the only watchdog to make sure it happens, would you? Three years down the track might be too late.

Mr Murphy—No. What I am proffering is that, as a matter of best practice, agencies and CEOs of agencies are going to have to do that and do it reasonably speedily. From DOFA's point of view, we would be very disappointed if it took three years because we do not think that agencies will have that amount of time. If they do not implement proper

systems, they are going to put themselves in a difficult situation coming into ERC and coming into budget considerations.

Mr COX—How transparent to supply divisions are individual agencies' costing arrangements?

Mr Murphy—I think if you looked at their portfolio budget statements, you would see they now give much more information about the cost of outputs of each department and try to break them down, and we would see portfolio budget statements being improved over time, so there is a door into the cost of outputs. Any agency that wishes to seek additional funding, either at additional estimates or during the budget cycle, realistically will be questioned and queried by DOFA and will have to come forward with costings of its outputs before DOFA would support any increases in funding.

Mr COX—But how transparent is the methodology to supply divisions when they are making judgments about whether the figures that are coming forward are accurate?

Mr Murphy—I would not say that it is opaque. But I would say that at the present time it is a matter—as someone said—of a rule of thumb. It is fair to say that ministers do not have robust costing information about the price of outputs—and that is what accrual budgeting and the outputs and outcomes framework is looking to bring forward. It is a matter on public record of the disputes that ministers have over the costing of certain outputs. That occurs because there is no robust system.

Mr COX—In this budget round were there many situations where Finance supply divisions had their own model of the cost drivers of certain agency outputs and the agencies had a completely different view of what their cost structures were?

Mr Murphy—Yes, there were some.

Mr COX—Do you think that there would be value in having an improved financial policy improvement program which brought those two sets of views about the cost of outputs closer together?

Mr Murphy—Yes, but I think the main problem at the present time is the lack of comparable information. Where an agency can come forward with either an independent study or demonstrate where they have undertaken an activity based costing exercise, everyone is in a much better position to make any judgments about the appropriate pricing of an output.

CHAIR—Mr Murphy, when you try to pass the buck in terms of the need for somebody to supervise this thing, I would remind you that, in the early eighties when we deregulated the banks, without proper prudential supervision they went rather mad.

Mr Murphy—I would not like to comment.

CHAIR—I do not know what interest rates you paid in early 1990 but I know what I paid, and I did not like it much.

Mr Murphy—It is not for me to draw the analogy but I take your point. It may be that consideration should be given by government or should be given by the Department of Finance and Administration as to whether there is a need for, as you describe, a watchdog or greater coordination in this area. I will take that on board, and I suppose it is a matter for me to raise that with my Secretary and to probably respond to the committee about that.

CHAIR—Okay, thank you for that.

Mr COX—I have a question for AQIS: you said that there were some conceptual disputes that you had with some of your industry groups about costing methodology. What sorts of things are they raising that are different from your methodology?

Mr Carlton—I do not remember saying that, I must admit.

Mr Daniels—I think I said it. What I intended to get over to you was a philosophical question as to whether or not it was valid for industry to pay for the cost of AQIS services, more than arguments about whether the fee is appropriate. Whether there ought to be a fee at all is what I was trying to get over to you.

CHAIR—On that question, is it not true however that some time in the early nineties—and I will not give you the year precisely but it would have been, I would suspect, 1992 or 1993—plant quarantine charges received an overt amount of criticism from the importing plant nursery industry?

Mr Daniels—I will have to try and defer to someone who might have been around in 1993.

Mr Carlton—I can remember the early 1990s fairly well. I do not think it was only the quarantine industries that were very critical of the extent of AQIS fees in the early 1990s following the government's decision to increase the cost recovery from 60 per cent to 100 per cent. I think it was fairly well universally disliked by industry.

CHAIR—I remember that.

Mr Carlton—We have come a long way since then with our partnership and cooperation with the industry groups. We are as transparent with the industry groups as we can be. They have open access to our costing data. We developed the charges in consultation with them. Some of the industries have gone to the length of wanting to have independent auditors look at how the costs for their programs are then costed to ensure that there is no cross-subsidisation, and we have facilitated that. Those audits have come out finding that there has been no cross-subsidisation and have supported the costing methodologies. While I still remember the early 1990s, we have come a long way since then.

Obviously, if industry had their preference, they would like to get a free service, but they do accept now that a user pays principle is in. Most of the discussion now is on what the costs are and how they should be recovered, rather than on the conceptual arguments of whether or not we should be recovering the costs.

CHAIR—I thank you for that. That helps me a lot. It also explains why I have not had a complaint in years.

Mr Carlton—I am pleased to hear that.

Mr Barrett—Mr Chairman, interestingly in the past the debates in this area of cost recovery have been on both sides. One is whether or not there was a consideration that the costs were overrecovered and therefore there was a question of tax as opposed to a cost recovery. This was a legal issue that was taken to court. The second thing from a government point of view if there is an underrecovery, is the question of resource allocation and what amounts to what do you do about a subsidy. Whether it is an intended subsidy or unintended subsidy, if you have cost recovery, one would argue that it is an unintended subsidy. So there has been a discipline for both reasons that we get our costs reasonably right, particularly in areas where we are cost recovering from industry.

