COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Review of Auditor-General's reports, fourth quarter 2000-2001

TUESDAY, 30 APRIL 2002

CANBERRA

Tuesday, 30 April 2002

Members: Mr Charles *(Chairman)*, Ms Plibersek *(Vice Chair)*, Senators Colbeck, Crowley, Hogg, Murray, Scullion and Watson and Mr Ciobo, Mr Cobb, Mr Georgiou, Ms Grierson, Mr Griffin, Ms King, Mr King and Mr Somlyay

Senators and members in attendance: Senators Colbeck, Hogg and Watson and Mr Charles, Ms Grierson, Mr Griffin, Ms King, Ms Plibersek and Mr Somlyay

Terms of reference for the inquiry:

Review of Auditor-General's reports, fourth quarter 2000-01.

WITNESSES

Committee met at 11.13 a.m.

CONNOR, Group Captain Robert John, Director, RAAF Reserve, Department of Defence

DE LAAT, Commodore Frans Karel, Navy Headquarters, Department of Defence

HART, Commodore Simon James, Director General, Navy Personnel and Training, Department of Defence

MANN, Lieutenant Colonel David Robert, Directorate of Reserves, Army, Department of Defence

SILLCOCK, Lieutenant Colonel Anthony Alan, Project Officer, Directorate of Reserves, Army, Department of Defence

STEDMAN, Colonel Malcolm Douglas, Deputy Head, Head Reserve Policy, Department of Defence

TURNER, Brigadier Neil Robert, Director General Reserves, Army, Department of Defence

WILLIAMSON, Mr Lance Brian, Director General, Corporate Management and Planning, Army, Department of Defence

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

MINCHIN, Mr Antony St John, Executive Director, Australian National Audit Office

ROBINSON, Mr Peter Hugh, Senior Director, Performance Audit Services Group, Australian National Audit Office

ACTING CHAIR—I open today's public hearing which is the last in the series of hearings to examine reports tabled by the Auditor-General in the financial year 2000-01, and welcome representatives from the Australian National Audit Office and the Department of Defence. This morning we will be taking evidence on two audit reports: Audit Report No. 33, *Australian Defence Force Reserves*, and Audit Report No. 43, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*. The committee has received submissions from Defence in relation to Audit Report No. 33 and from the Department of Agriculture, Fisheries and Forestry in relation to Audit Report No. 43.

We will be running today's session for each report in a roundtable format. I 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 would 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 report being considered in this first segment is Audit report No. 33, *Australian Defence Force Reserves*. With regard to Audit report No. 33, *Australian Defence Force Reserves*, Brigadier Turner, would you like to make a brief opening statement to the committee before we proceed to questions? We normally limit these statements to three minutes.

Brig. Turner—Thank you for the opportunity. Let me begin by emphasising that the ADF has welcomed the Australian National Audit Office report into the Australian Defence Force Reserves. The report's recommendations are broadly consistent with a range of ADF Reserves enhancement initiatives that are in the process of being implemented right across the ADF. Like the Defence white paper 2000, the ANAO report recognises that Reserve forces are a key component of the total force, contributing to current capability, while maintaining a framework for expansion and mobilisation. To fully realise further enhancement of the reserves, some important changes in legislation have been effected, and the last stage of this process will see the establishment of new Defence Force regulations in the near future. These new regulations are expected to significantly streamline the management of all ADF personnel and support the ADF Reserves contribution to capability. Each of the three services is also engaged in the process of implementing their own initiatives to further enhance the capability of their reserve components. In short, we are here talking about a work in progress. In closing, as the senior ranking witness and Army representative, I would like to indicate that each of the witnesses from the ADF at the table will be happy to field questions from the committee based on their individual fields of expertise, which I think were clear from their introduction.

ACTING CHAIR—Thank you, Brigadier Turner. Mr Barrett, do you wish to make a brief opening statement to the committee before we proceed to questions?

Mr Barrett—Thank you. I simply want to make the point that this was a very comprehensive audit. There was very good cooperation with Defence, for which we thank them. A number of issues were discussed, and obviously some issues have been progressed in the time since the audit was completed. I recognise the fact that all recommendations were accepted or, at least, accepted in principle.

Senator HOGG—Soon after he became Minister for Defence, Mr Reith asked that there be a regular progress report to Defence's internal audit committee on JCPAA and ANAO recommendations. What has been the progress reported on the seven recommendations made in report No. 33, which we are considering 12 months down the line?

Col. Stedman—I am unable to answer that question now. I know that progress reports have been put in on those, and they are held in a database. Obviously we can access those and find

out the latest information that has been put there, but, off the top of my head, I do not have that information.

Senator HOGG—Could you take that on notice and supply that to the committee at your earliest opportunity? The second thing I want to canvass is that there was a Senate inquiry last year by the Senate Foreign Affairs, Defence and Trade References Committee, where evidence was tabled as to the targets for Army Reserve recruiting in various years. I compared that with the targets that appeared in the ANAO audit report, and I find that there are different targets in one particular year. In 1998-99, the target in Army was for 4,235 and unlisted was 2,162, which was a 51 per cent achievement of the target. Yet, if I look at the ANAO report reporting on the same year, the target was 4,465 and the actual was 2,288, so the figures are different. But, in respect of the other years reported in the tables, they were the same. You might need to take that on notice.

Brig. Turner—That is a question we will take on notice.

Senator HOGG—I am looking for consistency of information that you are supplying to different bodies in this parliament. It might not seem much, but—

Brig. Turner—We will take that on notice and get a response. It may be that the definition of what we were counting was different in each case, but we will get a response.

Senator HOGG—If I can follow on, the achievement rate of enlistment in 1997-98 was listed as 100.3 per cent; in 1998-99, 51 per cent; in 1999-2000, 32.7 per cent; and in 2000-01, a projected rate of 45½ per cent. What is the current rate in terms of enlistment into the reserves, whether it be Army, Navy and/or Air Force.

