



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Review of Auditor-General's reports, third and fourth quarters 1999-
2000**

FRIDAY, 6 OCTOBER 2000

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Friday, 6 October 2000

Members: Mr Charles (*Chairman*), Senators Coonan, Faulkner, Gibson, Hogg, Murray and Watson and Mr Andrews, Mr Cox, Mr Georgiou, Ms Gillard, Mr Lindsay, Mr St Clair, Mr Somlyay, Mr Tanner and Mr Kelvin Thomson

Senators and members in attendance: Senators Faulkner and Murray and Mr Charles, Mr Cox, Ms Gillard and Mr Tanner

Terms of reference for the inquiry:

Review of Auditor-General's reports, third and fourth quarters 1999-2000.

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Committee met at 10.44 a.m.

CHAIRMAN—I now open today's public hearing which is the third in a series of hearings to examine reports tabled by the Auditor-General in the financial year 1999-2000. This morning we will be taking evidence on two audit reports, namely, audit report No. 30, *Examination of the Federation Cultural and Heritage Projects Program*, and audit report No. 26, *Army Individual Readiness Notice*. The committee has received submissions from the Department of Communications, Information Technology and the Arts and the Department of Defence in relation to the relevant audit reports. It has also received two exhibits from the Department of the Environment and Heritage.

We will be running today's session for each report in a roundtable format, which means that all relevant participants will be present to hear what others are saying about a particular Auditor-General's report. I must ask participants to observe strictly a number of procedural rules. Firstly, 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 ask them to direct their comments to me and the committee will decide if it wishes to pursue the matter. It will not be possible for participants directly to respond to each other.

Secondly, given the length of the program, statements and comments by witnesses should be relevant and succinct. Thirdly, 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.

Finally, I refer any members of the press who are present 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 this committee statement are available from secretariat staff. The audit report being considered in this first segment is audit report No. 30, *Examination of the Federation Cultural and Heritage Projects Program*. I welcome representatives from the Australian National Audit Office, the Department of Communications, Information Technology and the Arts, and the Department of Environment and Heritage to today's hearing.

[10.46 a.m.]

CASS, Ms Barbara Ann, Senior Director, Australian National Audit Office

LEWIS, Mr Michael, Executive Director, Australian National Audit Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

ARCHER, Ms Alison Louise, Director, Heritage Assistance and Projects, Department of the Environment and Heritage

MARSDEN, Ms Alexandra, Director, Historic Assessment Section, Department of the Environment and Heritage

REVILLE, Dr Barry John, Assistant Secretary, Identification and Conservation Branch, Department of the Environment and Heritage

SMITH, Mr Graham John, Manager, Program Evaluation and Audit Unit, Department of the Environment and Heritage

BLEWITT, Mr Arthur William, Chief General Manager, Corporate and Coordination, Department of Communications, Information Technology and the Arts

BURTON, Ms Mary, Manager, Business Planning, Department of Communications, Information Technology and the Arts

MARSDEN, Mr Lennard Peter, Department of Communications, Information Technology and the Arts

PALFREYMAN, Mr Robert John, Executive Director, Arts, Department of Communications, Information Technology and the Arts

WATSON, Ms Cheryl Anne, Acting Manager, Cultural Projects and Cultural Development, Department of Communications, Information Technology and the Arts

CHAIRMAN—We have convened this public hearing to examine the main issues raised in Auditor-General's report No. 30 on the Commonwealth's management of the Federation Cultural and Heritage Projects Program. Does Mr Palfreyman from DOCITA wish to make a brief opening statement to the committee before we proceed to ask questions?

Mr Palfreyman—No. We have put in a submission and I have nothing further to add at this time.

CHAIRMAN—Does Dr Reville from the Department of the Environment and Heritage wish to make a brief opening statement?

Dr Reville—No.

CHAIRMAN—Thank you. Mr McPhee?

Mr McPhee—Thank you, Mr Chairman, I would like to make a brief statement. Over the years the administration of grants programs has proven to be one of the more sensitive areas of public administration. The administration of the Federation Cultural and Heritage Projects Program certainly confirmed this. The administration of grant programs is vulnerable to complaints of inequitable treatment and political bias. For this reason it is essential that soundly administered and transparent procedures are in place to ensure the integrity of the selection process. The examination of the FCHP arose from a request to the Auditor-General from the Leader of the Opposition and the shadow minister for the centenary of federation. In view of the public interest surrounding the program in particular, the Auditor-General agreed to conduct a preliminary examination of the administration of the FCHP Program to ascertain whether a full audit of this aspect of the Federation Fund was warranted at this time.

The audit report sets out the audit objectives and the key findings, and I will not bother to go into the detail of those. I just want to mention further that the ANAO is currently undertaking an audit of the Federation Fund Major Projects Program and the management and monitoring of some FCHP projects. We expect to table that report in May next year. The better practice guide for the administration of grants which the ANAO publishes to enhance grants administration will also be revised in the light of recent audits of grant programs, including the examination of the FCHP Program which is the subject of this inquiry and our current audit of the Federation Fund Major Projects Program. I just mention that Mike Lewis and Barbara Cass were the auditors involved in this particular audit and we would be very pleased to respond to the committee's questions.

CHAIRMAN—Thank you. One of the issues that it seems to me it is important that we discuss is the issue of needs analysis. The Audit Office, of course, puts out a better practice guide and the better practice guide says there should be a needs analysis. Apparently there was not such an analysis for this program, and I wondered if both organisations could explain to us why it was deemed not to be necessary or desirable or why it was not done.

Mr Palfreyman—I might respond to that. The reason for a needs analysis not being undertaken on this occasion was that both departments felt that the government had decided to institute a program of \$70 million as part of the \$1 billion Federation Fund, and our energies were devoted towards compiling guidelines which met what cabinet had in mind. The suggestion for the program did not come from the department. It was, in fact, the other way around.

Dr Reville—Perhaps I could add that most of the projects we were involved in, or our component of the involvement in the FCHP, were to do with historic heritage places—the built heritage environment. The Australian Heritage Commission, which is part of the portfolio, had been running a grants program for many years—the National Estates Grant Program—which gave a fairly good indication that there was a huge demand out there for assistance in handling built heritage. We had an awareness, and I am sure the ministers involved had an awareness, that there was a very large demand and a very large requirement overall. In terms of Australia-wide, there was a need.

There was not a very good basis available for the geographic distribution of that need, and I think that is still the case. We have had a built heritage resources working group party, which is a Commonwealth-state party, looking at that issue for about the last 12 months. They have put forward a recommendation for a much more detailed analysis. It actually is a fairly costly exercise and will probably require considerable Commonwealth-state cooperation to try to identify a needs analysis down to a fairly detailed level. We recognise that it would be desirable to have a more detailed needs analysis, but at this stage it has been very difficult for either Commonwealth or state to actually deliver one.

CHAIRMAN—Just on that, in paragraph 2.22 the Auditor-General says:

An assessment of relative needs in a geographic area can provide an objective justification for the selection of one project over another and give some indication of the requirement for any apparent geographic weighting.

In my electorate I had two: one of them I supported but I did not think it was all that crash hot and the other one I desperately wanted to get up but it meant moving some buildings that are over a century old in order to help them survive. So they got knocked back because the department said, 'No, you can't move buildings; they are not cultural any more'—which I felt was a shame. How on earth are you going to pick up all these little things all over the country that might be deserving of saving or not? Wouldn't that be an incredibly difficult and costly process?

Dr Reville—It is, and it depends which level of detail you need to go to. The Commonwealth at present is trying to do an appraisal, basically looking at rearranging responsibilities in heritage in Australia. That will include an assessment by the Commonwealth of places which constitute national heritage significance, and we will be looking to the states to identify places of state heritage significance and local government for places of local heritage significance. I suspect that that assessment will give us a much better indication of the priority of places for investment, at least against the heritage significance that the places contain.

That is a process which we expect will take several years to actually complete because, as you quite rightly point out, it is a very large job depending on the level of detail you need to go down to. It may be something which is, when you get down to the regional level, for example, better addressed on a regional basis, perhaps in a similar way to, for example, land care, in trying to get that regional level assessment when you get down to that level of detail.

CHAIRMAN—Mr McPhee, would you respond to all three of those statements, please?

Mr McPhee—Certainly. Clearly, the government can quite legitimately implement a program without a broad level needs analysis. The reason for our reference to this in the report reflects the views of parliamentary committees, including the JCPAA, and also our own experience that desirably when a government seeks to implement a program it has an understanding of the needs it is seeking to meet. It is desirable at a global level to do that needs assessment to determine, for instance, whether you wish to give particular priority to cultural or heritage elements of particular submissions or regional or state priorities to make those broad assessments.

The risk with a submission driven program that may occur is that a well informed constituency could be quite successful in seeking grant funds, and that may not necessarily equate to national priorities. So, generally speaking, I think the desirable model is to have a global needs analysis and a submission driven program and bring the two together. In this case, as Mr Palfreyman has said, the government had a clear view on what it intended for this program and set off and got it under way, basically. What we are pointing out is the desirable practice but, as I have said before, it is quite legitimate for government to take decisions in the absence of a needs analysis.

CHAIRMAN—Thank you for that. Could both departments tell me—I am a little in the dark—how developing a numerical rating system for projects to decide their worth came about? What procedure was undertaken and who signed off on it? I think the country got duded.

Mr Marsden—The procedures were developed in consultation between the Department of Communications, Information Technology and the Arts and the Department of the Environment and Heritage and presented to ministers. Ministers subsequently wrote to the Prime Minister seeking approval of the guidelines themselves. That letter was sent to the Prime Minister on 22 April 1998.

CHAIRMAN—Okay.

Senator FAULKNER—Would it be fair to say that the major concerns that the Auditor-General had about the handling of this particular grants program really related to the ministerial stage of the decision making process and not the departmental processes?

Mr McPhee—Certainly in terms of the emphasis, that is correct.

Senator FAULKNER—Is it true that Senator Hill and Senator Alston rejected the advice of the Federation Task Group in selecting 16 projects worth \$14.5 million which did not meet the departmental cut-off score of 15 points, and therefore they were not included in the list of highly rated projects from which the FTG recommended that ministers make their decisions?

Mr Lewis—I am not sure that it would be fair to say that the ministers rejected the advice of the National Council for the Centenary of Federation. They took into account, from what we could understand, advice from a variety of sources including the Centenary of Federation committee and also from the department and from other sources. The department put up a list of proposals that ranked at 15 and above in terms of scores, but ministers had available to them a full range of applications and all of the ratings.

Senator FAULKNER—Yes. I did not mention the National Council for the Centenary of Federation; I mentioned the Federation Task Group which put before ministers a list of highly rated projects on a ranking system, and 16 projects worth \$14.5 million were not on that list. I was just wanting to check that that is an accurate and factual statement.

Mr Lewis—It is correct to say that the department did put up a list of projects that rated 15 and above, and that the ministers did select 16 projects that were below that.

Senator FAULKNER—Thank you. You mentioned the National Council for the Centenary of Federation. Is it correct that, of those 16 that did not highly rank, only two of them were ranked by the National Council for the Centenary of Federation?

Mr Lewis—That is correct.

Senator FAULKNER—Is it true that 14 of the 16 projects that did not rank were actually nominated by coalition members of parliament?

Mr Lewis—I believe that is also correct, yes.

Senator FAULKNER—Is it true that 11 of the 16 were in coalition electorates?

Mr Lewis—Correct.

Senator FAULKNER—Is it true that one was in Canberra where, of course, Senator Reid was in a fight to the death for her Senate seat?

Mr Lewis—It is correct that there was one in Canberra.

Senator FAULKNER—Is it true that eight of the 16 were in the ministers' home states of South Australia and Victoria?

Mr Lewis—I would have to check that.

Senator FAULKNER—I think it is.

Mr Lewis—I will take your word for that.

Senator FAULKNER—You can take it on notice and let me know if it is not correct. Is it also true that there is absolutely no record at all of the process by which ministers elevated these 16 projects or, frankly, made any of their decisions?

Mr Lewis—We did ask ministers what process they went through in their office to select the projects. They wrote to us and advised us on the process and it is reported in the report that they took into account a number of factors.

Senator FAULKNER—There is no record at all of the ministerial decision making process, is there?

Mr Lewis—There are no assessment papers or working papers that have been retained, as far as we are aware, based on the advice from ministers.

Senator FAULKNER—Yes, so there is no record.

Mr Lewis—There is no record of assessment papers or working papers or papers of that nature.

Senator FAULKNER—What there is, of course, is a statement of reasons from the ministers, isn't there?

Mr Lewis—There is a statement of reasons, yes.

Senator FAULKNER—That was created some two months after the decisions were made, wasn't it?

Mr Lewis—I do not know the exact date that it was actually created. It was forwarded to the department some two months after the decisions were made.

Senator FAULKNER—But was it not DOCITA, Mr Palfreyman, that jogged the ministers' memory in this regard?

Mr Palfreyman—I think we made clear at some stage that good practice meant that the reasons for decisions should be documented.

Senator FAULKNER—So this was not an initiative of the ministers themselves, it was an initiative of the department. Do you think that is fair, Mr McPhee?

Mr McPhee—Certainly it seems that the department gave the minister's office a prompt.

Senator FAULKNER—It does seem that. In fact, this statement of reasons was just cobbled together after the department said, 'Hey, we've got no record of any of this; you'd better do something.' Is that fair?

Mr McPhee—That is not the language we would use, but it was certainly prepared after the prompt from the department.

Senator FAULKNER—When was it cobbled together?

Mr McPhee—I think we are agreeing it was done after the prompt from the department.

Senator FAULKNER—So it is a totally unsatisfactory situation in terms of any rigour of the process involved. That is what it seems to me. But you tell me: what is the view of the Auditor-General?

Mr McPhee—I think we made the point in the report that it would have been desirable if it had been done in a more timely fashion, if the reasons were put together in a more timely fashion.

Senator FAULKNER—I made the point in the private meeting that we had prior to this that this compares exceedingly unfavourably with the comparative rigour that the departments and the FTG applied to this particular process. It was a complex selection process. I think the Auditor-General's view is that it was administered carefully by the FTG. Is that correct?

Mr McPhee—We certainly made the point in the report that better practice would suggest that the same standards applicable to departmental assessments should also apply to ministerial assessments.

Senator FAULKNER—Yes, you did. The Auditor-General does make that point. This is the great weakness in relation to this particular discretionary grants program. You have a thorough process established, you have thorough assessment criteria, et cetera, you have a thorough assessment process. It gets before ministers and basically the recommendations that come through that thorough assessment process adjunct in favour of the political fix going in from a couple of ministers literally a day or two before a federal election is called. Would that be fair?