CHAIR—I accept that, but I would have thought it is never acceptable that if you are using any kind of cost system to try to provide management with data that the data is inaccurate, leading management to make wrong assumptions and therefore probably poor decisions, whether it is in the public sector or the private.

Mr COX—Could I take this opportunity to put a question on notice. Could you give us a breakdown of the fees that are paid by the wine industry for quarantine inspection services?

Mr Daniels—Certainly.

CHAIR—Mr Barrett, does ANAO have any comment to make after listening to your public sector colleagues?

Mr Barrett—We would hope to get as wide a dissemination and support for the better practice guide as we can. I suspect, as in a lot of other areas, there does need to be at least some kind of informal or formal users group, in which I would hope would be both preparers and users, to help over the next two years, at least in this application, because it is a shared issue and we do not want to go on reinventing the wheel in this area. So clearly for those agencies that perhaps are not as well advanced, one would hope that the effort that has been put in and no doubt the investment that has been put in by some agencies can be leveraged off to help other agencies to the benefit of the taxpayer.

Senator GIBSON—I would hope that this committee can help in that process.

Mr Roche—Mr Chairman, one important issue that you have not raised this afternoon is that I do not believe that agencies are dragging the chain about moving to cost accounting because they do not want to do it necessarily. I think you will find that in many cases it is related to the availability of skilled resources to assist agencies in implementing these systems. On behalf of Customs, I confess to stealing the person we used to help us develop our activity based costing system from another agency where he had successfully implemented activity based costing. I spent a fair bit of time carefully guarding that resource to make sure he was not stolen by another agency.

Similarly, there are very few people in our agency with accounting skills—probably only one, who is principally involved with our charging systems. We are recruiting a lot more people with accounting qualifications and skills now at the junior level, but those people have to be brought on a lot more before they are in a position to provide the senior management level advice you need to implement these sorts of systems. I think that is a very crucial issue in terms of the rate at which you can expect to implement proper cost accounting systems or costing systems across the government.

CHAIR—I reject that.

Mr Roche—The second point I would make is that, for people in the financial management areas in departments, recent times could be described as challenging or interesting. The amount of change that has gone on with accrual accounting, with the shift from program to outcome based accounting, devolved banking and so on, has put enormous loads on those areas. While all that change is for the good in the long run, the important thing is to stabilise the system so that agencies—many of whom are in the process, as we are, of implementing new financial management information systems—can really get their teeth into this important task of costing.

CHAIR—I cannot speak for my colleagues, but I accept your proposition that a good detailed costing system is resource expensive. I accept that. I also accept your proposition that the entirety of the bureaucracy has been going through challenging times in respect of accounting over the last few years in the move to accrual budgeting and reporting. I accept both those premises. However, I do not accept the premise that you need accountants to set up a cost accounting system. In fact, you do not. You could use almost anybody who is good with numbers—get an engineer in and you will probably get the best cost accounting system of any organisation across the bureaucracy.

Senator GIBSON—Spoken like an engineer!

CHAIR—Am I wrong, Mr Barrett?

Mr Barrett—The engineers in the old Postmaster-General's Department and the old Department of Works were the generators of cost accounting systems in this country.

CHAIR—And they worked, didn't they?

Mr Barrett—They did at the time, but the problem is that it is not just a case of getting the skilled resources necessary to put in proper systems that are actually linked to financial reporting, in which people do have to have some idea about what depreciation and capital charges actually mean, but the people who use them—and that was the other point I heard Michael make—actually know what it is they need and what information they are using and what it actually means to them in terms of the outputs and outcomes that have to be achieved. I think a lot of people get data thrust upon them that is certainly not the kind of information they need to manage.

CHAIR—Don't we need a gradual change in culture to help promote that?

Mr Barrett—The culture is being changed. There are so many other significant changes occurring—and this is not an excuse—in the structural sense as well as the cultural sense. There is also a change in the nature of people's jobs and, with the advent of information technology, the way in which we are doing our business or carrying out our functions now is quite different from what it was 10 years or even five years ago. Consequently, these people have to change and refocus and they are deriving different ways of doing their business, and therefore they are getting the different information that is needed for them to manage their business.

Mr Murphy—On this point, it has been pretty obvious from DOFA's vantage point that a lot of agencies underestimated the resources they needed to implement accrual budgeting and outcomes and outputs processes. They underestimated the impact of the government's policy on better financial management and linking that into the delivery of policy or services. The only way around that is that the finance area of departments will have to become better skilled or it will have to be outsourced, because they will have to take a greater role in the general business of an agency. Finance cannot see any other way around that. If you really want to implement what the government is asking the public sector to do, you must give greater emphasis to the financial reporting side of things. It is not just an afterthought, which it has been to some extent.

CHAIR—I accept that. Thank you all for participating in our discussion this afternoon.

Resolved (on motion by **Mr Cox**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.26 p.m.