Col. Stedman—With regard to the current year, I have the details here of all those figures.

Senator HOGG—Do you have a table that is in a readable form that you are prepared to table?

Col. Stedman—Relatively so, yes.

Senator HOGG—Would you table that. Can you give us an indication—without going through all the figures—whether the targets are being met in Army, Navy and Air Force in terms of recruitment in the broader sense?

Col. Stedman—Across the three services, achievement as a percentage of the year-to-date target as at the end of April this year shows that we are still failing to achieve those targets. For the three services, for Navy we have achieved 21 per cent of the year-to-date target; for Army, 49 per cent; and for Air Force, 73 per cent, based on these figures.

Senator HOGG—What difference has come about as a result of the use of the call centre at Cooma, as an adjunct to reserve recruiting?

Col. Stedman—I might need to pass this back to Brigadier Turner but, certainly from my perspective, recruiting, as you would understand, comes under the Defence Personnel Executive. There is no representative from the Defence Personnel Executive here at the moment, and I do not have that level of knowledge.

Senator HOGG—I accept that. But in terms of the numbers that are coming into the reserves, are you seeing any impact as a result of the call centre at Cooma?

Col. Stedman—All I can say is that I am not personally close enough to the recruiting organisation. All I have are the figures that have been provided to me, so I think we would have to take that on notice and seek advice from the more appropriate people who I believe would be able to answer that question.

Senator HOGG—All right.

Brig. Turner—Our numbers in the Army Reserve at this stage are very close to the sorts of numbers we were recruiting last year. You would appreciate that there are many factors playing on that. It would be difficult to attribute any numbers either of change or otherwise to any background factor, whether it was the call centre or the change to direct unit recruiting or whatever.

Senator HOGG—All right. I just want to read a paragraph from a *Hansard* of the inquiry that I was involved in last year to seek your comment to see if these sorts of issues have been addressed. This was from a junior rank person at the Karrakatta Barracks in Western Australia. I was looking for a quote that would really encapsulate some of the difficulties I see facing the reserves. He said:

We all have vehicles out there that do not have parts, like no speedometer cable. The vehicle cannot break the speed limit anyway—it is not a very fast one—but the point is that we do not have it and yet we are supposed to drive at 60 kilometres in a convoy in a town. We do not know what speed we are doing. We just drive with everybody else and as long as we are not overtaking anyone we assume we must be going at about the right speed. We have been told there is no money and we cannot get the parts. We have vehicles for which we put in a DVR, a defective vehicle report. The mechanics who are supposed to fix it cannot get the parts so it goes back on the road with all sorts of problems. We DVR it and it comes back again. They say, 'Just drive; it doesn't matter.' I have driven a vehicle with no clutch before and with the brakes binding—all sorts of things—you just have to drive it because otherwise you are going to walk.

Now that was not anything other than typical of the comments that we got around the nation in terms of the resources that were available to the reserves.

Whilst it did not appear in the evidence, I did have some personal evidence about some divers within the Navy. I cannot say it was so much evident within Air Force, if that is a consolation. It seems to me that there is a problem in terms of funding. There is a problem in terms of the resources that are made available. There are problems, of course, in terms of the common induction training which I believe are in the process of being addressed. How do you respond to that sort of typical comment in the way in which you are now managing the reserve forces, given the ANAO report that has been tabled?

Brig. Turner—First of all, I must say I do not have direct knowledge of the incident you quote.

Senator HOGG—No, I accept that. I tried to pick something typical.

Brig. Turner—That is my first comment. That may be someone's perception. The second comment I would make is that, from Army's point of view—and I am sure that it is common with the services—we do not condone and would not support the use of equipment which is not safe for its purpose at the time. Quite clearly, if that has been happening, it would be something that does not have the full knowledge of the organisation. That is not to deny that the claim that that sort of thing has happened.

What I can say is happening is this: the modernisation processes going on within Army, which involve the ongoing development of roles and tasks for all units, including reserve units, and the design of what has been referred to as Army 2003, have led to a review of single entitlement documents for a very wide range of army units. That process is continuing. That process is not just about people; it is about equipment as well. There are actually processes in place at the moment which are seeing the cross levelling of equipment between units, including reserve and regular units, so that we are matching the equipment and getting a good, fair and equitable distribution of equipment to all units to allow them to be properly equipped for the training they are undertaking. Again, that is a work in progress: the reviews, the cross levelling of equipment and the maintenance and upgrade of equipment continue.

Senator HOGG—I accept that, but if one reads the audit report one finds that ANAO could not in any way get a specific costing other than to make a good guesstimate, I would suppose, of about $950 million for the Army Reserve out of $1 billion—I presume that the balance is for the Navy and the Air Force. ANAO was unable to obtain full costing information. We are spending a substantial number of dollars each year. I understand that you are looking forward and I think that is a very positive thing, but the Commonwealth government is spending an enormous amount of money in the reserve area each year, yet we have the ANAO report and the sort of comments I read out before—as I say I can replicate those comments. It is a grave concern. When are we going to see the corner turned? Is it just a matter of another inquiry and another set of recommendations to address this, whether they are from the ANAO, the JCPAA or a Senate inquiry? When are things going to start to turn around? Am I a little impatient?

Brig. Turner—I think we are all impatient to achieve the goals that have been set by the government. I will respond to a couple of things. The first thing is about the costing. I will speak about the Army Reserve; other people at the table may wish to speak about other areas. The difficulty that is raised by the question in the audit report is this: Army is developing capability to address the demands of government from the ADF, but the development of that capability actually comes from an integrated force. There is not a single unit where you can say this is a reserve capability and this is a regular capability. For example, over recent time there have been a considerable number of reservists, as individuals and in small teams, who have been deployed with the main force in East Timor. That contribution is not costed back directly as reserve. Rather, the cost of delivering various units of capability is measured against those units of capability not against whether they are reserve or regular. So the question of just costing reserve is a difficult one to answer. The DGMPA may be able to add to that, but I think that is the fundamental issue about costing and measuring the value for money we are getting. It needs to be done against the total capability, not just one part of an integrated element.