Mr McPhee—What we say is that the processes adopted should be rigorous, transparent and each step in the selection process well documented so there is an effective trail that demonstrates the process adopted. Everyone would agree that ministers do not have to agree with what their departments say, but I think our point is that if there is a variation, a difference, then reasons for that should be articulated desirably so there is a clear trail of the decision making process.

Senator FAULKNER—I know what you say and I understand and accept the principles that you outlined to the committee, but the ministerial stage of the process did not fulfil those requirements, did it, Mr McPhee?

Mr McPhee—We say that it certainly could be improved considerably.

Senator FAULKNER—But it did not fulfil those requirements at all, did it, Mr McPhee?

Mr McPhee—Certainly we were reliant on advice from the ministers as to what took place, so there is a lack of evidence as to the processes that followed in the ministers' offices, I agree.

Senator FAULKNER—So here we are around the table with the relevant departments and the Federation Task Group and so forth. I have accepted in relation to those processes that it was done well: I always have. No criticism has ever been directed at the department in those areas. I think I mentioned in the private briefing that I do have some criticisms in relation to FOI—and we might move to that at a later stage—but in relation to the role of the FTG here it does conform with the guidelines that the Auditor-General has established for the administration of discretionary grants programs.

Mr McPhee—Generally that is the case, yes.

Senator FAULKNER—Specifically, I ask you, Mr Palfreyman, about Ms Fiona Menzies' email to the department of 27 August 1998? This is mentioned in the Auditor-General's footnote on page 41 that he was keen to point out to me at one stage, and I thank him for his assistance in that regard. On page 41 it says:

A different list was sent to the FTG which the Ministers have advised was an earlier working document ...

What can you tell me about that? From the FTG's perspective, how much of an earlier working document was that?

Mr Palfreyman—To be quite honest, I do not know.

Senator FAULKNER—Perhaps I have been unfair in directing it to you. Perhaps one of the other officers at the table could help us. I appreciate that you have broader responsibilities. Can one of the officers help? I am not sure who is responsible. There seems to be a never-ending change to the sea of faces we have in front of us, so whoever is responsible.

Mr Palfreyman—I am the constant.

Senator FAULKNER—You are, indeed. We have been meeting far too often at these sorts of occasions.

Mr Marsden—Unfortunately, I do not know either. We will have to take that on notice.

Senator FAULKNER—In the private briefing we have just had, the Auditor-General's Office was kind enough to suggest I direct some of my questions to the department.

Mr Palfreyman—If I could perhaps comment, when you say, 'How much earlier?' I would not have thought it would be very much earlier, in the sense that the submission to the ministers only went earlier that month—a matter of a couple of weeks.

Senator FAULKNER—It was not much earlier at all; I am certain of that. I thought we had established it was either minutes or, at the most, a couple of hours. I just want to know about all the changes that occurred. I want to explore this issue in some detail and I am disappointed there are not some officers at the table who can help me.

Mr Palfreyman—I am sorry, we cannot help you further in relation to that specific question.

Senator FAULKNER—Given that we are dealing with the audit report, who at the table can assist me as I explore this particular issue? You may not be able to deal with the time frame. The Audit Office has been able to generally assist me with this, particularly Ms Cass in our private briefing. Certainly my understanding accords with that of the Audit Office. Who can help us in the matter?

Mr Palfreyman—It would be me, Mr Marsden or Ms Watson.

Senator FAULKNER—I want to know at what stage of the decision making process this particular email was sent from Ms Menzies to Alex Marsden—which may be a different Marsden; it may be a Ms Marsden, I think—Bill Scott and Les Nielson. That is all. Can anyone help me there? It is referred to in footnote 25 of the Auditor-General's report on page 41.

Dr Reville—Perhaps I can try to answer that. We provided an answer, probably from Senate Estimates, that we think there was an email from Ms Fiona Menzies on 27 August.

Senator FAULKNER—That is correct.

Dr Reville—I am not sure that that is the one.

Senator FAULKNER—The email was eventually prised out of DOCITA under FOI. I have it so that is quite right. That is helpful, but I actually have the thing and I am asking questions about the email that I have.

Ms Marsden—I do not actually recall that email being sent. I would assume that it had been dealt with by DOCITA and Jen Levy, who was head of the Federation Task Group at the time, but I do not recall it.

Mr Palfreyman—If I could add generally that, in terms of the decision making process, it is my understanding that the two ministers forwarded the recommendations for projects to the Prime Minister on that day—27 August—and that the Prime Minister approved those projects on 28 August and that—

Senator FAULKNER—And the election was called on 30 August.

Mr Palfreyman—Yes.

Senator FAULKNER—That is true. I know that, but that is not what I am asking, with due respect. I know that. Can anyone at the table assist me with examining the detail of the audit report, which is what we are here to do?

Mr Palfreyman—Yes, Senator, that is why we are here.

Senator FAULKNER—Can anyone tell me what stage of the ministerial decision making process this email represented?

Mr Palfreyman—No, because we were not privy to the decision making process of ministers. We simply were not involved in any discussions with them on the selection of particular projects.

Senator FAULKNER—Are you aware of the differences between the recommendations contained in this email from Ms Fiona Menzies and the projects approved by a stroke of the pen by the Prime Minister?

Mr Marsden—Yes, we are aware of that.

Senator FAULKNER—When did you become aware of it?

Mr Marsden—With that email but, as Mr Palfreyman said, we are not aware of the process behind that email.

Senator FAULKNER—When you received this email you realised there were discrepancies, did you? That could not be right because the email preceded the Prime Minister's stroke of the pen decision making process.

Mr Palfreyman—I think what you are saying is correct. We would not have been aware of the differences until we were notified of the final decisions that were made on the 60 projects.

Senator FAULKNER—That is what I am asking. What happened in the FTG as a result of receiving this email? What did you do when you got it?

Mr Palfreyman—I do not think we did particularly anything on it. We just provided information. If there is a suggestion that the department responded in any way and was influential in the change, then that is not the case.

Senator FAULKNER—No, believe it or not, I am not making any suggestions; I am merely asking questions. I do not know if you have the email with you, but I prised it out of your department and I thought you might have brought it along. The email says:

attached is the list which the Ministers will put to the PM.

This is from Ms Fiona Menzies who is a member of Senator Alston's staff. The cover note says:

attached is the list which the Ministers will put to the PM. They would like you to prepare a list by State/Territory which gives the following info for each project:

- title of project
- amount of money to be given
- brief description of project (as in list at Att D of brief)

They would like this list to be emailed to me by 12noon today.

Was that done?

Ms Marsden—Yes, that was done. I do not know whether we met the 12 noon deadline, but we wrote short paragraphs.

Senator FAULKNER—How did you become aware that there were discrepancies between Ms Fiona Menzies' list and the one approved by the Prime Minister? Or did you become aware of it?

Ms Marsden—I do not recall at that time that we were aware. We were provided, on or around 1 September 1998, with a final list of the successful projects.

Senator FAULKNER—On or around 1 September?

Ms Marsden—Yes.

Senator FAULKNER—Could you be more precise than that?

Ms Marsden—No, that is the answer we have given before. That is the answer that I recall.

Senator FAULKNER—You were informed after the writs were issued for the federal election?

Ms Marsden—On that date we were informed.

Senator FAULKNER—Can't anyone be a bit more precise than 'on or around'? The writs of the federal election were issued on 31 August 1998.

Mr TANNER—Don't you have some record of when this occurred?

Ms Marsden—It was delivered by hand.

Senator FAULKNER—Was it date stamped? Who was it delivered by hand to, from where and from whom?

Ms Marsden—By an officer of the Federation Fund Task Force in the Department of Prime Minister and Cabinet.

Senator FAULKNER—It was delivered to you?

Ms Marsden—Not to me, to the federation task group.

Senator FAULKNER—By an officer of the Department of Prime Minister and Cabinet?

Ms Marsden—I understand so.

Mr TANNER—Wouldn't this then require you to take some action? I presume it would not have just been filed.

Ms Marsden—I assume that some action was taken. We would have looked at it.

Senator FAULKNER—But was the officer aware of—he probably would not have been, but I just want to double check this—or was attention drawn to possible discrepancies in this communication? Or did you establish that yourselves?

Ms Marsden—I would assume we would have looked at it very carefully because we were very involved and committed to the program and would have noticed it then. But I must say that I cannot actually recall that period.

Senator FAULKNER—Let me just wind the clock back and make it as straightforward as I can. When did the Federation Task Group become aware of the discrepancies between the work prepared—and I accept what you say: it was on the list provided by Ms Fiona Menzies by email—and that which had been approved by the Prime Minister?

Ms Marsden—That would have been in the first week of September. That would have been when we received the final list. We would have looked at it.

Mr TANNER—Are you saying, 'would have been' or 'was'?

Ms Marsden—'Was'. We looked at the list.

Senator FAULKNER—Does that fit with your understanding, Mr McPhee?

Mr Lewis—Yes, it would.

Senator FAULKNER—And how did the Audit Office establish that?

Ms Cass—When I saw that email, I asked Mr Bill Scott about the discrepancy. I was advised then that the department had not been aware of what the approved projects were until after the election had been called. So I believe that would have been when it was found there was a difference in the two lists of projects. That is my understanding of what the department did. I saw nothing of where they had gone back and questioned the ministers, or anything else about it.

Senator FAULKNER—We know that. It would not have mattered even if they had. No doubt that by that time everything would have gone down the shredder. Can anyone at the table tell me what the reasons were for the changes between Ms Menzies' list on behalf of Ministers Alston and Hill and the Prime Minister's list? Can anyone tell me the reasons for the changes, discrepancies, differences—I do not care what language we use?

Mr Palfreyman—There is no-one in the Department of Communications, Information Technology and the Arts who could throw any light on the reasons for the differences.

Mr TANNER—Ms Marsden, on the question of receiving the document, does that document have a date and time stamp on it?

Ms Marsden—I am sorry, I do not recall. I actually do not have that document. The administrating department at the time was DOCITA. I was seconded across from the Department of the Environment.

Mr TANNER—Is there anybody at the table who can answer that question?

Mr Palfreyman—No, we would need to take that on notice.

Mr TANNER—I would appreciate it if you did. Is it normal with the FTG that a document being hand delivered would be date stamped? Is that usual practice?

Mr Palfreyman—Normally, in departmental procedure it would have some receipt date on it. I am not sure that it would actually have a time, but normal practice is that it is date stamped.

Senator FAULKNER—We can establish absolutely, Mr McPhee, that the reasons for these discrepancies, changes, differences—call it what you will—are not documented; is that correct?

Mr McPhee—The reason for the different lists is not clear.

Senator FAULKNER—In particular, the reasons why two projects that scored 12 and 13 were selected are not documented. The Federation Task Group fulfilled the request made of it

by Ms Menzies in full at some point during that same day, 27 August 1998—that is correct, isn't it?

Ms Marsden—Yes.

Senator FAULKNER—You were not actually informed, then, that it was the wrong list?

Ms Marsden—No, not that I recall.

Senator FAULKNER—You just got another list across.

Ms Marsden—Later on.

Senator FAULKNER—A lot later on. Had you done any work in relation to those grant programs in the first list, Ms Menzies' list, beyond fulfilling the request made by ministers of the FTG?

Ms Marsden—We had a whole variety of work we were continuing with—drafting up letters, preparing draft deeds and preparing work for the next stages.

Senator FAULKNER—So some of that work would have been done on projects that did not get the final approval?

Ms Marsden—I cannot recall that. Not a lot of work would have been done on that in those few days, but some may have been.

Senator FAULKNER—Can the Audit Office help me there? Did you check this out at all?

Ms Cass—In what capacity do you mean, Senator?

Senator FAULKNER—The Federation Task Group gets a list from ministers' offices, which it says will be put to the PM, but the list is not correct. Four shonky, dodgy ones come in a bit later via the list approved by the Prime Minister. I want to know whether any work kicked off on the projects that were replaced—the other four.

Ms Cass—In terms of the work that was done, all the projects were assessed and all the assessment reports as well as all the applications were given to the ministers. Regarding this list that you are saying was prepared and sent by Ms Fiona Menzies, my understanding is—as Ms Marsden said—that the department would have fulfilled that request and sent those reports. After the approved projects were put up by the Prime Minister, the department did come up with letters saying who was successful and who was unsuccessful. That is about all that I can tell you that they would have done with these projects. They would have advised who the successful applicants were and who the unsuccessful applicants were.

Senator FAULKNER—I am trying to find out what happens to the four projects selected by ministers and communicated to the FTG on the 27th—the Eyre Pioneer Centre in South

Australia, the Ghan Railway restoration, the Walka Water Works conservation in Maitland and Yagambeh Museum in Beenleigh. What happens to them?

Ms Cass—My understanding is that they would have been advised that they were unsuccessful.

Senator FAULKNER—Is that right? Can someone from the department tell me whether that is right?

Mr Palfreyman—I understand that they would have been advised on 13 October.

Senator FAULKNER—That is right, after the election.

Ms Cass—Yes.

Senator FAULKNER—I bet they were not advised that they had made the original cut-off but got skewered in a last ditch effort to put in a couple of shonks instead of them.

Mr TANNER—Did you get any instructions from the minister about the timing of that advice?

Mr Palfreyman—When the letters went out?

Mr TANNER—Yes.

Mr Palfreyman—There would have been discussions before then, between the department and the minister's offices, about the letters to both successful and unsuccessful. I cannot give you the details of when those discussions took place, but it would have been in the lead-up to 13 October 1998.

Mr TANNER—I am a bit distressed by the use of the constant use of the term 'would have'. I prefer the term 'was' or 'did happen', or 'this happened' or 'that did not happen'. I would ask again: did you receive any instructions from the minister or the minister's office with respect to the timing of announcements or letters to applicants, be they unsuccessful or successful? If so, what were those instructions and when were they received?

Mr Marsden—We do not have the precise details with us. There were discussions, not to the level of your question. Initially, the discussions were about having bulk announcements. It was decided that that was not feasible and then to individually announce the projects to each of the successful and unsuccessful. The precise timing of those discussions I will have to take on notice to provide to the committee.

Mr TANNER—Why were bulk announcements not feasible?

Mr Marsden—I will have to stand corrected on that; I did get confused. There was a bulk announcement on 15 October when all 60 projects were announced. It was the other way around; the minister was trying to do individual announcements and that was not feasible.