Mr Williamson—I think we are really struggling with the issue of costing inputs versus costing outputs. Currently, our focus is trying to cost the outputs. The Reserve is but a component that contributes to our capability overall, and trying to cost every individual component at the moment is an issue for us. What we are focusing on right now is trying to gather the cost to the outputs, and the methodology that has been used in the ANAO report to derive that cost is, I think, a reasonably fair reflection of the cost overall of the Reserve. To actually go through and do it as an input cost is quite a significant exercise and quite a demand on both our processing systems—we are not that sophisticated at this time.

Picking up on the brigadier's response, at the moment we are focused on the capability: the cost of the capability, the benefit of the capability and how we can improve that. In that process, we do identify the cost of the inputs themselves but not in a sophisticated way that, say, an activity based costing system would do. The costs we have here are not unreliable and, in fact, since the audit we have been doing further work to refine those costs—both with the entitlement reviews that have been going on and the relifing and repricing of our assets—and we have actually changed the cost profiles. I think we have a far better understanding of some of those costs and those drivers.

ACTING CHAIR—Thank you.

Cdre De Laat—Is it possible to respond on behalf of Navy to those two issues?

ACTING CHAIR—Certainly.

Cdre De Laat—Concerning the capability question, since 1992 Navy has worked to one set of assets so that our reservists work on a continuum, and the diving example is a good one. Our divers are trained as ANR divers, which is a much smaller capability level than our permanent naval force clearance divers, but the assets are all controlled by 1 Force Element Group. Where a problem might occur is that, with the lower level of training, there is also one continuum but a lower allocation of assets, because they do not do underwater battle damage repair or ordnance or explosive work.

I am aware that our reservists are ambitious to do more but we have to be cautious, particularly with duty of care, in what is a very dangerous area. The answer to the issue of assets would be that they are all on one register and they all meet the same standard. For the Navy there is no difference between permanent naval force and Reserve in terms of duty of care and stewardship of assets or of people. I may ask the Director-General of Naval Personnel and Training to comment as well.

On the recruiting issue, the Defence Force Recruiting Office recently had a major conference. I have been advised that, as a result of the conference, they will be undertaking a major initiative from 6 May. They have advised that they will be charging the services with taking substantial responsibility for bringing recruits to the doorstep. After a number of meetings they have acknowledged that their current tasking for permanent recruitment is significantly high, such that they have agreed with the single services that they will take far greater responsibility. They are allocating a budget accordingly so that the single services will work very closely to take charge of the attraction process. There will be a special launch on 6 May. Recruiting has been slow for the Reserve and in recognition of that the aim is to have specific initiatives for

Reserve recruitment but much of that will be undertaken by the single services themselves. We do expect some significant gains in the next 12 months because of a total change in strategy.

ACTING CHAIR—Thank you, Commodore.

Cdre Hart—The only thing I can add is that, in terms of investment in reserves, most of our money goes towards personnel. We have one asset register so the investment in Reserve personnel is about their training and integration into a total integrated work force for Navy. I think that is an important issue. If there are equipment issues within the Reserve then it is within our wherewithal to reset the priorities and make sure that they are well-equipped to do the jobs that they are required to do, as Commodore De Laat has indicated.

Senator HOGG—My experience with the Navy divers I spoke to—and this was in private discussion as opposed to something on the public record—was that they felt that they were treated poorly in relation to full-time. I think that comment could be said to be reflected in Army. I cannot confirm whether it is reflected in Air Force. I will leave it at no more than that. They feel that, in terms of equipment, in terms of the parade time that is made available, the tasks and everything else, they are treated in a second-rate manner. That may well be as much a problem that needs to be dealt with as any of the others that are facing the forces.

Cdre Hart—It is well recognised that that is a perception. We are actually now undertaking a program to correct that. There is a Reserve management review going on right now to make sure that those particular perceptions are addressed and that they do feel part of an integrated naval force.

Senator HOGG—When will that review be completed?

Cdre Hart—We expect to have that review completed by the end of June.

Cdre De Laat—Could I just say that from a command and control point of view, particularly for the divers, we did recognise that several years ago. Because some of our dive teams are located remote from HMAS *Waterhen*—so they are in Brisbane, Adelaide and Hobart rather than in Sydney—there was a command and control issue in that their orders were not coming directly from the force element group. We did address that and we rectified that. Now all the operational orders come from the force element group. I think that went a significant way towards aligning the dive teams nationally.

ACTING CHAIR—Brigadier Turner, can you tell the committee what impact, if any, service in the Reserve being included under Work for the Dole arrangements has had on recruitment?

Brig. Turner—I will ask Colonel Stedman to address that issue with some of our initiatives.

Col. Stedman—Firstly, I have a point of correction. Defence does not participate in the Work for the Dole program. Reserve service is, however, an approved mutual obligation activity and has been so since 1 August 2000. Defence recruiting, I am advised, does not ask potential applicants, when they seek to join the reserves, whether mutual obligation is the reason for their inquiry. We keep no statistics on reservists as to whether they are participants in the mutual obligation activity. However, we have been advised by Centrelink who, of course, operate that

scheme that, to date 71 individuals have selected Reserve service as their mutual obligation activity. Clearly, from a Defence point of view, it is of some assistance but the numbers are not great.

ACTING CHAIR—Thank you, Colonel Stedman.

Ms GRIERSON—I note in the report it is suggested that a cost-effective way of increasing the number of reservists in our forces would be to encourage people after their separation or retirement from permanent service to make themselves available for the Reserve forces. It seemed that the Army had a lower take-up rate than the other forces. Can you perhaps give me some explanation for that and your thoughts on the strategies to reverse that.

Brig. Turner—Firstly, on the background for lower take-up rates, there is a number of reasons for that. Army, in the past, did not have a policy of actively and seriously encouraging people after they had finished their time of regular service coming across to the reserves. In general, people were advised that there was an opportunity to do so, but it was not actively pursued, as opposed to some of the other services that actually had almost a compulsory policy that you had to transfer to the reserves. That obviously affected the statistics in the past.

In terms of where we are going in the future, the intent that is being developed for the new Defence regulations which are flowing from the changes to the legislation will have a requirement for people at the end of their full-time service—and, again, this is subject to a bit of market testing—to transfer to the Reserve. The reason there is a requirement to do some market testing is that you want to be careful: whilst the initiative to populate the Reserve sounds good, if it became a detractor from people signing up for full-time service, that would be counterproductive.

We are going to do a little bit of testing at the front door, as it were, to see whether, in the case of the Army, it would have any adverse effects. We think it will probably be acceptable. We would probably provide some sort of an 'out' clause for those for whom it was going to be a major problem. That is still in the process of development but that is the primary initiative. We have in fact increased our efforts to encourage people on transfer from the regular force to come across to the Reserve, either to inactive or what will be called the stand-by reserve, but preferably into the active reserve.

Ms GRIERSON—You mentioned the active reserve and the stand-by reserve. Is that two-tier system uniform across the services?

Brig. Turner—At the moment there are new terms coming into being which will take effect across the services. There is a hierarchy of five broad categories of reserve service that will apply across the Defence Force. Each of the services will use not necessarily all of those five but the ones that suit their pattern of service. In the case of Army, initially we will be using three designated categories of service. We will call the base level a stand-by reserve, which is as directly equivalent as you can be to the current inactive reserve. The main body of the Reserve will be called the active reserve, which is directly equivalent to what we now call the General Reserve in the Army, and there will also be a high readiness reserve.

Initially, we will have no people who we will directly populate into the high readiness reserve. As we establish the conditions of service attaching to that, we will qualify people and migrate them into the high readiness reserve. The number required to do that will be informed by the development of the Army 2003 deployment model.

Ms GRIERSON—Do you think that trying to quantify what is required to meet that 2003 white paper response will increase the need for a high preparedness group of reservists or do you think that will not be the outcome?

Brig. Turner—The requirement for high readiness reservists will increase. At the moment, by definition, because we do not have one, one might say the requirement apparently is zero. However, we know that we are currently deploying significant numbers of reservists in places such as East Timor, fairly recently in Bougainville, and in Butterworth in Malaysia. We want to regularise that and build that into our modernisation and deployment model. That will require a high readiness reserve. In that sense, the requirement will be greater than it is at the moment.

The requirement essentially is that we need to be able to develop a long-term, deployable, brigade size force, which can be populated with successive rotations of people over time. To do that, there will be a greater dependence on reserve forces than we have seen in the past. That will require a greater dependence not just for very short-term notice deployments but also for longer notice deployments. If we have got 12 months notice, we can say to a reservist, a reserve unit or subunit that we will require them to deploy into a rotation in this force perhaps 12 months hence. So there will be notice. There will be a requirement for both high readiness and active reservists to be more actively involved in the delivery of the Army's capability.

Col. Stedman—Madam Chair, would you mind if I clarified and expanded on what the brigadier has just said?

ACTING CHAIR—I would but I ask you to keep your answers brief. We have got 10 minutes left before we deal with the next audit report. We would like to get through a few more questions as well.

Col. Stedman—Certainly. I will make three very quick points. Brigadier Turner mentioned that under the new defence personnel regulations that are being drafted it is proposed that permanent members be required to transfer to the reserves. I make the point that that is a transfer to the stand-by reserves. Those individuals will have no training commitment. They will simply have a call-out obligation.

The second point I would make is that the Head of Defence Personnel Executive, Admiral Shalders, and the Head of Reserve Policy, General Garde, have jointly commissioned a study to identify incentives to improve the transfer of members of the permanent force to the active reserve when they complete their full-time service. Phase 1 of that study has been completed and has identified a number of initiatives which are now the subject of further cost benefit analysis. We have just identified the initiatives and we are now working on those. Those are yet to go through any of the formal Defence committees. So there is some way to go.

The third point is the issue of the lower percentages of the Army Reserve who have ex-regular service. You should also note that the Army Reserve, of course, is significantly larger

than the other two services. So the smaller percentage of a much larger force actually means that we have probably more Army active reservists who have ex-permanent service than the numbers in Air Force and Navy. I am not sure of exactly the implications of that, but you need to note that the larger size of the Army Reserve Force does impact on that issue.

ACTING CHAIR—Thank you, Colonel Stedman. Commodore De Laat, did you have some comments to make?

Cdre De Laat—I will just give you a brief overview of Navy's position on that. Firstly, the higher transfer rates from Navy can largely be attributed to a very longstanding traditional in the Navy called the Navy list, where the transfer from active to stand-by from the permanent naval force—so permanent naval force to reserve—was virtually a rule, although it was not compulsory because it was a naval tradition. Sailor transfers have increased dramatically in the last 10 years since we embarked on a total force integrated program. Similarly for high readiness—this is actually Commodore Hart's area—our one set of assets, of course, means that we will not be working with reserves working on separate assets or seeking new assets. We will be looking to engage high readiness reserves into key areas where they might be deployed as part of a permanent naval force deployment. I do not know whether Commodore Hart may like to speak further.

Cdre Hart—The only thing I can add is that we look at reserves as either active or inactive. The actives engage in our activities for at least one day a year. As to the figures for last year, we had 1,500 people engaged in active service out of around 6,000 reserves on our books. Our aim is to increase that percentage in the active reserve.