Trying to tick-tack—get all parties aware at the same time—was not possible with individual announcements in relation to MPs.

Senator FAULKNER—Is that parties with a capital ‘P’ or lower case ‘p’?

Mr Marsden—Lower case ‘p’.

Mr TANNER—But presumably with that ultimate bulk announcement, which I think you said was on 15 October—

Mr Marsden—That is correct.

Mr TANNER—the majority of successful applicants had already been announced by that stage?

Mr Palfreyman—We do have the figures. Of the 60 projects, 32 had been announced previously. It is in the audit report, at paragraph 4.16.

Mr TANNER—Were any of the unsuccessful applicants notified prior to 2 October of the fact that they had been unsuccessful?

Mr Palfreyman—It was 13 October, not 2 October.

Mr TANNER—All the unsuccessful applicants were notified in one hit on 13 October?

Mr Palfreyman—The letter would have been on 13 October.

Mr TANNER—All the letters were sent out on 13 October?

Mr Palfreyman—That is correct.

Senator FAULKNER—So, in a nutshell, if I can summarise for Mr Tanner: the winners, particularly if they were in coalition seats and announced by coalition candidates, had the advantage of that during the election campaign; there were no losers until after the election campaign was over. I think it would be fair if the Auditor-General actually does note this. In relation to these four lost projects, is that just part of the black hole in relation to the ministerial decision making process that surrounds the scam of the FCHP? No-one can tell me anything about it. I suppose you just say, ‘Oh, well, that is up to ministers. That is their fault.’ Mr Palfreyman, what did the department do to ensure that ministers fulfilled their obligations under the Auditor-General’s best practice guide for the administration of discretionary grants programs?

Mr Palfreyman—The ministers had available to them copies of the best practice guide.

Senator FAULKNER—But none of the obligations that are outlined in that best practice guide were fulfilled by ministers, were they?

Mr Palfreyman—I think the Audit Office have commented on that in an independent way.

Senator FAULKNER—I am asking from a departmental perspective: were there not concerns at a departmental level about this?

Mr Palfreyman—Do you mean at the time?

Senator FAULKNER—At the time, later or any time.

Mr Palfreyman—We believe that we had fulfilled our obligations in providing ministers with the information that we had—as I think the Audit Office have commented—and that the final decision on which projects would be supported was one for ministers. They took those decisions and they documented the reasons for them.

Senator FAULKNER—The reasons were documented some two months after the decisions were made because they were told to document them by the department—quite rightly so, the department was right to tell them.

Mr TANNER—Why did it take you two months to advise the ministers that that would be a good idea?

CHAIRMAN—I think you would have to ask the ministers that.

Mr TANNER—No, I am asking the department. The department advised the ministers two months after the event. I am asking: what is the significance of the amount of time that has elapsed? Why was it that this advice was not provided at the time, two weeks later or a month later? Why was it two months?

Mr Palfreyman—I think that the Audit Office report makes clear the minister's view—that they were always aware of the obligations and that they needed to report the reasons for their decision. That is actually in the audit report.

Mr TANNER—My question is not about what the ministers were or were not aware of. Perhaps that was communicated telepathically to you. If, as Senator Faulkner's questioning indicates, the department has some degree of responsibility for ensuring that the ministers are aware of their obligations, I would suggest to you it extends beyond the comfort of knowing that they have actually got a copy of a particular booklet put out by the Auditor-General's office and extends into ensuring that in a given situation these things are actually complied with. The evidence that we have heard so far is that after two months elapsed the department contacted the minister and said, 'Hey, by the way, you'd better document some reasons for the decision,' which is on the face of it a good thing. The question I am asking is: why did it take two months to do that?

Mr Palfreyman—As is normal practice, the contact between the department and the minister's office is usually fairly minimal during an election campaign.

Mr TANNER—It has been suggested that this particular set of decisions did not contravene the caretaker convention. Both the ministers are senators; they were not out there contesting difficult marginal seats. One would assume that as ministers of the crown they were still actually administering their department, albeit in a caretaker mode. Keep in mind that this is a communication from the department to the minister. I am not asking a question about why the minister did not do something. I would assume that the department was not out there actually campaigning in a marginal seat somewhere. I would assume that the activities of the department continued relatively unaffected by the fact that there is an election campaign occurring. I am asking: why was the minister's attention not drawn to this problem earlier than two months after the event?

Senator FAULKNER—Because the ministers deliberately determined not to fulfil any of the requirements. I do not blame the department for that; the department did the right thing. In this regard, they did the right thing. You are excluded from the process, Mr Palfreyman, aren't you? You are not in the room when they are making their decisions, are you?

Mr Palfreyman—I think it is on the record that the department was not involved in the decision making process of the ministers.

Senator FAULKNER—You are deliberately excluded, in fact.

Mr Palfreyman—With respect to Mr Tanner's question, I do not have the details with me about any contact between the department and the minister's office leading up to the letters of 13 October to both successful and unsuccessful.

Senator MURRAY—The question is: would the department normally be present at the decisions meeting?

Mr Palfreyman—This particular program—

Senator MURRAY—No, let us start with the question. Would the department normally be present at a decisions meeting?

Mr Palfreyman—With respect to other programs that the department operates in the arts area—those that are in fact ministerial decisions, which are essentially the touring programs—I do not believe that we are.

Senator MURRAY—You are not normally present?

Mr Palfreyman—No.

CHAIRMAN—Mr McPhee, I have read the audit report more than once. I cannot find any recommendations. Is that correct?

Mr McPhee—That is correct.

CHAIRMAN—Is that unusual?

Mr McPhee—I think it goes to the issue that it was a preliminary examination rather than a full audit, and also the fact that we intended to pick up the issues in the better practice guide once we had finished these audits within the federation fund itself.

CHAIRMAN—During a series of questions by Senator Faulkner, I understood you to say that ministers should be following the same procedures as their departments. I hope I misunderstood you. I would not have thought that it was the role of the Audit Office to determine what procedures should be followed by ministers.

Mr McPhee—I will just refer you to paragraph 2.61. Fundamentally we are saying that it was not necessarily the same procedures but the same standards in terms of—

CHAIRMAN—But I understood what you said, on the public record, was that the ministers and their officers should be following the same procedures as their departments are required to follow in the better practice guide. Would you like to retract that?

Mr McPhee—I think I quoted from the report. I would just like to quote a little bit more than I did last time. What I think I said—and I can confirm this later—is:

better practice in grant administration would suggest the same standards—

that is the word, ‘standards’—

applicable to departmental assessments should also apply to Ministerial assessments.

The report goes on to say:

The ANAO is not suggesting that Ministers should adopt the identical appraisal process as this would duplicate the work of officials. But, rather, that whatever process is adopted should be rigorous, transparent and each step in the selection process well documented so there is an effective trail that demonstrates the process adopted.

Senator FAULKNER—That was not done in this instance, was it?

Mr McPhee—It was not the implication. What we were saying was that—

CHAIRMAN—I think you said it was done.

Senator FAULKNER—It was not done.

Mr McPhee—No, we are saying that the same standards were not adhered to in the minister’s office.

Senator FAULKNER—It is absolutely clear in the report. You reckon you have read it a couple of times.

CHAIRMAN—I did.

Senator FAULKNER—The point is that the ministers have to make their decisions by the same standards of rigour and transparency and due process that apply to departmental

assessment. I have paraphrased the Auditor-General's words but in effect those are the words of the Auditor-General. It is particularly galling to me in this instance that, after this report has come out—which is written, as all Auditor-General's reports are, in auditor-generalese, and I accept that; I think we all understand that—we have these ministers claiming they get a clean bill of health. They did not get a clean bill of health, did they, Mr McPhee? They were criticised for the total lack of a proper process during the ministerial stage of this particular discretionary grants program. That is right, isn't it?

Mr McPhee—We obviously did not use that language—

Senator FAULKNER—No, that is my language.

Mr McPhee—but we certainly said that the standards were not as high as in the department and there was certainly scope for improvement.

Senator FAULKNER—He went on precisely to say:

This delay—

the two-month delay in the reasons for decisions—

... and their reliance on memory and notes ... which were not retained, is not conducive to good administrative practice or confidence in the process.

Yet these two ministers have the gall and the hide to come out and say they are cleared. With all the moderate auditor-generalese that is used, they get a deserved bullocking—for the same inadequacies of process that in the case of Mrs Kelly led to her resignation.

Mr TANNER—These ministers did not even have a whiteboard.

Senator FAULKNER—I have publicly commented before about the FTG and the thoroughness of its process in relation to the assessment process. I acknowledge its thoroughness. I accept that—and full credit to the departments, the group involved and the officers involved. Having said that, I am afraid I cannot be so generous in relation to the way you dealt with my FOI application. You are aware of my FOI request I am sure; would that be right, Mr Palfreyman?

Mr Palfreyman—Yes, that is the case.

Senator FAULKNER—I would like to know whether the department had any engagement at all with the minister or the minister's office in relation to my FOI request?

Mr Palfreyman—Yes, there would have been, because they were a party to the documentation.

Senator FAULKNER—Could you tell me the nature of that engagement?

Mr Palfreyman—I think there would have been a number of steps. I would need to check but in terms of the—

Senator FAULKNER—I would like to know what all the steps are.

Mr Palfreyman—There was the decision maker in the original thing, so there would have been contact there.

Senator FAULKNER—What sort of contact?

Mr Palfreyman—I was not part of that process so I would need to take that on notice. Then there was the review which took place after that. Then in the lead-up to the decision to release all but one of the documents—

Senator FAULKNER—Why the switch?

Mr Palfreyman—What do you mean by ‘the switch’?

Senator FAULKNER—Why the change of heart? Was it because I took action under the Administrative Appeals Tribunal?

Mr Palfreyman—You followed due process and so did the department. The two earlier decisions were taken by individual officers in the department, as is part of the process. In the final analysis with the Administrative Appeals Tribunal it was a departmental decision.

Senator FAULKNER—Come off it! How could the original decisions have been consistent with the FOI Act, given that you coughed up all the information later on?

Mr Palfreyman—They are the individual decisions of two individual officers.

Senator FAULKNER—Isn't it true that I got not response to either my initial request for access to documents or my request for an internal review and then, after I took action in the Administrative Appeals Tribunal, everything was released that I had been requesting, with the exception of a cabinet reference number and the original application forms? That is because I took action in the AAT, is it not?

Mr Palfreyman—Senator, that is due process.

Senator FAULKNER—I want you to explain to me how the initial responses to my request were inconsistent with the FOI Act—when eventually all this material is provided.

Mr Palfreyman—I repeat that I am not able to speak for the individual officers concerned. At the end of the day the decision was a departmental one and that decision was taken.

Senator FAULKNER—Is it true that the minister's office indicated to the department that they would view unkindly a situation where my FOI request or my request for internal review would have been positively dealt with?

Mr Palfreyman—I am not aware of that.

Senator FAULKNER—I am asking whether or not it is right.

Mr Palfreyman—I am not aware of it.

Senator FAULKNER—I want to know if the fix went in from Minister Alston's office.

Mr Palfreyman—I do not believe that there was any fix from Senator Alston's office.

Senator MURRAY—Mr McPhee, I want to direct this question to you. You heard the response of Mr Palfreyman that generally—this is my paraphrase—with regard to decisions meetings, members of the department are not present when ministers make decisions. I would assume that when political decisions are made you exclude members of the public sector but, when decisions are made with respect to government policy and practice, they would be present. I cannot see how a minister would be able to determine matters of detail or perspective without occasional reference to those who put the recommendations to him. I ask you this question rather than Mr Palfreyman, because the Auditor-General's office have whole-of-government experience. As I understand it, your best-practice approach would require the presence of informed objective professional officers when decisions are to be made regarding the allocation of moneys or resources or the fulfilment of projects. With that introduction, I want to ask you: is it unusual in your view and, additionally, is it bad practice in your view for decisions such as these to be made without the presence of departmental officers or appropriate public service officers?

Mr McPhee—There is no hard and fast answer to that; practice varies considerably. It is quite common for ministers to take decisions on briefs, on papers that they get from departments. Other times they will have discussions with departmental officials. They may make the decision there and then, with the officials in the room—but they may not. I think the fact that officials are not in the room is not necessarily an indication that a political decision is about to be made. It is just that practice does vary considerably.

Senator MURRAY—As I understand it, Mr Palfreyman, we have the following advice from the Auditor-General's audit. Sixteen projects were chosen. All 16, including the four described by Senator Faulkner as the most shonky, complied with the criteria but did not score as highly as those that were put before the ministers originally, and the determinations on those 16 were made at private decision meetings at which your department was not present. The reasons for making those decisions were not advised to your satisfaction, in terms of due process, until several months after the event. Was that a fair summary?

Mr Palfreyman—Yes.

Senator MURRAY—Is it your belief that, resulting from this process and the criticisms attached to it and the Auditor-General's report, the procedures governing such grants will be improved in future; namely, on these particular grounds—in my view—that officers should be present, and reasons should be given in very short order after the decision is made?

Mr Palfreyman—There are a number of suggestions in the Auditor-General's report. I think we are incorporating all of them into new program guidelines in the department. A draft of those guidelines was provided to the committee secretariat following our submission a few weeks ago.

Senator MURRAY—Does that include the early, if not the immediate, advice to losers as well as to winners?

Mr Palfreyman—Yes, it does.

CHAIRMAN—It is on page 25.

Mr Palfreyman—That is correct.

Mr COX—Mr Palfreyman, did you seek to be present at the meeting when the decisions were made?

Mr Palfreyman—No.

Mr COX—You did not offer to be present or have officers present to provide—

Mr Palfreyman—I personally did not.

Mr COX—Did anybody else?

Mr Palfreyman—I would need to check to see whether an offer was made.

Mr McPhee—Mr Cox, I could perhaps assist here. In paragraph 2.63 we say:

FTG staff were on standby to assist in the assessment of applications by Ministers and their staff but were not called on to assist.

Mr COX—They knew it was on; they were waiting. Did you find out from them whether they offered or suggested that it might be helpful for them to be there to take notes and perhaps provide other secretarial services, even if they did not participate in the discussions?

Mr McPhee—I am not sure we knew. Clearly that would be understood, I think.

Mr COX—Could the department take that as a question on notice and answer it?

Mr Palfreyman—Certainly.

CHAIRMAN—Ladies and gentlemen, thank you very much for coming today. We look forward to any further advice that you have for the committee.

[12.05 p.m.]