ACTING CHAIR—I have a follow-on question. One of the problems that the audit revealed was the potential for the Navy's use of reservists in a permanent part-time capacity to deplete the Navy's ability to surge—that is, increase its rate of activity at short notice in a military emergency. Do you see what you are talking about as contributing to that problem?

Cdre De Laat—It was a significant issue in the audit report. It is driven by Navy's decision in 1992 to employ task reservists as part of their main work force. The Navy philosophy is that, whilst there is a core of ongoing work that these reservists do, by and large, it is still within a five to 10 per cent range of what the total surge capacity would be if we were required to actually convert all of those reservists to full-time service. Our belief is that the actual training and experience they get by working within the full-time environment far offsets any downside associated with the slightly lesser surge capacity.

ACTING CHAIR—One of the other issues that was identified in the report, particularly for the Army, was that the roles and tasks of reservists were not clear. I believe that there is an ongoing process to clarify the roles and the tasks. Can you advise us of any updates on that clarification process? Can you confirm to us that, in areas where roles and tasks are clear, like regiments such as medical regiments, you do not have the same recruitment problems that you do in other areas?

Brig. Turner—There was a roles and tasks study being conducted at the time of the audit. Essentially, it has been caught up into the broader issue of Army 2003, which is the modernisation of the force to meet the white paper requirements. As we develop the deployment

model for the Army, the roles and tasks of both regular and reserve units are being defined progressively. That process is now well advanced. I mentioned before that we have been through the SED—or single entitlement document reviews—of a very wide range of Army units, including reserve units. That SED review is taking account of the new roles and tasks that are being developed for reserve units.

The other qualifier is that at the end of that process you may still have a unit in the reserve which is known as, say, 2nd/17th Infantry Battalion Royal New South Wales Regiment, and you might have in the Regular Army the 1st Royal Australian Regiment Infantry Battalion. They are both called infantry battalions and they may have a generic role to perform as infantry battalions, but the detail tasking they have, in terms of how they deliver capability into the Army's capability model, might be quite different for the two. So I would urge the committee not to be confused by the fact that two units might have the same title and not to assume that they have the same detail roles and tasks. I will summarise by saying that the process is progressing very well and is now integrated into the Army 2003 modelling process.

ACTING CHAIR—So we can expect some results at the end of 2003?

Brig. Turner—The results are already becoming evident. There are units that already have a much clearer statement of what is required of them. They are specifically recruiting to that statement, which I think relates to the second part of your question. They do not know at this stage the exact number of high readiness reservists they will need, but they know that they need a certain number of people fully qualified for their rank and trade by a certain time. They know that beyond that they will need to get some of those people up to a higher level of readiness. So those sorts of things are becoming clearer in reserve units right across Australia.

ACTING CHAIR—Are you noticing any improvement in recruitment because of that?

Brig. Turner—Some time has elapsed since the audit report was done, and recruitment has improved significantly. But what we are seeing this year is probably fairly consistent with what we saw last year. Both years are above the base that was shown at the time of the report, but there is still some room to go. We have yet to see the full effect flow through of things like changes to the legislation and the different conditions of service in terms of employer support payments and so on. It is still early days for that. I think it will take a little bit longer before new roles and tasks have an impact.

Mr Williamson—I will just add a qualification to that. The Army 2003 model has yet to be endorsed through the Army committee process and the Chief of Army is yet to sign off on it. Picking up on your earlier comment, that model is scheduled to be formally endorsed in 2003.

ACTING CHAIR—Thank you, Mr Williamson. I believe Ms King has a question.

Ms KING—I want to focus back on some of Senator Hogg's comments, which were around retention of your Army Reserve in particular. What, in your opinion, are the core reasons for people leaving the Army Reserve?

Brig. Turner—There have been a series of studies done on that and Colonel Sillcock has been looking at some of them. I will ask him to comment on some of the findings, but I will

make some introductory remarks before he addresses that. Firstly, some of the figures in the original record that were shown as wastage from the Army Reserve were actually people who transferred across to the regular force. In that sense they were not losses to the Army; they were moving from one component to another. Secondly, retention has improved, probably in the last year or two, from what it was a couple of years ago—not significantly, but it is improving. I think that is worth noting as well. Perhaps Colonel Sillcock might give some background.

Senator HOGG—Before you proceed, could you take on notice and give us the figures of retention? I would be interested in them.

Brig. Turner—Yes.

Lt Col. Sillcock—In answer to the original question, which related to reasons for leaving, in many ways it is quite predictable. We have young people who join the Reserve while they are at university, or during early days in the work force, who are single. At times there are domestic factors, such as employment or family, which impact on their capacity to continue with the Reserve. There are also other factors, such as, 'It's good fun for a while,' and then interest wanes. The Army may take some of the blame for this because of the lower readiness of reserve units. This means that the excitement and the reality of their employment in the service is more limited than in the regular force—the high readiness units. The retention rate at the moment is probably the lowest in the last 30 years. It has been as high as 40 per cent and it is currently running at about 13 per cent. We will take the figure on notice, but it is very low and it is quite within acceptable bounds in terms of wastage. Comparisons with other nations would see wastage rates of 30 per cent being normal for reserve part-time forces.

Also, it is of interest to look at reasons for joining in the first place. I have noted that the great majority of young people joining the Reserve do so in order to do something for the nation and in order to challenge themselves. I think they do that and then, at some point, they leave. I would stress that the rate of departure is quite acceptable and manageable.

ACTING CHAIR—I would like to ask a follow-up question. With respect to people who leave because their life circumstances change—perhaps they have got young children or some other circumstance like that—do they often come back in later years? Do you have people dropping out for a few years and coming back?

Lt Col. Sillcock—I have not done research on it. I would expect that some would. It is a similar case to regulars who may leave the regular service for a period of time. They settle themselves into new employment and then feel the desire to come back and continue serving. I am sure that with reservists, and it is probably something that I will pursue—

ACTING CHAIR—Can you target those people through recruitment? Is there any way of staying in touch with them?

Lt Col. Sillcock—Certainly. As their circumstances change, as they adjust to new employment or whatever, then they may wish to come back and do some reserve work.

Brig. Turner—Madam Chair, could I correct one statement for the record? Lieutenant Colonel Sillcock was talking on the subject of retention and he said 'retention rates have never

been lower'. I think he meant wastage rates have never been lower. The subject was retention. I just want to ensure that the record is correct.

ACTING CHAIR—Thank you, Brigadier Turner.

Lt Col. Sillcock—My apologies.

Mr SOMLYAY—You mentioned before that some time has elapsed since the tabling of the report and also some time has elapsed since you gave us your submission, which I think was in August last year. Can you provide us with some information—and please take this on notice—updating the stage of implementation, if need be, having regard to the original information you gave us? Also, what interaction has there been with the Auditor-General in implementing these recommendations?

Brig. Turner—Yes. We will take that on notice.

Ms KING—I have a follow-up question to my previous question. As a matter of routine, do you have discharge interviews with people to actually find out what their reasons for leaving are?

Lt Col. Sillcock—Yes, we do, in the regular forces. Part of the study that I am doing with reserves is recommending that an exit survey be administered to people leaving the reserves, where we can. It is slightly different in the Reserve in that we do not always have the opportunity to speak to reserve soldiers because they may miss a week's parade and then we do not see them again. We do not have a formal departure mechanism. But, as a matter of leadership practice, certainly the recommendation that I would support would be the use of the exit survey to get a feel for trends and things that are of concern to reservists.

Ms KING—Do you currently not do that as a matter of routine?

Lt Col. Sillcock—It is not done formally.

Ms KING—With respect to the information that you gave previously about the core reasons for Army reservists leaving, how have you obtained that?

Lt Col. Sillcock—They have been gained through focus groups, by informal discussions, by discussions with units and unit commanding officers and, at some stage, with reservists who are available to discuss these things. It has not been significant formal research.

Ms GRIERSON—If I can follow up on that and widen it to all the services represented here, one of the problems the report focused on was the lack of information systems that gave accurate data about the reservists. There were recommendations that information systems be improved so that you can quantify the number of reservists and their status in terms of fitness, readiness and skills. What progress has been made since this report in having information systems that give you that data and therefore enable you to better track things like when these people leave?

Brig. Turner—Thank you for the question. We have within Army a system called Army Individual Readiness Notice, which informs Army of the status of readiness of both full-time and part-time members on an annual basis, so we actually have a record of who is qualified by rank and trade and whether they are medically fit and able to be used for the purpose for which they are engaged. That is the primary tool available to us. There are other tools that measure, in a more collective sense, who we have and what they are able to deliver in terms of capabilities and whatever.

The more detailed question is about all of the information from a personnel database point of view. The system that will ultimately record that is PMKEYS. That is still in the process of deployment throughout Army, so as yet that process is not complete. I am not sure whether Lance Williamson wants to give an update on that.

Mr Williamson—PMKEYS is not my area of expertise, but Army is due to roll out PMKEYS on 8 July—that is the latest date. Navy and Air Force have already rolled out PMKEYS into the military forces and it is already a civilian system. So we are on the move.

ACTING CHAIR—We are running a little over time but I believe Senator Colbeck has a final quick question.

Senator COLBECK—I have two questions. One you might like to take on notice relates to what Mr Somlyay was saying with respect to your response to the audit report, in particular some of the key dates that were in your response and whether you see that they have been or will be met. I will give you a couple of examples. Under recommendation 1: in order to coordinate this effort, Chief of Army has produced a directive that provides his guidance and direction to identify and establish a force structure and capability baseline by 31 December 2003. Given that this response was given eight months ago, what is the rate of progression towards that and is that date still achievable? Under recommendation 3: the validation of the Navy Integrated Program Scheme of Complement is under way, category sponsors are currently reviewing unit reports and the process is expected to be completed by December 2001. Was that achieved? They are examples of key dates that you have identified in your response. Are they achievable still or have they been achieved?

Finally, the report said that the analysis comparing the number of Army reservists with the numbers of people aged 18 to 40 in the general population on the basis of geographic distribution by regions highlighted wide differences between regional areas in the proportion of the target population participating in Reserve activity. What steps has the Army taken to implement the ANAO recommendation 11(c), namely, 'to initiate studies on regional demographic factors which influence recruiting success'?

Col. Stedman—Two particular studies have been done that are of some interest to that. Of most direct relevance, the Defence Force Recruiting Organisation has undertaken both quantitative and qualitative research to identify the motivators and inhibitors for why people join the reserves or are deterred from joining the reserves. They have done that using focus groups in a number of regional and metropolitan locations, in part to identify whether there is any regional factor involved in it—whether there are different attitudes and perceptions in particular parts of the country or whether what a student in Sydney thinks is the same as what a

student in Adelaide or Kalgoorlie thinks. So there has been some work done by the recruiting organisation to look at those regional demographic factors.

Senator HOGG—Does the research have a title and a date, so that we could have some idea of the currency of it?

Col. Stedman—Yes, it definitely has a title. The title of one report in particular is the *Report on Army Reserve communication research*, prepared for the Defence Force recruiting organisation in October of last year. The other study, which is less specifically directed at regional demographic factors, was the 2001 Australian Defence Force Reserves survey last year, which was sent out to all active reservists and which collected a wide range of information in terms of demographics, their attitudes to their Reserve service and issues such as the motivators for why they joined and why they were continuing to serve.

ACTING CHAIR—Colonel Stedman, was that research conducted by the Army or was it contracted out?

Col. Stedman—Are you talking about the e recruiting organisation?

ACTING CHAIR—The first report.

Col. Stedman—It was contracted out.

Cdre De Laat—Acting chair, did you want a comment on the Navy integrative program or are we out of time?