HAIG, Mr Scott Raymond, Senior Performance Auditor (Defence Branch), Performance Audit Services Group, Australian National Audit Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

MINCHIN, Mr Tony, Executive Director Performance Audit Services Group, Australian National Audit Office

BERGSMA, Lieutenant Colonel Mark Rene, SO1 Dental Plans and Programs, Department of Defence—Army

EMONSON, Group Captain David Lee, Director of Clinical Policy, Defence Health Service Branch, Department of Defence

POWER, Colonel Paul, Director of Preparedness, Department of Defence—Army

WHITE, Lieutenant Colonel Robert Peter, SO1 Personnel, Land Headquarters, Department of Defence—Army

YACOUB, Brigadier George, Director General Preparedness and Plans, Department of Defence—Army

CHAIRMAN—Welcome. We now come to the second audit report to be examined at this morning's public hearing. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the houses themselves. 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. The audit report being considered in this session is audit report No. 26: *Army individual readiness notice*. Does the Brigadier wish to make a brief opening statement to the committee before we proceed?

Brig. Yacoub—I certainly would like to do so. We have found the ANAO review to be a very useful study. In fact, it has guided Army's review of the process which has been conducted as in the submission we provided in the last couple of weeks. We have essentially agreed with all the recommendations bar recommendation 4(a)—which we were unable to do primarily because of the procedural requirement as specified in the Defence Instruction (General)—ADF Preparedness Policy.

As a result of the ANAO review, we have undertaken a thorough review of AIRN. The review was conducted in three phases and wide consultation was undertaken within Army. We have determined as a result of the review that AIRN has utility. It is very useful in terms of Army's preparedness. It certainly was very useful in terms of cross-levelling in East Timor.

Notwithstanding that, whilst the components were appropriate certain standards need to be adjusted and we are undertaking that process. We have provided a way ahead for the review and for AIRN which essentially maintains four requirements. The first is that we will maintain the

use of AIRN as the baseline for individual readiness. The second is our inherent requirement to meet the guidance by the CDF's ADF policy on individual readiness. Indeed, my Air Force and Navy colleagues are now assuring a similar scheme. We are addressing the key concerns in the ANAO audit of AIRN and we want to allow for linkages of individual readiness to match the costs of our collective training requirements.

CHAIRMAN—Mr McPhee, do you wish to make a brief opening statement?

Mr McPhee—I will be very brief. Individual readiness is certainly the foundation on which military preparedness is built. Along with other factors such as equipment readiness and collective training, it influences the speed with which personnel can deploy on operations. We considered that it was useful to do a report; this is a key consideration for the Army and the forces. I am very pleased to hear this morning that the report has been of assistance and the Army is now reviewing the individual readiness notice.

CHAIRMAN—Thank you, Mr McPhee. Anyone can answer this. Under 'Overall conclusion' in the audit report, item 9, it says:

The ANAO understands that Australia's major allies do not use a system like AIRN to manage soldiers' individual readiness. In their armies, unit commanders are responsible for maintaining individual readiness standards based on the readiness notice set for the particular unit. Representatives of those armies indicated to the ANAO that they did not consider a system like AIRN would be affordable in their context, primarily because of the administrative burden it would impose.

And on and on it goes. My basic question is this. Your response to us dated 15 September—and we thank you for that; it was most useful—reversed your rejection of recommendation No. 6. Notwithstanding all that, why did you just scrub the whole thing and go back to scratch again?

Brig. Yacoub—Primarily, as I alluded to in my opening statement, because AIRN has utility. We found that it is a very useful baseline to prepare individuals for deployment. It maintains a set standard across the Army, and, as I alluded to, Navy and Air Force are now pursuing a similar scheme. The ADF in total is pursuing a similar scheme.

CHAIRMAN—You did confuse us a bit. I think Mr Cox thinks he understands it. Under 'Conclusion', in your response to us, on page 7, item 12, you said that the audit report was a useful catalyst for review of policy. You said:

Army Headquarters believes that the performance of Australian soldiers in East Timor attests to the effectiveness of AIRN as a baseline from which soldiers pre-deployment readiness could be determined.

Then you say, and this is what we do not understand:

For example, a number of full-time and part-time soldiers posted into staff appointments outside the land component of the Army deployed to East Timor because they met the minimum readiness standard criteria.

First, there is not a verb in the sentence, but what on earth are you trying to get at? I will forgive you the verb, but we just do not know what you mean.

Brig. Yacoub—I apologise for that. I will clarify the intent. A good example is a number of my staff in Army Headquarters deployed into key operational appointments in East Timor.

Those individuals are not part of the land component army or land headquarters. They are part of the total army group. As a result of specific staff or operational requirement, these individuals were released to take on the task in East Timor. That was the point we were trying to allude to there.

CHAIRMAN—Did they meet class 1 or 2?

Brig. Yacoub—To deploy to East Timor we had to be AIRN compliant as a general rule. Essentially, in the urgency of the initial deployment as such, I cannot give you the exact figures, because units deployed in toto and there may have been some operational reasons why individuals may not have been totally AIRN compliant. By that, I mean there may have been a slight delay in their medical or dental board or they may have had an extant physical test due when we crashed through readiness requirements to get them to East Timor. Post November, every individual that deployed to East Timor went through the reinforcement holding unit. Those individuals were fully vetted and tested for AIRN compliance.

CHAIRMAN—I would draw your attention to paragraph 4.103 of the audit report, which states that Defence was not able to state how the statement of availability was of any benefit in determining which members were able to deploy in East Timor. Have we now changed our mind?

Brig. Yacoub—No. It is a question of understanding in terms of preparedness and individual requirements. The issue here is that AIRN is a useful baseline to determine preparedness. It is a useful baseline to ensure that individuals that are required to go into an operational scenario with a degree of collective training—that is, to go beyond the individual requirement—can go into an operational theatre. I do not want to bang the drum, but our performances in East Timor would indicate that every individual we deployed was thoroughly prepared for the task ahead of them.

CHAIRMAN—Okay. But you have also indicated that, because of the numbers and types of restrictions accompanying members classified as Medical Class 2, land command units are only willing to accept soldiers classified as Medical Class 1. So what are you doing to ensure that medical fitness definitions are being applied consistently in line with deployability objectives?

Brig. Yacoub—I will defer to my medical colleague on the right to provide the medical response.

Capt. Emonson—Most recently the Defence Health Service Branch has collaborated with the Director-General, Personnel Policy in Headquarters ADF and has reviewed the process of assigning and reviewing medical employment classifications to the effect that in April this year a new Defence Instruction (General) 16-15, was published to provide a tri-service approach to individuals who had illness or injury to review their fitness for deployable service.

CHAIRMAN—Thank you for that. At the moment I have a fitness problem—I have a shocking headache. I am going to find two Panadol. I will turn the chair over to Mr Cox temporarily and I will return.

ACTING CHAIR (Mr Cox)—Can you remind me who was CGS at the time that the AIRN was proposed?

Brig. Yacoub—It was General Sanderson.

ACTING CHAIR—One of the things that exercises my mind about these sorts of issues, and it does about this report that the Joint Committee on Foreign Affairs, Defence and Trade have done, *From phantom to force: towards a more efficient and effective army*, is the lack of extent to which there is established doctrine which optimises readiness warning time, expansion requirements and sustainability with a whole range of possible contingencies that we face. Would you agree that there is a lack of clear and established doctrine on that?

Brig. Yacoub—I can offer a personal view, and I would have to refute some of those comments.

ACTING CHAIR—That would be fine.

Brig. Yacoub—A lot of work has been conducted in the past and is currently occurring in terms of assessing preparedness and readiness within the ADF. In fact, CDF, from a tri-service perspective, and the Secretary have appointed a number of review teams to actually analyse that detail.

ACTING CHAIR—So it is happening now?

Brig. Yacoub—Indeed.

ACTING CHAIR—But it certainly has not been there, in my experience, in the past. And there is not very much in the Joint Committee on Foreign Affairs, Defence and Trade report which suggests that it is there and well understood at the moment.

Brig. Yacoub—Maybe it is an issue of clarity and we have got to get our point across. As you would be aware, a lot of those issues are fairly sensitive as well and you do not want to provide a lot of information that you should not be able to provide to potential adversaries. So I would leave it at that.

ACTING CHAIR—There were a few things that came out of this report on which we should perhaps get some clarification. One of them is on page 75:

The October 1998 meeting of Chief of Army Senior Advisory Group decided that LF3 should be removed, apparently to save ammunition costs.

Can you clarify for us whether that basic rifle test was deleted because of the cost of 23 rounds of ammunition per soldier per year?

Brig. Yacoub—That is an issue that was before my time so I was not privy to the discussion that occurred at the Chief of Army's advisory committee. I believe that the current test is about ensuring that individuals are fairly familiar with the Steyr. The point I would make is that the Steyr is a very easy weapon to fire and generally it is a fairly accurate weapon. So whether you

fire 23 rounds or fire it from scratch, most people generally qualify quite well. In terms of why it was removed, I really could not offer any further guidance than what is in the report.

ACTING CHAIR—But it would seem fairly incredible to the public that the Army was so short of consumables that it could not afford 23 rounds per soldier per year.

Brig. Yacoub—Again, I offer no comment except to say that I would be very surprised if that were the real substance. There are other reasons. It may have been availability of ranges, for example—some of our regional units might find it difficult to get to a range in a specified time. We are tying this very issue, in fact, with an enhancement to the AIRN process. The individual readiness states that we have identified in the submission to you are about articulating the individual needs for each of our formations based on readiness.

I would like to draw your attention to what is on page 6 of our submission—the chart we have provided—and talk the committee through what we aim to do here with AIRN. What we are saying is that AIRN is a baseline individual readiness requirement across the total army. Based on where individuals sit within the readiness paradigm or within the readiness constraints—that is the left column or the 180 to 360 days—we then determine the skill sets that those individuals need on a personal basis—not collective training but individual training—to meet their requirement. As an example, that might be two range practices a year. That would be costed, modelled and analysed in terms of preparedness and readiness.

Band 2—individual readiness state 2—is for organisations with 28 days to 90 days. Individuals there may be required to undertake four range practices a year. Because of the need to be able to deploy at fairly short notice, as we did in East Timor, individuals on 14 to 28 days might need to do eight or nine range practices a year. I think this process is far more articulate in terms of our resource requirement and in terms of our preparedness requirement than, let us say, a standard rate of firing X number of rounds a year.

ACTING CHAIR—I agree with you entirely on that. For the purposes of the report that we will have to prepare, it would probably be helpful if you took on notice my question and tried to clear up what the reason was at that October 1998 meeting so that we can put people's minds at rest. I was wondering whether you could elaborate about people who are classified as 'Class 2: fit for employment and generally fit for deployment subject to a pre-deployment check based on geographic restrictions or access to health support'. Can you give us a little bit of the flavour of what sort of geographic restrictions you might put on some people or what sort of health support they might need if they were deployed to, say, Timor.

Group Capt. Emonson—By way of example, we have a number of individuals in the ADF at present who, for whatever reason, have undergone a splenectomy—they have had their spleen removed. The most common reason for that is a motor car accident or a sporting injury. The lack of a spleen makes those individuals more likely to suffer an adverse outcome in the event that they contract malaria. Malaria is prevalent in some geographic parts of the world and not in others. It may be that these individuals are classified not as class 1—that is, they are not totally fit in all circumstances—but as class 2—that is, fit for deployment in most circumstances. In the interests of operational outcome and their best possible health outcome, we may restrict them from going to a malarious area but be perfectly happy to deploy them to Bosnia, for instance, where malaria is not prevalent.

ACTING CHAIR—What proportion of people who have been to Timor have contracted malaria?

Group Capt. Emonson—To the best of my knowledge, and I would have to confirm for you the exact number, a little over 200. About half of those, I believe, have come down with the symptoms of malaria in theatre and approximately half of those have come down with the symptoms of malaria on their return to Australia.

ACTING CHAIR—Is that a better outcome than you expected?

Group Capt. Emonson—Historically, when our forces were in this theatre of operations in World War II, my memory of the Australian official war record of the time suggests that we had of the order of hundreds of soldiers per thousand contracting malaria. So our experience in Timor has been of significantly less malaria than the historical experience of Australian forces in the same area 50 years ago.

ACTING CHAIR—Yes. I can remember estimates of 30 or 40 per cent—

Group Capt. Emonson—Or more.

ACTING CHAIR—from when I was in defence.

Group Capt. Emonson—I hope that answers your question.

ACTING CHAIR—It does, yes. In relation to one of the historical issues going back to when the AIRN was introduced, page 65 says:

Waivers were given to members classified as medical class 3 for two main reasons:

- not to unduly penalise those who through no fault of their own could no longer meet the readiness requirements ... and;
- to lessen the impact of separations on Army caused by the change in focus of the medical classification policy from employability to deployability.

Could you give us some clarification of the concerns about unduly penalising people who ‘through no fault of their own could no longer meet the readiness requirements’.

Brig. Yacoub—It may very well be that individuals have sustained an injury and, as a result of that injury, are no longer totally employable within the service. In some cases, to assist those individuals to partake in other options available to them and in order to meet, let us say, their pension—if they are very close to that—we try and look after their interests. But at the same time, those individuals provide useful service in a normal employment stream, not necessarily in the land environment.

Mr COX—The other thing that I thought the Auditor-General’s report was deficient on was its examination of the employment proficiency assessment. Could you elaborate on how that is currently done, and then I might ask you a couple of questions about how I thought it might be possibly improved.

Brig. Yacoub—It is currently done by individuals undertaking their trade training and being certified proficient by an appropriate trade authority. So before an individual soldier is posted to his unit, he or she must be trade proficient. That trade proficiency is then maintained, and it is then observed by the chain of command. If I take my own background as an electrical mechanical engineer, a vehicle mechanic in a unit has a hierarchy which ensures that he maintains a degree of proficiency and competency in his trade. Further to that is the subsequent training that an individual does. When he reaches a unit, he is at a basic standard. Throughout his tenure in that unit, he will undertake further trade training to ensure that his proficiency is enhanced across the wide range of equipment we have that that unit might support.

Mr COX—The assessment that he has of his continuing employability is not done by a specific annual test, though, is it?

Brig. Yacoub—Not in terms of trade proficiency. If he is a junior NCO or above, his trade competency is assessed at his annual confidential report. How well he or she performs in that function is part of his or her overall assessment. But in terms of a basic—let us say—craftsman or vehicle mechanic, the assessment is done by his chain of command.

Mr COX—And there is not a confidential report on that? I did not realise there was a distinction.

Brig. Yacoub—Every junior NCO and above has one—indeed, I have a confidential report written on me each year. Each member of this panel has a confidential report written on him. For example, part of Group Captain Emonson's assessment would be his medical competency. How well an individual performs that function is assessed by his or her one-star equivalent. How well I perform my function is assessed by the Deputy Chief of Army—as is the performance of my other colleagues here. That process of assessment commences from lance corporal and above, because at that rate every individual gets an annual report.

The annual report fulfils two functions. One, it tells the individual how he or she is performing and how they can improve their overall capability, both internally and externally, to the organisation. The second factor of that is to identify their promotion potential. As you know, we are about growing people.

Mr COX—Would it be appropriate as part of that confidential assessment to have a specific requirement that an assessment be made of whether somebody meant the AIRN readiness requirement for proficiency?

Brig. Yacoub—That is a very good question. In fact, that is one of the areas of improvement that we have suggested to our personnel people. It is a reasonable criticism made by the ANAO report in terms of the inordinate amount of staff effort by chief clerks to enter AIRN compliance. What we have suggested to our personnel planners is that, as part of the annual competency report, five categories be inserted. For example, rather than individually trying to capture when an individual had a medical board, a dental board, a fitness test or Steyr training, that data gets entered at the time of entry in the confidential report. That will remove the significant administrative burden on units. That process is currently being undertaken.

Mr COX—I was thinking that we should be making a recommendation in that area.

Brig. Yacoub—We are actually doing it.

Mr COX—What is the case for people who are not NCOs or officers?

Brig. Yacoub—We are developing a form for those individuals as part of the enhancement process I alluded to. Our aim is to have that process in place commencing next financial year. It will be a similar data sheet which can then be entered in their personal fields. It will do two things. It will reduce the burden on units in terms of writing individual entries. More specifically, corporately, when CDF asks how many individuals are AIRN compliant, rather than go through an inordinate amount of manual requirements we will be able to do it at a fingertip to identify specifically total AIRN compliance across Army.

Mr TANNER—Of the eight recommendations, there are two that you disagree with. On recommendation No. 6, I would be interested to get a clarification from you of what the actual point of disagreement is. I found this a little bit difficult to understand. It seems almost as if Defence and the ANAO are at cross-purposes, talking about slightly different things here, so I just want to get your clarification. My impression of this is that ANAO is saying that there needs to be greater precisional focus on the individual components of the AIRN standards—dental, medical, compassionate, and so on. Mr McPhee is nodding and confirming that. Your response seems to be focused not on the individual components of the test but on differences between individual components of the ADF. You seem to be saying in response: we do not agree with you because we need to have an across the ADF set of standards. It does not seem to me that that is what the ANAO are saying. Would you clarify for me the point of disagreement in this recommendation ?

Brig. Yacoub—I think the point of disagreement has been resolved since our initial response. As I indicated, we have gone back and reviewed the ANAO report and had a wide consultative process. We have briefed our Chief of Army's advisory group on a number of occasions and we have solicited a wider audience as to how to enhance the process. It is the process that I alluded to on page 6 of our submission, to tie in the individual baseline requirements of AIRN with the individual readiness states of each unit and formation. As a result of that analysis, we have agreed with the ANAO that AIRN can be enhanced through that process.

Mr TANNER—So effectively you have withdrawn your disagreement and are now saying you accept it?

Brig. Yacoub—Yes. The only disagreement we had is by virtue of the fact that we have got a higher defence policy requirement. It is really a process issue: CDF has developed the AIRN component, which was Army specific, to include Navy and Air Force. It is recommendation 4(a). Under the guidance of the Defence Instruction (General), we are required to have the process—the form which is required to be filled in. It is really a procedural issue, so we are not totally in disagreement with what the ANAO is about.

Mr TANNER—Recommendation No. 4 relates to members of the ADF advising of restrictions on their availability due to legal or compassionate encumbrances. The ANAO recommends that the once a year statement of circumstances is not an efficient way of dealing with this because it is, in a sense, only applicable for the one day on which it is actually provided. I am interested to hear your reasons as to why you disagree with this recommendation

and why it would not be more effective to simply put an obligation on individual members of the ADF that, if they sought to rely upon such circumstances in an availability situation, they need to notify their superior officer—or whatever the appropriate process is—within a given period of time; seven days, 14 days or whatever might be appropriate. I am interested to hear your view as to why that, or some approach of broadly that description, would not be a more effective way of dealing with this question than the existing one.

Brig. Yacoub—The first issue is that that is the policy that is mandated on Army by the Defence Instruction (General) that I alluded to, (D-F-G) 36-2, on the ADF individual preparedness requirements. Secondly, in essence, that recommendation does not totally recognise what occurs in units—and I will give you a personal example from commanding a readiness maintenance unit in the 3rd Brigade. It was my responsibility, notwithstanding the fact that we are on 28 days notice to move—as the rest of the brigade is—to fully understand the conditions and requirements of each individual in the organisation. The chain of command really has the responsibility to identify issues and problems that their people have.

Mr TANNER—In other words, you would know this stuff anyway.

Brig. Yacoub—Indeed. In fact, we have a very good system of welfare officers, the padre and so on, and if the padre and the commanding officer do not know what is going on within the unit, I do not know who does. At the time I could have told which four or five individuals had specific difficulties which needed to be addressed before they could deploy. Some of those circumstances may have been financial or personal but certainly the chain of command was fully aware of them.

Mr TANNER—Isn't there a risk that there will be individuals with circumstances that they would prefer to keep totally private which, in situations of non-mobilisation, would not be relevant and that they may not tell anybody within the ADF about but which, in circumstances such as being ordered to East Timor, would be a problem for them? So, although I accept what you say—that probably in the vast majority of cases that would be the case—isn't there a risk that there will be some instances where that will not actually cover that situation?

Brig. Yacoub—That is quite true. I am sure it did occur when East Timor came along, but the chain of command is reactive to that and is receptive to that requirement and would work to overcome it.

Mr TANNER—Is there any point, given the ANAO's criticism of the existing AIRN requirement on this particular matter, in maintaining the once a year statement of availability on those matters? Is there any merit in that at all?

Brig. Yacoub—There is certainly merit in it in that part of the form actually identifies for the organisation the level of welfare support requirements that may be needed if the unit deployed. For example, individuals could fill in on that form, 'If I deploy, my spouse would need support; my children may need medical care,' and so on. Notwithstanding that, we are complying with DIG 36-2, and we have to comply with that unless CDF changes the rules.

Mr TANNER—Would there be any merit in, firstly, for example, considering imposing some sort of quarterly requirement on individuals in the intervening period so that if there is a change

of circumstances they do complete the form? So we do not have everybody doing a form every quarter but we say, 'Okay, you do it once a year and if there is a substantive change to your situation then put in another form quarterly.' Secondly, would the additional bureaucracy and paperwork make it not a great idea? Would something of that nature be an improvement or would that be too burdensome in a bureaucratic sense?

Brig. Yacoub—Our general processes allow for that to occur. If an individual has a compassionate circumstance there is an obligation on them to report it and there is an obligation on the system to assist them. So generally, as I indicated, the command chain would be reasonably familiar with most of the circumstances that are reported but, as you have alluded to, it is the unreported ones—and I suspect they are very minor in terms of numbers.

Mr TANNER—When you say there is an obligation, is that specific to this particular process involving the once-a-year form or is that a more general obligation?

Brig. Yacoub—No, it is an ongoing, more general process.

Mr TANNER—Does that obligation extended to putting something in writing or can it be verbal?

Brig. Yacoub—No. In most cases it is a matter of reporting it to the chain of command. If you are a young private in a platoon you would report it to your platoon commander. He then has a duty of care to assist you in addressing your concern. If it is a longer term issue—it may be a financial predicament, for example—that individual would then receive counselling and assistance to overcome that financial burden.

Mr TANNER—In other words, it could be a verbal report.

Brig. Yacoub—Yes. We are not about creating a significant bureaucracy here.

Mr TANNER—Hence the qualification to my question. I fully agree with your view on that. I am interested to check the nature of this obligation. If somebody failed to advise you, for whatever reason, of a difficulty of this nature and the ADF found out about it, would they be counselled? Would they suffer any consequences as a result of their failure to advise? I suppose that would depend a bit on the nature of the issue, wouldn't it?

Brig. Yacoub—You are absolutely right—it would depend on the circumstance. We are not a performance-punishment organisation. We are there to assist, and we are about developing—I mean that quite sincerely. Operational requirements require the team to work as a team. You do not develop team work by punishing people; you develop it by growing the confidence of people. A very good, effective chain of command is about assisting, nurturing and encouraging. It is not about punishment.

Mr TANNER—Presumably, if something came under the compassionate heading of a person's mother dying of cancer, you are not going to go berserk at them because they have not told you. But if it is somebody who has broken the law or got into trouble and restrictions have been imposed on them as a result of that and they have not told you of that, presumably they would get into trouble. Is that a fair assessment?

Brig. Yacoub—Yes, that is a fair assessment.

Mr TANNER—Thank you.

Ms GILLARD—On the bottom of page 6 of the extra submission of 15 September that you submitted to us, it says:

By 1 October 2000 Army will promulgate amendments to the existing AIRN policy that reflects the following information.

Did that occur?

Brig. Yacoub—It certainly did occur. I signed a minute to that effect to notify all the Army groups and the non-Army groups that support us of the changes to the AIRN requirements.

Ms GILLARD—Was that in the same terms as the document we have in front of us?

Brig. Yacoub—Yes.

CHAIRMAN—Very good!

Ms GILLARD—On page 7 of the document, where you then detail what is going to happen in the coming months, paragraph b(1) reads:

By February 2001, Army will develop the Individual Readiness Standard process; followed by the development of a detailed costing model for the enhanced policy.

I know you can get into chicken and egg arguments about this, but in the ordinary course of developing a policy I would have thought you would want some handle on cost ramifications, otherwise you get to the stage where you have specified the Rolls Royce and then realise you really needed a Mini Minor. As you are going through this process of review and development, do you have any costing information available to you?

Brig. Yacoub—We have a costing cell which would assist the process. The key requirement of identifying and developing individual readiness standards is to ensure that you are risk managing what that organisation needs to do. You then risk assess whether you can fully fund it. That is not a decision I would make; it is a decision that the Secretary and CDF and the government would make. What is important in that process is to articulate what the requirement is about. When you identify, let us say, Individual Readiness Standard 1, that is based on the readiness requirements and the range of tasks that organisation is likely to do. Having determined that, you might say that, in order for an individual in that organisation to be competent, he or she needs to fire six practices a year. When you determine the costs and you find out you can only afford five, that is a question of risk management. Alternatively, you might determine that lower order priorities do not get met and that higher order ones do.

Ms GILLARD—Yes, I accept that. But we have been presented with an audit report that suggests that at the start of this process there was not sufficient consideration of the interconnection of the indicators you were selecting and the 30-day readiness requirement. That is partly a policy question, but it obviously has cost ramifications as well. If you are specifying

a whole lot of things that people need to do to be notionally ready—which are really not required—it is a policy matter but it is also a cost matter. I am seeking some assurance that it has been built the other way up and you are actually looking at what deployments would reasonably be required and what readiness is necessary for those. The second component of that is: whilst it is more effective to individualise it, even if that is down to area level, individualising it probably makes it more costly to administer. How is that being weighed in the mix?

Brig. Yacoub—You raise some very interesting and useful issues. The time line we have specified is that in February 2000 we will have this process. The process will then be ongoing to a level that we can actually implement it in the new financial year, July. As you see, in subparagraph (c), and in fact on the very same paragraph as (2) and (3), we identify that the first step will be made by February 2001; the next step is to go through a process where we coordinate the requirements and we then brief the Chief of Army Senior Advisory Group. Ultimately the Chief of Army is the capability manager, and he needs to be quite comfortable that what he is signing up to is something he can endorse and get government and departmental support for. The next intent is to provide a coherent, balanced approach, fully encapsulating the cost. It will no doubt be guided by the outcomes of the white paper, and it will no doubt be guided by the consideration of the joint committee's report. We are about developing a coherent strategy that is reasonably funded and that actually articulates a preparedness and readiness state.

Ms GILLARD—One of the things that troubles this committee from time to time is to do with Defence's acceptance of recommendations of the Auditor. I know you have conducted a review, but can you explain why there was such a change of attitude to some of these recommendations from the first round—the actual recommendations in the printed report? I would have hoped that before responses to the Auditor are filed that there would be pretty detailed consideration of whether or not those responses are right. It is a bit troubling that a set of responses gets put in, then a review is conducted and a different set of responses is put in. We are all grateful that the position has moved, but it would be better if it could all happen in one hit and if the responses that go into the printed report are the real responses.

Brig. Yacoub—I certainly appreciate your sentiments. It is important to note that the report was produced at a time when the organisation was fairly busy because of East Timor requirements. In January we were trying to resolve our East Timor rotation from INTERFET to UNTAET. To some extent we did not have the staffing priority to address the recommendations in the full spectrum. You would also be well aware that we have drawn a significant number of lessons from East Timor in terms of preparedness and readiness. I am a bit biased about Defence and Army, but as an organisation that is willing to learn, we stepped back from that and asked: what are the lessons we have picked up and what are the things we can enhance if we have to do this better next time? With that in mind we went back to the ANAO report and identified areas where we initially had some minor disagreement but which actually are beneficial to the organisation. That then drew us into the strategy that I have articulated of reviewing AIRN and the phased, consultative approach we have taken within Army. We have now got a way ahead that I think will address predominantly the ANAO's concerns but will also give us a far more viable AIRN system.

Ms GILLARD—I admit that I do not know whether some extra latitude could have been sought at the time in view of sustaining the deployment in East Timor, and whether a more effective process might have been to say to the Audit Office that Defence did need that latitude in view of the stresses it was under. Mr McPhee might want to comment on that.

Mr McPhee—We were always open to being reasonable about response times. The good thing is the very constructive and positive approach that the department is now taking. We would like to get agreement first up but, if we cannot get it first up, it is good to get it a little bit later.

Brig. Yacoub—The ANAO makes that point, if I remember rightly, in its conclusion. It is highlighted here. It identifies Army's intent to address all eight recommendations as a reflection of our open-minded approach. It is a point we made at the time. We did not say we were not going to do it; we said, 'We initially disagree with you but will review it.'

Ms GILLARD—I think Mr McPhee's view might be that the response that goes in is taken to be the response, not the first response. I am not sure that we have a first, second, third response audit system.