ACTING CHAIR—We are actually 10 minutes over. I think that we would in other circumstances be very interested to hear that, but we are on a rather tight schedule today, Commodore. I very sorry that I will have to conclude the proceedings here and I thank all of our witnesses for appearing today, both from the defence forces and from the ANAO. You can give us, if you are able to, a written submission with the details that you want to give the committee, but I am sorry that we do not have the time to take it as an oral submission right now.

[12.15 p.m.]

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

McVAY, Mr Peter Ian, Senior Director, Australian National Audit Office

HUNTER, Mr Stephen Mars, Deputy Secretary, Department of the Environment and Heritage

ROSE, Mr Kerry, Director, National Resource Management Monitoring and Evaluation, Department of the Environment and Heritage

THOMPSON, Mr Ian, Executive Manager, Natural Resource Management Business Unit, Department of Agriculture, Fisheries and Forestry

WILLCOCKS, Mr Charles, General Manager, Landcare and Regional Capacity, Department of Agriculture, Fisheries and Forestry

ACTING CHAIR—We now come to the second audit report to be examined in this morning's public hearing. I welcome the witnesses and remind them that the hearings today are legal proceedings of the parliament and warrant the same respect as the proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. The audit report being considered in this session is Audit report No. 43, *Performance information for Commonwealth financial assistance under the Natural Heritage Trust*. Mr Thompson, would you like to make a brief opening statement before we proceed to questions? We usually limit statements to three minutes.

Mr Thompson—Mr Hunter is making the introductory remarks.

Mr Hunter—Thank you for the opportunity to appear before the committee. The Department of Agriculture, Fisheries and Forestry and the Department of the Environment and Heritage have previously provided a joint submission as agencies administering the Natural Heritage Trust. I would like to take this opportunity to bring the committee up to date on developments since that response was provided.

The departments agree to each of the six recommendations of ANAO report No. 43 and have utilised the practical examples provided in the report in the design of the monitoring and evaluation of the Natural Heritage Trust extension and the National Action Plan for Salinity and Water Quality. First of all, I turn to the final evaluation of the first phase of the Natural Heritage Trust. Last year the Natural Heritage Ministerial Board agreed to an approach for the final evaluation of the first phase of the trust, which will include an evaluation of the trust against its three primary objectives, a report against 11 intermediate indicators, and a list of aggregated outputs to be completed early in 2003. The proposed terms of reference for this final evaluation have been drafted and will be considered by the ministerial board at its next meeting.

Looking towards future natural resource management programs, the Natural Heritage Ministerial Board has agreed to the continuation of the national land and water resources audit until 30 June 2007. The core function of the audit will be to coordinate collation of data and information to support reporting against nationally agreed indicators that will be used for the monitoring and evaluation of the national action plan and the extension of the trust.

In relation to standards and targets, a working group consisting of representatives of each state and territory, chaired by the Commonwealth, has developed a series of national natural resource outcomes and associated matters for targets in order to create a framework for target setting in regional integrated natural management plans, which will be the key focus of delivery for the national action plan. A multilateral working group from the Commonwealth, the states and the territories has drafted, under the Natural Resource Management Ministerial Council, a national monitoring and evaluation framework which will be considered by the ministerial council at its meeting on 3 May, later this week. That framework sets out principles for monitoring and evaluation of natural resource condition generally as well as program level monitoring and evaluation. That framework would apply to both the national action plan and the Natural Heritage Trust extension.

A key part of those frameworks is a set of performance indicators which are being developed in relation to natural resource condition, which will allow changes in resource condition to be measured over time. That monitoring and evaluation framework will also incorporate protocols for the collection, storage and handling of data, therefore enhancing data verification and validation.

In relation to joint arrangements for analysing and reporting performance information, the Natural Resource Management Ministerial Council will receive overall reports on program performance from both monitoring and evaluation activities. This structure will strengthen joint arrangements between the Commonwealth and the states on information on program performance.

In conclusion, there have been substantial developments in the way in which natural resource management programs and monitoring and evaluation processes will be undertaken, both by the Commonwealth and by the Commonwealth and the states together, particularly through the auspices of the Natural Resource Management Ministerial Council. We believe that will lift the standard and availability of program performance information in future natural resource management programs.

ACTING CHAIR—Thank you, Mr Hunter. Mr Barrett, do you also wish to make a brief opening statement to the committee before we proceed to questions?

Mr Barrett—Yes. Again, this was quite a comprehensive audit in the area of performance information, which is a vexed issue for all public administration. We started off by finding that the performance information for the NHT had very strong design features. As with all programs, though, the real problem is with management and reporting that is commensurate with the design. That has been the challenge, although we do recognise that the finalisation of the partnership agreements was a very considerable achievement. Pragmatically, we reinforced with the agencies concerned the notion of intermediate outcomes. We recognise—as they in fact put to us—that a number of these elements of the program will take some years to get any kind of

result. Consequently, it is very difficult to report against an outcome which may be five, 10 or 20 years out. So the notion of intermediate outcomes was, we thought, a pragmatic solution which would allow reporting against targets of one, two, three or five years duration. I am interested to hear that they are looking at that issue now in this part of the evaluation process. As I said, I think that it was a useful audit and that we will hopefully see some value adding coming out of better reporting to parliament as a result.

ACTING CHAIR—Thank you, Mr Barrett.

Senator HOGG—I raised this at a private meeting with ANAO this morning, and I want to raise it with you now. Their report says:

> The goal of the NHT is to 'stimulate activities in the national interest to achieve the conservation, sustainable use and repair of Australia's natural environment'. The objectives are to:—

it is this objective that I want to concentrate on for the moment—

> • provide a framework for strategic capital investment to stimulate additional investment in the natural environment ...