Brig. Yacoub—I accept the open-minded approach.

Ms GILLARD—It is good to see we have always kept an open mind.

Senator MURRAY—Who initiated this open-minded approach?

Brig. Yacoub—I would like to think that Defence in general has an open-minded approach if there is any way of doing things better. We are a constantly growing and learning organisation.

Senator MURRAY—But you are very specific about the chain of commands. I would have expected somebody, somewhere, would have said, 'Don't you think we should have a re-look at this?'

Brig. Yacoub—When the ANAO report was tabled we wrote to the minister articulating the recommendation, and in that report Army actually specified its desire to undertake a review of AIRN. AIRN, as you would be well aware, is now four years old and, like most things, at various points in its life cycle it needs to be reviewed. I think the ANAO report, as identified in our submission, was a useful catalyst to encourage us to undertake that review.

Senator MURRAY—Who was the principal officer with responsibility for the review?

Brig. Yacoub—I was, in terms of my responsibilities to the Deputy Chief and the Chief of Army.

Senator MURRAY—So you are responsible for the open-mindedness?

Brig. Yacoub—No, I would not claim credit at all. I think Army and Defence in general have a very considered approach to the way we approach audit reports. I think we offer a view and I think we work as a team.

Senator MURRAY—I am really looking for whether an instruction came down from the ministerial office to perhaps review your reaction or whether an instruction came from the secretary or officers in his department.

Brig. Yacoub—In the Chief of Army's response, the Deputy Chief, who was acting Chief, alluded to the fact that we were going to do a review, and that response, if I remember rightly, was in January this year. It was at the time that the report was received.

CHAIRMAN—Brigadier, one of the things we were discussing in a private meeting yesterday—and I do not think anybody will accuse me of telling tales out of school—was that we do not really have any assets to enable us to follow up on ANAO and our own recommendations. That is to say, you responded to the audit report in answer to recommendations and said what you were and were not going to do. You have now responded to us and changed some of those. You have ticked off on some and changed some others—a bit here and there. We are appreciative of that, because I have got to tell you that I for one was not very happy with that audit report. But how do we know you are actually going to do what you say you are going to do now? We do not have the asset, we do not have the staffing capability, to go and check up on you.

Brig. Yacoub—It is in our interests to do the review. It is in fact occurring. I am accountable to the Chief of the Army to ensure it is being done. Rest assured that the Chief of the Army would want to make sure that I do it and that the team that is supporting me does it. The reality of life is that, some time in the middle of next year, you will see revised policy in terms of AIRN which is about enhancing the process. There is no doubt in my mind, and ANAO has the opportunity to do a follow-up audit, if they so desire, in a couple of year's time to ensure that the process has been pursued. It is an accountable process. AIRN is very much an open policy. It is not kept hidden within the organisation. It is not hidden from the public. I think there are a number of means available to the committee and to ANAO to ensure there is a fall back or feedback mechanism to ensure that Army is doing what it said it was going to do.

CHAIRMAN—I think we absolutely would appreciate knowing that you are going to do what you are saying. I recall discussions with Defence last year or the year before about whole-of-life costing. I remain unconvinced that you have made a hell of a lot of progress, but I would be delighted some day to find out that we really have addressed that issue.

Brig. Yacoub—If I can make the point, Mr Chairman, AIRN is the core to Army's preparation. It is a significant issue in terms of preparedness and we have a responsibility to get it right.

Mr COX—I have got a couple of small things. One is that there is a reference in the report to the deletion of a requirement for soldiers to have a hepatitis B inoculation, and I was wondering what reasons there were. Do you want to take it on notice?

Brig. Yacoub—No, I will invite my medical colleague to respond to that.

Group Capt. Emonson—At the moment, Mr Cox, all recruits to the active duty components of the ADF undergo a course of three vaccinations very shortly after arriving on their primary training establishment against hepatitis B, which is seen as a major disease threat. A recent change in the National Health and Medical Research Council's guidance on vaccination now in the seventh edition of the vaccination manual recommends that booster doses are no longer required after the initial primary course. That may, in fact, partly answer your question.

Mr COX—For the purposes of our report, could you elaborate on the problems of cross-leveilling with the reserves and how you are addressing that in your review?

Brig. Yacoub—The problem of cross-leveilling is really about collective training. The benefits and relevance of AIRN is that it established an individual standard that is commensurate across the total force. When a reservist comes into a level of full-time service, he or she then needs to develop the collective skills that are commensurate to that unit that they are going to. For example, the 6th Battalion, Royal Australian Regiment that is currently in East Timor has a significant number of reservists. Those individuals had to go through a process of collective training to build up the battalion's structure and strength to enable them to perform as a battalion in East Timor. If my memory serves me right, that period was about six months. The benefit of AIRN is that it gives them all a baseline to start from. We then develop their individual and collective skills to operational tempo and, once those skills are set and the command identifies that they are ready, they then proceed to the deployment. That is the point that is made in the report.

Mr COX—There is a reference to this on page 62. What component of that is getting them up to combat fitness? What was the experience with East Timor in terms of getting people from basic fitness to a combat level of fitness in terms of months?

Brig. Yacoub—The ready deployment brigade has, in terms of the readiness standards that I have identified, a far stronger physical training program—if I can put it in that perspective—that builds on the AIRN component to include combat fitness. Therefore, that brigade, and most of its staff and individuals within it, would be deployed within a matter of days because they have reached that standard of combat fitness.

Other individuals who were called from various staff appointments went into a reinforcement holding unit where they were assessed in terms of their overall competency—that is, they were refreshed in terms of key skills that they needed. Part of that assessment was to ensure that they were fully inoculated, fully fit and so on. That period varied, based on individuals in units. It varied in some cases to as low as three to four days depending on where they came from. Other individuals spent up to 14 days in the reinforcement holding unit in Townsville and then they deployed. I would like Colonel Power to add to that.

Col. Power—To add an amplifying comment, the reservists who were cross-levelled were volunteers and they were highly motivated. They had to undertake full-time service, with the prospect of service in East Timor. They ensured that their physical fitness levels were high and able to meet the standards expected of them once they went onto full-time service. Most members of the full-time Army, in particular, maintain a higher level of physical fitness than the standard, the base levels set in AIRN.

Mr COX—Were those people deployed to staff jobs, or were they deployed to infantry positions?

Brig. Yacoub—It varies. As I said, we have got a significant number of reservists for the 6th Battalion, Royal Australian Regiment, in East Timor in an infantry role. We have got some individuals and staff appointments. It just varies in terms of rank, trade and skills.

Mr COX—So the East Timor experience is demonstrating that reserves can be quickly brought up to the mark for service as infantrymen in an operational environment?

Brig. Yacoub—The point I would make, though, is that they require six months collective training. AIRN is a baseline. You require collective skills to then proceed, from individual readiness standards, into an operational tempo. Our experience is that the reservists that are participating in East Timor are doing it very professionally, very competently, but they did require a period to adjust some individual skills to collective skills in an operational tempo.

CHAIRMAN—Thank you very much for coming. I remind you that, if the committee has further questions, we will put them to you in writing and ask for your response in writing. We would appreciate your help.

Proceedings suspended from 1.00 p.m. to 2.27 p.m.

[2.27 p.m.]

JOHNSTON, Ms Annabel, Senior Director, Australian National Audit Office

LACK, Mr Steven, Executive Director, Australian National Audit Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

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CHAIRMAN—Welcome. We now come to the final audit report to be examined in today's public hearing. I remind witnesses 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.

The audit report being considered in this session is Audit Report No. 44: *Management of Job Network contracts*. I welcome representatives from the Australian National Audit Office and the Department of Employment, Workplace Relations and Small Business to today's hearing. Dr Shergold, do you have a brief statement that you would like to make? We have received your submission and we thank you for that.

Dr Shergold—No, the submission is sufficient.

CHAIRMAN—Thank you. Mr McPhee?

Mr McPhee—The Job Network represented a very significant change in the way that unemployment services are delivered to job seekers. Under the first round of the Job Network contracts, there was a national network of around 300 private, community and government provider organisations. The first contract with providers concluded in February 2000. A tender assessment for a second round of contracts was held in 1999, with offers being made to approximately 200 tenderers. The second contract will run for three years. We examined the

management of the first round of Job Network contracts. It was intended that our examination and recommendations would inform the development and management of the second round contracts. Overall, we concluded that the department managed the first round of Job Network contracts efficiently and effectively, bearing in mind that the Job Network is a completely new structure for the delivery of employment services. We also had discussions with industry bodies and, overall, representatives considered that the department had accomplished a major achievement with the establishment of the Job Network.

We made a number of recommendations, which are laid out in our report. The department responded positively to the audit, accepted all of its recommendations and, indeed, implemented many of the recommendations when they were first suggested during the audit. We would be pleased to respond to the committee's questions.

CHAIRMAN—I have to say that the audit report's overall conclusions—paragraphs 15 to 22; particularly 15, 17 and 22—read extremely well. I did note that there were 10 recommendations of a detailed nature in order to make improvements. I think one of the major things that the committee will be interested in—and my colleagues may have more questions than I do—is the degree to which the second round picked up recommendations made during this audit report. How have those recommendations been implemented in order to improve the second round contracts?

Dr Shergold—I will ask my colleagues to give more detail but let me emphasise that, from the department's point of view, we found this audit extremely helpful. We were going through an early stage of the creation of the Job Network. We certainly sought to take into account the recommendations in terms of the second Job Network and the contracts—for example, in the clear references that we made within the contract on the ability of the Auditor-General, on behalf of the Commonwealth, to access the premises of Job Network providers and to have access to the confidential information involved in the contracts, as was required by the Auditor-General. I think that is very important in giving assurance to parliament about the contractual process. In terms of details, I might ask Leslie to respond on some of those.

Ms Riggs—I think that in Dr Shergold's letter to you we have provided you with a copy of our six-monthly update on the recommendations of this report. While it is true to say that not all of the action to give effect to those recommendations is fully completed, action is well in hand against those where it has not been possible because of the nature of that action to have completed it in the time we have had the report. I think that two of the matters that are perhaps most important in the context of the audit report that I could provide you with further detail on at this stage—I am clearly happy to provide advice about any of the recommendations and where we are up to—are those that relate to the application of risk management in the context of managing these contracts and the recommendation that relates to better feedback to Job Network members after monitoring visits have taken place.

We have had with our contract management staff in the states, which is where the day-to-day management of these contracts occurs, since July of this year, a close to final draft of a new contract management framework for the management of Job Network contracts. It is a principles based document that has, as attachments, a number of proformas to guide contract managers in applying those principles. Importantly, it says quite clearly that feedback must be given promptly in respect of both monitoring visits to Job Network members and quality audit

inspections of Job Network members. Matters of significant concern are to be discussed with those members while our staff are still with them; there is to be follow-up in a standard format, not of those discussions, but of any findings of the monitoring visit or the quality audit where action needs to be taken within a very short time frame in writing to the head office of the contractor with a clear identification of the agreed time lines for action to address those and then follow-up visits or contact to occur to ensure that that action does happen.

The other element that I wanted to particularly make comment about was the application of risk management to the contracts. We have done this in three ways. From about the second part of last year, we have had a program of better training in risk management within the department and a department-wide practical guide on risk management which, again, is about the principles of risk management but has a set of tools associated with it. Within the last six weeks we have provided to our contract managers a risk assessment checklist in respect of these contracts which they are now applying and, perhaps most importantly, we have been able to develop with our systems people a number of very much better site level based reports on the performance of Job Network members that our contract managers can use to assess performance and therefore help form their judgments of risks associated with various dimensions of the contract.

CHAIRMAN—Recommendation 10 has to do with performance information. During our recent inquiry into contract management in which you participated, we did have one of your Job Network providers—as I recall this is all on the public record so I can talk about it—who essentially said that they had signed the contract but it was impossible for them to meet performance management requirements because, for instance, they were required to go visit each one of their clients—that is, the people who they are representing—once every six months and they had 20,000 of them. I think they said they needed several hundred more staff and the cost obviously would have put them out of business the day after tomorrow. I wonder if the contracts themselves are realistic in what they are asking for in performance management?

Ms Riggs—I am not familiar with a clause in the Job Network contract—the employment services contract for 2000-03—that requires that. The entry level training services are the New Apprenticeship Centres, which are part of the Education, Training and Youth Affairs portfolio. The methods by which we measure the performance of our providers are clearly specified in a series of key performance indicators that are part of the contract and about which we provide regular information from our systems to Job Network members.

CHAIRMAN—The auditor did say that referral mechanisms for Job Search Training are not working satisfactorily. Could you tell us what you have done to bring yourselves up to speed?

Ms Riggs—The fieldwork for this audit was undertaken during March 1999, with its full effect flowing in terms of referral numbers through to April and May 1999. We implemented an automated referral process for Job Search Training. Prior to that, the referral process had been a manual one initiated by Centrelink staff. We now have a system that can identify Job Search Training eligible clients and sends them a letter saying, ‘You should now pick a Job Network member with whom you would like to attend your Job Search Training.’ If they make that selection, the system runs in such a way that we maximise the chances that they will be referred to their chosen provider. If they do not make such a selection, they are automatically referred to the next available place with a Job Search Training provider within the relevant location. It is true that that process means that the circumstances of a job seeker can change between the time

when they first receive the letter saying, 'You should now tell us who you would like to do Job Search Training with,' and when they are actually referred and receive a call-in letter, which is also generated by the system but at the initiation of the Job Network member.

One of the issues that Job Network members raise with us is the number of people who are referred to them whose circumstances have changed between their selection for referral and their actual call-in. For example, where they had not previously been known by our system to have been working—in a part-time capacity, of course, because they have to be beneficiaries to be eligible for these services—they might now have part-time work which would mean that they cannot attend the required period of Job Search Training. There are some issues associated with that. I do not believe that they are flaws in the referral system as much as matters that normally flow because of the periods of time required by the Social Security Act to give people notice of their referral to programs and the time that they have to take them up.

Mr COX—I have had meetings with the Job Network providers in my electorate and they tell me that they have a huge number of wrong referrals—totally inappropriate referrals. Their description of these referrals is not simply that circumstances have changed within a week or two. They are people who just should not have been seeking the kinds of services to which they had been referred.

Dr Shergold—One of the reasons for that, of course, is that Job Search Training is in general a three-week intensive program. If you talk to the Job Network providers, you will find that what often happens is that very quickly into that program when people turn up they realise that their problems are much greater than have been identified through the testing at Centrelink. People are very cautious about expressing the true level of innumeracy or illiteracy and often tend to hide that. Once they turn up for Job Search Training it becomes very quickly obvious in the first couple of days. Those are often the people that a Job Network provider says, quite reasonably, are inappropriate; they are not actually ready for the Job Search Training that is to be provided. Until we actually get them to turn up, we do not recognise the level of illiteracy and innumeracy which exists. Certainly, that is one of the causes of concern. One of the aims, therefore, is to look for a process in which such clients can be redirected to a more appropriate program.

Mr Gibbons—There are several other issues that we can report. One of them goes to the issue of the integrity of the data that we have available to us to feed into the automated referral process. The data comes from two sources: it comes from the Centrelink income support system and it also comes via the system that manages participation through Job Network activities. They are two separate systems and there have been difficulties in reconciling information between those two systems that have caused some of these problems. In the last 12 months we have spent a good deal of time and resource remedying the data transfer and synchronisation arrangements between those two systems. We had a major systems release in September that paralleled one that Centrelink put out in September that has taken us about 80 per cent to resolution of those problems. There is another final data related release scheduled for December which we believe will solve the problems of data integrity, not just in this area, but wherever they have been occurring in relation to referrals to the Job Network.

Ms Riggs—There is another set of changes to the automated referral process that are part of the same data release that Mr Gibbons has spoken of. The automated referral process that was

implemented last year included in it people who were not on allowances—that is, not on Newstart or Youth Allowance—but who were on one of the other forms of social security benefit but who indicated, as part of that, that if relevant work were available they would be interested in seeking it. This makes them eligible as volunteers, as it were, for Job Network services. The automated referral process, as I said, picked people up and referred them to a Job Network member if they did not make a positive choice of member. A lot of those inappropriate referrals that the vice-chairman has referred to are in that non-allowance but still eligible for Job Network services category who, when they are actually referred, decline to participate. We have made a change so that those people now receive the first letter saying, ‘If you would like, you can now participate in Job Search Training. Please choose a provider.’ Unless they make a positive choice of provider, as of 18 September they are now no longer referred to anyone. Our estimates are that that will reduce the rate of what our providers have called ‘inappropriate referrals’ by about 30 per cent.

Ms GILLARD—What would you say has been the rate of inappropriate referrals as a percentage either because of a problem with the integrity of the database or because of misclassification in terms of undisclosed literacy or numeracy problems or what have you?

Dr Shergold—The difficulty in answering that question is knowing what is inappropriate because in some instances it may have been an appropriate referral but the person referred inappropriately decides not to turn up. In other instances—and I think this is the one that the vice-chair is talking about—somebody turns up but is considered inappropriate by the Job Network provider. What we have got information on are the number of referrals made as against the number of commencements. Of all the Job Network, this is certainly the area in which there is the highest reduction between the number of referrals and the number of commencements. The present rates—

Ms Riggs—Depending on locality and a number of other factors, the commencement to referral ratio is between 1 to 4 and 1 to 5 at the moment. So between 20 and 25 per cent of referrals are actually converted to commencements.

CHAIRMAN—Really?

Ms Riggs—But it is important, in that context, to note that one of the policies of Job Search Training is that a Job Network member can determine someone to be not suitable for Job Search Training, unlike the policy setting for Intensive Assistance, which does not give them that discretion.

Ms GILLARD—But there are two levels of the problem, aren’t there? You are getting a 20 to 25 per cent commencement. Then, of the 20 to 25 per cent who present, some percentage of them may have been mis-classified under the job seeker classification system?

Dr Shergold—No, this is a little bit different, because unlike Intensive Assistance it is possible for the Job Network provider to not commence a person on Job Search Training.

Ms Riggs—Job Search Training does not rely on the Job Seeker Classification instrument; it is a screening instrument for eligibility for Intensive Assistance. So the people referred to Job

Search Training are those who do not have a JSCI score, which would make them quickly eligible for Intensive Assistance. So we are talking, in effect, about two separate pools.

Mr COX—Have you got any feel for how many referrals for Intensive Assistance are inappropriate?

Dr Shergold—Not inappropriate. I can give you figures on how many of those who are referred to Intensive Assistance do not commence.

Ms Riggs—About 60 per cent of those referred currently commence.

Mr COX—So 40 per cent do not; that is consistent with what my Job Network providers are telling me. What do you see as the reasons for them not commencing?

Dr Shergold—There are a significant number of issues and there are some problems. My feedback from Job Network providers has not identified this nationally as a significant problem with Intensive Assistance. It is generally recognised as a problem with Job Search Training—there is a difference between the two. However, although it is a significant problem for Job Network providers, and we are acting—as has been suggested—to reduce the ratio between referrals and commencements, it is not always negative in terms of government policy, if I may say so. That is to say, a significant number of those referred to Job Search Training who do not commence nevertheless leave benefits.

Mr COX—Because they find a job?

Dr Shergold—Because they find a job, because they declare a job or because they are not available for a three-week intensive period. So there is a significant proportion of—

CHAIRMAN—What was the program when CES was still in operation? The program that put long-term unemployed people in a six-month training program—what was that called? Generally it was for people who had been unemployed for five years or more.

Ms Riggs—Jobskills was not a training program, it was a work placement program—a work experience program.

CHAIRMAN—No. Whatever it was called, I remember CES officers telling me, in my area at least, that they would have to offer the job—these were people who had been unemployed for at least five years—to at least six individuals for each placement before they got one take-up, and the other five went off unemployment benefits. Where, we do not know; with what income support, nobody knows.

Ms Riggs—Perhaps I can make a couple of other comments in this commencement to referral ratio area. Because the automated referral process did not have the human intervention up front but afterwards, when we originally designed it it was based on our knowledge of the behaviour of people referred to the earlier programs, such as Job Club, which is not dissimilar to Job Search Training. We designed the referrals to commencements ratio to be three to one. So the fact that we are running at four to one, or 4½ to one at the moment, and we have taken steps to reduce the number of potentially inappropriate referrals quite significantly with our

September release, will bring us back somewhere close to that policy design. Of the 40 per cent of people who do not commence Intensive Assistance, having been referred, nearly half are people who are exempted from their activity agreement requirements by Centrelink, by virtue of a medical certificate, for example. That, too, has always been the case in relation to participation in labour market assistance.

Mr COX—If you are so sensitive at that point to the individual job seeker's needs, why is the fee for revising the classification \$500?

Ms Riggs—Because it is a process that we have already paid Centrelink to perform.

Mr COX—You do not charge Centrelink the \$500, though. You charge the Job Network provider, don't you?

Ms Riggs—But Centrelink has already been paid by this department to carry out that function.

Dr Shergold—We pay Centrelink in excess of \$110 million a year to perform these services for us.

Mr COX—If Centrelink then inappropriately referred somebody for Intensive Assistance, what is the logic in making the Job Network provider—

Ms Riggs—The fact that they now have an exemption does not make their JSCI classification score wrong. It may still be completely valid, but since the time it was last updated they have had an illness or an injury which has caused their medical provider to give them a medical certificate that exempts them from participation. The reality is that people's circumstances change all the time, and the JSCI is an instrument that is not updated every week or every month; it is updated for a change in a person's circumstances. A temporary disability does not change the JSCI score, but it exempts you from participation for a period.

Dr Shergold—Nor would a Job Network provider be required to pay \$500, in that instance, to undertake another JSCI.

Ms Riggs—No, that is right.

Ms GILLARD—That is not the issue. The issue is: if someone presents to Centrelink, you pay Centrelink to conduct the JSCI process, Centrelink classifies them as not eligible for Intensive Assistance and they then present to a Job Network provider who is of the view that they clearly should have been eligible for Intensive Assistance because of their labour market disadvantages, why is it fair for a \$500 fee to be charged for a reclassification when the case could clearly be made that Centrelink has been paid to perform a service and performed it inadequately and that should be a contractual matter between you and Centrelink about how you resolve that?

Ms Riggs—The fee is charged of Job Network members who seek to send someone with a JSCI score that makes them eligible for Intensive Assistance back to Centrelink for

reclassification, generally because they seek to have them reclassified from category A to category B, which means that they get more money.

Ms GILLARD—I accept that, but it does not change the force of my argument that, if Centrelink did not get it right first time, why should they bear the \$500 fee?

Ms Riggs—Except that it does because it is quite deliberately designed as a deterrent for those providers who might otherwise seek to artificially inflate the number of people for whom they might be eligible to collect category B fees, which are considerably higher.

Mr COX—The other thing that worries me is that, since there are so many inappropriate referrals, there might be a number of people Centrelink is making a mistake about and referring to a Job Network provider as requiring Intensive Assistance who do not really need it. At that point, I imagine that the Job Network provider says ‘Hallelujah’ and goes out and finds them a job and takes their \$8,000. Do you have any feel for how often that happens?

Ms Riggs—We have done a post-implementation review of the JSCI and the conclusions of that review are that, by and large, it performs very well provided there is full disclosure of information by the client.

Mr COX—Has the ANAO any views about that?

Mr Lack—We really did not look at that aspect.

Ms GILLARD—I think there still is an issue around this \$500, and that is that if the \$500 is a disincentive to Job Network providers to keep trying to bump people up categories, then the \$500 should be charged if the Job Network provider requests a reclassification and the reclassification fails. If the reclassification is successful, then it is Centrelink’s error. Isn’t that right?

Ms Riggs—I am sure that is an interpretation of a possible policy in this area.

Mr TANNER—I have a couple of questions for the Audit Office and a couple for the department. You pointed out that the report does not deal with the Job Network 2 tender process. Is there any prospect of an examination of that occurring by the Audit Office?

Mr McPhee—Certainly, we generally put audits on a cycle and there is certainly a prospect. If the committee felt that they would be interested in our doing that, we would be most receptive to the suggestion.

Mr TANNER—I would certainly place on record my view that that should be given a high priority. There is a matter of considerable public controversy on a number of issues which there is no point raising here. Certainly, my view is that that should be given a high priority by the Audit Office.

I apologise for not raising this earlier: in your report there are statements that are quite positive about the impact or the outcomes of Job Network compared with the previous

arrangements. I do not have the citations. Given that there appears to be no net impact assessment, like for like, people who have received assistance versus people who have not received assistance, on what basis can you make the statement that there is a better quality of performance or outcome?

Mr Lack—With respect to the assessment near the end of the report, we relied on help from DEWRSB in terms of the study that they were doing—the department’s draft stage 1 evaluation report. What we tried to do there was to compare like program with like program. We were looking at Intensive Assistance and we tried to compare that, using departmental data, to Jobtrain and Skillshare. There are some figures there that suggest that Intensive Assistance does produce a better outcome compared with previous schemes. What we have not done is your net impact assessment.

Mr TANNER—Isn’t it slightly dangerous for an auditor to take the assessment of a body being audited as to how effective its program is without actually having done an assessment itself?

Mr Lack—We have a budget, a scope and a timeframe for each audit. We do rely on agencies to provide information to us and we make a judgment as to how fair that information is. I think we said earlier that in this case we did have a good relationship with the department and we were confident that they were providing us with the most up-to-date information that they could provide us with. For us to do a separate exercise on that would be another job in itself.

Mr TANNER—Again, I do not have the citation to hand but you describe the department’s strategies with respect to over-claiming as ‘generally effective’—I think the term was something of that nature.

Mr Lack—I do not recall that being part of the report.

Mr TANNER—I do not have the citation.

Mr COX—I quote:

The ANAO found that complaints information is being effectively applied to enhance the monitoring of employment services contracts and that the national compliance program was generally effective in helping detect over claiming in the initial operation of the Job Network.

Mr TANNER—When you say ‘generally effective’ what exactly does that mean? To what extent are you aware of over-claiming as a problem in this area? What is the magnitude of the problem?

Ms Johnston—Perhaps I can answer that. When we did the audit, we looked at a sample of incidents of overclaiming and we looked at how they were treated by the department. What we found was that their work processes for looking at those were satisfactory, but we did not look at every incident and we did not do a really in-depth analysis. We just looked at it as part of the contract management process.

Mr TANNER—So you assessed a sample, in effect?

Ms Johnston—Yes.

Mr TANNER—I have a couple of questions I wish to put to the department. Firstly, it would appear that, based on some of the controversy surrounding the Job Network 2 tender and also some of the public debate around Job Network 1, in a fair proportion of instances, providers who provide more than one category of service are, in effect, cross-subsidising the provision of one kind of assistance by drawing on funds that have been allocated to them with respect to another kind of assistance—for example, making use of the funds that they receive for Intensive Assistance to bolster their Job Matching services. Certainly the outcome of Job Network 2—and the fact that a number of incumbent providers had their Intensive Assistance contracts radically reduced or eliminated and then stated that they were therefore unable to accept the Job Matching offer—seems to imply that that was the case. I wonder if you would comment on to what extent that is the case. And if that is the case, does this suggest that there is an imbalance in payment levels across various categories?

Dr Shergold—I have seen very little evidence of cross-subsidisation of one program for another. Having said that, it is clear that there are infrastructure costs to a Job Network provider. However many services you have to provide: you need the building, but the number of staff may change. Therefore, as you take on additional business, the marginal cost of that additional business may be less. But there is little evidence of cross-subsidisation. Certainly, having been through the tender process for Job Network 2—and remember, this was one that learnt from Job Network 1 by saying to all those who tendered: ‘You can make your tender conditional.

You can say that you only want service X and Y if you also get service Z or if you only get a certain volume of business’—I cannot remember seeing any evidence when I was looking at prices for which people were seeking business in Job Matching, Job Search Training and Intensive Assistance that there was anything that reflected a cross-subsidisation. It was evident that a number of providers, I think quite sensibly, said that they would only take Job Matching business, for example, if they also had Intensive Assistance business. But I do not believe that that was because they thought they would use Intensive Assistance to cross-subsidise Job Matching. It was about the volume and the scale of the business and what they wanted to undertake.

Mr TANNER—Were there any examples the other way around—where people said, ‘We will only take Intensive Assistance if you give us the Job Matching’?

Ms Riggs—We always give Job Matching as part of Intensive Assistance. It is how we specify—

Mr TANNER—So you could not tender on that basis?

Dr Shergold—That is correct.

Ms Riggs—But you could have tendered to say, ‘I’ll only take Intensive Assistance if I get untied Job Matching as well.’ And I cannot think of any instances of that.

Ms Milliken—You could not conditionally require Job Matching.

Mr TANNER—Right, thank you. Secondly, in I think April this year the member for Scullin asked the minister a question on notice which, if my memory serves me correctly, was to the effect of, ‘How many clients were assisted by Job Network providers in the eastern region of Melbourne over a particular period of time?’ The minister responded by refusing to answer the question because this information was commercial-in-confidence. I wonder if you could explain to me why this information is commercial-in-confidence.

Dr Shergold—First of all, I do not want to comment on a statement made by the minister, particularly when I do not have it in front of me and I do not have the context. All I can say is that, in terms of information being made public on the performance of the Job Network in aggregate, by provider and by region, I think we are moving considerably in making that documentation available. You may remember that by the end of Job Network 1 we were putting out publicly available data on the relative performance of different providers in different areas, and we will certainly be doing that again by the end of this calendar year.

Mr TANNER—So leaving aside the question about the minister, if I were to ask you now if you could give me a total of the number of clients assisted by the Job Network in my electorate for the last financial year, would you respond by saying, ‘No, that is commercial-in-confidence’—presumably not? You might respond by saying, ‘No, that is too hard,’ or ‘We do not have the data,’ but would you respond by saying, ‘No, that is commercial-in-confidence?’

Dr Shergold—I think it is unlikely, but I would like to see the question—not hypothetically. But certainly the aim would be to make information broadly available.

Mr TANNER—I will ask it outright: can you provide me with the number of clients assisted by Job Network providers in the electorate of Melbourne for the 1999-2000 financial year?

Dr Shergold—I could not provide the information by electorate. I do not collect the information by—

Mr TANNER—Can you now tell me the reason why you could not provide that information?

Ms GILLARD—Could you provide it to Mr Tanner by postcode?

Dr Shergold—The way we look at the information is in terms of our employment regions.

Mr TANNER—If I were to ask for that information—and I have just asked for it and you have just said, ‘No, I can’t do that’—is the reason I cannot get it that it is commercial-in-confidence under the contract with providers? If not—

Dr Shergold—No, not unless your question was such that the number of providers was so small that you would be able to identify a particular provider.

Mr TANNER—Would it be commercial-in-confidence if I were to ask, ‘How many clients has a particular provider dealt with in a given period for the whole of Australia or for a particular region?’

Dr Shergold—No, that would not be commercial-in-confidence.

Mr TANNER—Thank you.

Mr Gibbons—Can I say that we are not trying to withhold the information; it is a question of constructing it in a way that permits us, within the constraints, to give it to you. For example, we need to know whether you are interested in clients on the basis of their residential address or on the basis of the provider they are using—that sort of issue.

Mr TANNER—Please understand where I am coming from: I have no complaint if the department comes back and says, ‘Sorry, we do not have the information in that form,’ or ‘Can you please clarify that?’ That is perfectly reasonable. What I am trying to establish is what is and is not the ambit of commercial-in-confidence under the contracts.

My final question is with respect to the measurement of outcomes. When I most recently looked, the standard approach around where the person was three months after the conclusion of assistance had not really changed—whether they were in employment, further training, education or whatever. Do you feel that this is an adequate measurement of outcomes? Is my understanding out of date? Is the standard measurement now more comprehensive than that? Are there other aspects built into the assessment to determine the effectiveness of the assistance? Do you feel it is adequate; and, if not, are steps being taken to make the measurement more sophisticated?

Mr Gibbons—We attempt to measure on the basis of internationally accepted criteria.

Mr TANNER—So that is an international standard?

Mr Gibbons—Yes.

CHAIRMAN—You are sticking with the same procedures that were used when we had CES?

Mr Gibbons—We take our lead from, for example, the OECD.

CHAIRMAN—Then the same complaint I had then I have got now.

Mr TANNER—Have I described it correctly? It is three months—

Mr Gibbons—Off benefit.

CHAIRMAN—Dr Shergold, following up on what Mr Tanner is at, in your annual report will we see some performance data?

Mr Gibbons—You have seen that already.

Dr Shergold—What we have started to do already is to put out, for the first time in June, a quarterly publication, *Labour market assistance outcomes*, which will have much more detailed information than you will get in an annual report and which gives the outcomes for the whole range of employment programs. That will be complemented from, I think, December by another publication, available not only to parliament but more generally to the public, which will give the performance of the different Job Network providers and how they are performing. My general answer to the question is that what is commercial-in-confidence is the price at which the Job Network providers tendered and the price they are being paid to deliver the service. To the greatest extent possible, what should be public is the outcomes they are achieving and this performance.

Mr TANNER—I have moved on from the commercial-in-confidence question. By the sound of it, the measurement—which was in place when we were in government as well, so I am not trying to make a political point here—is an international benchmark. To me, that is a relevant consideration that is of some importance. To your knowledge, are there any efforts being made internationally to improve that benchmark to make it more sophisticated? Is the department engaged in any examination of that question to see if it can come up with a more sophisticated benchmark? To me it is a meaningless benchmark; it tells you very little because there is virtually no causality built into it. I am interested to hear your view on that. Is it under consideration internationally and locally?

Dr Shergold—My colleagues may know better, but I do not know the answer to that. I hope that I will within a few months because, as you may be aware, we have invited the OECD and it has agreed to come to Australia to undertake their own evaluation of Job Network. One of the great attractions to that is ensuring that the way we do measure performance is in line with OECD standards and, indeed, what thinking may be going on in other OECD countries about the way those benchmarks need to be changed.

Senator MURRAY—I would just make the point that there have been some remarks about unelected representatives from foreign countries having a view on programs in this part of the world. I am interested that you have a different approach to Job Network than to human rights treaties. That is just in passing.

CHAIRMAN—Let's stick to the inquiry, Senator.

Senator MURRAY—I just could not resist it. What improvements has DEWRSB introduced with regard to consistency, security and privacy of the data in the dial-up system?

Mr Gibbons—The recommendation that you are referring to is recommendation 9 and I can give you some information about what we have done on that. We have taken steps, in the context of preparing our tender to outsource our IT infrastructure, to complete the full documentation of all of the security protocols. We have acquired additional software, which has now been made available by the vendor of the security and logging technology we use, which now permits us to upgrade the arrangements and move towards conformance with the recommendation that the Auditor-General has made.

It is a very complicated process to install and it will not be done overnight, but it is on the schedule of technical work for this financial year. We have plans to incorporate into the release of our next upgrade of our integrated employment system that we use for the management of the Job Network facilities to add to the items that we log information that is commercially sensitive as well as information that we are required to protect under the provisions of the Privacy Act.

Senator MURRAY—Do you have any continuous audit process that you envisage for your upgraded system?

Mr Gibbons—We certainly do. We are one of three agencies in the Commonwealth that have applied for and received accreditation from the Defence Signals Directorate for the quality of the security around our data and storage arrangements. We regularly invite, either from the academic community or the private sector, specialists at penetration of IT security arrangements to come and have a go at us, if you like. We then analyse the results and apply that to further strengthening of the arrangements. Thus far, there has been no penetration of the security arrangements as a result of those efforts. We take it very seriously because on average every month we get about 1,600 very serious attempts to break through the firewall that we have around our systems. That is quite common.

Senator MURRAY—Of an amateur kind or of a very sophisticated kind?

Mr Gibbons—They come from all over the world. It requires a very professional and continuous approach to information security. We have that and we are confident that we will be able to maintain the integrity of the data.

Senator MURRAY—I do not know if I should be impressed, but I am.

Mr COX—Dr Shergold, we are treated frequently in the House to your minister telling us what a brilliant system the Job Network is, that it provides value for money and that it performs in a fashion which is superior to all previous job programs. We would be very interested in knowing what sort of factual information you may give him which might substantiate his assertions.

Dr Shergold—The most obvious single source that the minister now has available is the Job Network Evaluation stage 1, which took place after the inquiry by the Audit Office and confirms the findings of the Audit Office that the Job Network, in terms of value for money, is more efficient and effective than its predecessors. That would be the single most significant source and, of course, that is a document that is publicly available.

Ms GILLARD—Just on that point, and I wanted to ask this before to make sure I understood what was said to Mr Tanner when he was asking some questions about this. As I understand it, you did not do an independent comparison of previous employment assistance schemes with the current arrangements. Is that correct?

Ms Johnston—What we did was basically take a small part of the previous arrangements and compare them with, say, JST under the current arrangements. We did not look at the whole of the previous arrangements and compare them with the whole of the current arrangements. We just took two parts and said, ‘You can compare this bit with this bit,’ and that is how we reached

our fairly general statement that the current arrangements were providing better value for money, but at no stage did we attempt to do a whole in-depth study.

Ms GILLARD—Thank you.

Mr COX—I have just been having a quick scan of this document and I have not found the comparisons. I wonder whether you might summarise the key findings for me, Dr Shergold, in terms of value for money.

Dr Shergold—This is some of the summary: 46 per cent of Job Search Training participants secured a positive outcome. That compared with 30 per cent in the Job Club scheme. Job Search Training achieved those outcomes at a significantly lower cost—\$1,130 per unsubsidised employment outcome, and that compares with \$2,500 for Job Club participants. It also has information from employers who had used the previous CES and were now using Job Network providers. Seventy-three per cent of the employers who had used Job Network and had previously used the CES rated the quality of service under Job Network as better than, or as good as, the CES.

Mr COX—How many said it was better and how many said it was as good?

Dr Shergold—Of the 73 per cent, 44 per cent thought it was better than the CES and 29 per cent thought it was as good as the CES.

Mr COX—And 27 per cent thought it was worse?

Dr Shergold—There may be some who did not know. This was a survey of those who had used the previous CES, so I suspect the answer is yes. But, overall, it is clear that the employers thought it was superior. It is clear from the evaluation that the Job Network was also delivering for the most disadvantaged job seekers in terms of previous outcomes. I think the evaluation itself sets out a summary of the evidence. There is a significant amount of evidence showing that, if you compare it with a variety of the programs that preceded it, through the Job Network providers we are getting better outcomes—defined in terms of taking people off benefits—and that they are being achieved at a significantly lower cost. Of course, Job Network does not include Work for the Dole. The evaluations for the Work for the Dole program suggest the same.

Mr COX—But are those assessments corrected for where we are in the economic cycle?

Dr Shergold—The evaluations that we have done, I must tell you, are done very professionally. I say this because sometimes it seems to be suggested that, because the evaluations are being done by public servants within the department, they lack credibility. I do not think that is true. It is not the role of a public servant to doctor statistics in some way to make them, say, more suitable to the government of the day. The evaluations are undertaken to a high level of integrity, and they involve trying to assess the net impact of the program—in other words, not just the outcomes that have been achieved but what outcomes have been achieved as a result of the program, remembering that certain people who enter programs would achieve beneficial employment or educational outcomes even without that program.

So the answer is yes, we have tried to take into account the net impact in terms of the economic cycle, looking at the level of outcomes achieved and the cost of achieving those outcomes. And on that criteria, on the evidence that we had available at the time that stage 1 evaluation was done, there can be little doubt that we are getting better value for money in the way that the Audit Office reports suggest.

Mr COX—We will have a look at this, and we may want to write to you with some more specific questions on that, as part of this inquiry. I was also concerned in reading the Auditor's report about the lack of monitoring of Job Network providers, particularly in the early part of the program. I was wondering what the reason for that was. Following on from that, I was also concerned as to how you are then able to make—if you had not been doing the monitoring—assessments about their performance.

Dr Shergold—We were never not doing the monitoring. It is clear there was monitoring of the Job Network providers right from the start. That monitoring has increased significantly and—as has already been suggested to you—has been employing risk management principles. There is now a very extensive evaluation of the performance, not only of each Job Network provider but of each Job Network provider's site in terms of the outcomes that they are achieving.

Mr COX—There is now—was there by the time you got to the end of the first set of contracts?

Dr Shergold—Yes.

Ms Riggs—But not throughout the life of those contracts.

Dr Shergold—I believe there was effective monitoring throughout the life of the contract.

Ms Riggs—I think that it is really important to recognise that monitoring is not just the act of visiting a site. Monitoring is an array of activities, some of which take place at an officer's desk. They involve looking at what the data tell us about the performance of sites against the key performance indicators. It is certainly true that we get much more colour in our understanding of why some sites achieve certain sorts of performance by visiting them. But the key elements of risk management in the monitoring arrangements are that, first, we look at the data and see what it tells us about Job Network members and their sites. Our rules say, 'Visit them twice a year unless your risk management tells you they are of such low risk that you can reduce it below that.' So it is, 'At least twice a year unless you can demonstrate that you don't need to.'

We look at a whole array of information: the data about their key performance indicators and the number of complaints that that member attracts on our customer service line, for example. So there are an array of things that happen in monitoring—making telephone calls, for example—that do not involve having to visit a provider's site. What is registered, I believe, in that report are the concerns about whether or not in the very early days—remembering that we, too, were learning a new system—we got out to sites early enough.

Mr COX—Can you tell us why you did not?

Ms Riggs—I think it was because of system start-up issues—and I use ‘system’ not in an IT sense, but in terms of getting an arrangement in place. With something new it takes a while to establish commonality of procedures across a very geographically dispersed country.

Dr Shergold—I do not think we should underestimate the scale of the transformation that was brought about almost overnight.

Mr COX—We do not.

Dr Shergold—No, but to set that up and have it running is great. Therefore, some of the office visits of the audit staff did not occur regularly—they certainly do now. The reason I have such a high degree of confidence in the evaluations that are undertaken—and you have to remember this—is that this data is crucial in terms of payment. All the data that is used for evaluation is the data we have paid for. In other words, it relies on the outcomes for which we have actually made a payment. We are not paying for process any more. If you are a Job Network provider, in general you are only paid for an outcome, and it is those outcomes that are being paid for which are used as the basis for making the evaluations.

Ms GILLARD—Ms Johnston, I am advised that in the labour market program trade the term ‘value for money’ is defined in terms of net impact assessments, and I understand the impact assessments are about the cost of getting someone a job under the program as compared to someone in the same cohort who has not undertaken any program. When you used your term ‘value for money’ in the audit report you were not using it in that technical sense, were you?

Ms Johnston—No, we were not. We were not doing a net impact assessment.

Ms GILLARD—Right.

Dr Shergold—When I use that term, I am using it in that technical sense.

Ms GILLARD—I accept that but I think we have to be careful about the use of the term ‘value for money’ because it is not true to say that the Audit Office endorsed Job Network in that technical sense.

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.

CHAIRMAN—I remind witnesses that the committee may have further questions which they might put to you in writing. We would appreciate your response in writing.

Committee adjourned at 3.36 p.m.