In respect of that particular objective, there is no real evaluation made by ANAO in this particular report but I wonder if you might be able to comment. I accept that you might not necessarily be able to quantify these outcomes in a short term, but it seems to me that for the $1.5 billion investment you must surely be able to somehow advise the parliament of how that objective is being achieved. In other words, it is providing for a strategic capital investment to stimulate additional investment, and I presume that additional investment would come from state government, local government or the private sector. Can you give us some assessment of your views on that?

Mr Hunter—We certainly envisage that the examination of performance against that trust objective would be one of the key elements of the final evaluation of the Natural Heritage Trust which, as I mentioned to you, is scheduled to occur in 2003. I guess the essential question that we would be asking is to what extent the trust was catalytic in leveraging additional investment of capital, human and other resources for the natural environment. You mentioned state governments, local governments and the private sector.

Senator HOGG—Is there any evidence of that happening in the early stages? Can you quantify what has happened to date?

Mr Thompson—The framework that we have for the Natural Heritage Trust is via a partnership agreement with the states, so we can quantify the amount of money that the states are putting in and value the in-kind resources that they put in through technical assistance or extension offices. Beyond that, there are local government contributions. Mr Willcocks may have the details of those. Periodically, through surveys, we also try to get an understanding of the commensurate investment individuals put in. For instance, in the area that we are responsible for—land care—there will be state money and Commonwealth money, and then individual farmers will be investing their own money, either as a group or in their own farm. We obtain that through surveys undertaken by ABARE and the like about how much investment farmers are making in the area of natural resource management. I have a figure in my mind that our money is multiplied by about six to one if you take all those sources into account.

Senator HOGG—It would be interesting if you could give us some sort of breakdown, because it then proves the value of the project if the Commonwealth is making such a large investment.

Mr Willcocks—We do not have the exact figures with us, but we can draw the information that Mr Thompson has referred to from the database. The figures that he has given you are the figures that I have in mind: that, for every dollar of Commonwealth investment, there is more than a dollar of state investment and two or three times that, at least, of community and individual investment. But I think we could take that on notice and provide you with some figures.

Senator HOGG—If you could take that on notice and provide that, that would be interesting. I refer to the key findings in the ANAO report where they say:

The absence of baseline data on environmental condition in much of Australia has also been a major constraint on measuring and reporting on changes and trends …

You referred to national resource outcomes and you referred to a national monitoring and evaluation process, which you have now put in place. Given the lack of a reasonable baseline, how have you addressed the issue of the baseline in the first instance? How have you then built the performance indicators and the evaluation process without having a very good baseline in the first instance?

Mr Hunter—Perhaps I can make two points there. First of all, the national land and water resources audit, which has been funded and conducted as part of the first stage of the Natural Heritage Trust, has provided substantial baseline information on a range of natural resource condition indicators, so we do now have much more information than we had at the beginning of the—

Senator HOGG—Has that taken place since this ANAO report was first written?

Mr Hunter—Most of its reports have been concluded and released, or will be released, over the period June 2001 to June 2002. So most of that information has become available in quite recent times.

Ms GRIERSON—How extensive was that? Was it gathered by cross-state, federal and local government contribution?

Mr Hunter—Yes. It focused on a range of natural resource attributes; in particular, water resources, vegetation, soil resources, coastal and estuarine resources and others. The information was principally collected in a series of partnerships between the Commonwealth and the states, funded through the national land and water resources audit, though in some cases the partnerships also included the private sector and other stakeholders. It is a national level audit, and therefore in places it takes into account the different methodologies that the states have for collecting information on natural resource attributes within their jurisdictions. So it does not, in every case, provide absolutely uniform measures, but it does provide a national overview of resource condition, which is a substantial advance on where we were.

Ms GRIERSON—And you are suggesting it does provide good baseline data.

Mr Hunter—I am saying it provides a baseline, but I think we would be foolish to pretend that that was the ultimate, and I was about to indicate the further steps we are putting in place. One of those is the continuation of the audit, as I mentioned, which the Natural Heritage Ministerial Board has agreed to. Secondly, and quite importantly, by identifying matters for which natural resource targets must be set at the level of regional integrated natural resource management plans we also envisage providing assistance to the regions in the regional scale baseline setting they will need to undertake to set those targets. For example, in the standards and targets framework which will be considered by the ministerial council next Friday, regions are given a period of some time, up to three years, to identify a natural resource condition target, and there is a specified set of those. That time allows them to establish at the regional level the baseline against which that target can be set, and part of the national action plan processes will be to assist regional bodies which are responsible for developing and implementing these natural resource management plans to establish those baselines.

Senator HOGG—Can I clarify that when you are talking about a baseline it really is the condition or the state at that moment in time, isn't it? It really could be a very poor baseline from which one is coming in terms of what the baseline might have looked like, say, 50, 60 or 100 years ago. Is that correct?

Mr Hunter—It may be, and the other issue to keep in mind here is that in most of the attributes we are talking about here there is a very high degree of natural variability, for example, in water quality or in water flow, so in setting baselines one also has to take into account as much as possible the natural variation that might occur. So, yes, baselines may well have deteriorated over a period of years. Secondly, there is a challenge in establishing what is a rigorous baseline, given the natural variation in the systems we are talking about.

ACTING CHAIR—Isn't it the case that, if you are giving regions three years to come up with a baseline, there might be a significant deterioration within that three-year period also, if you are talking about an issue such as land clearing, for example?

Mr Hunter—It is possible. However, the fact that they have some time to establish the baseline is not a reflection on the action that we will be asking and seeking those regions to take with the funding being provided under the national action plan or Natural Heritage Trust. So, for example, we are requiring the regions to set immediately what we would describe as management action targets which describe, not so much in terms of the resource condition outcome but the activities they will undertake, the things they will do to move us towards the natural resource outcomes we are seeking to achieve through these programs. So, while getting a baseline might take a little while, action can be immediate.

Senator WATSON—Going back to the audit report and your response to date, you were talking about feedbacks in the future. Looking at that audit report in terms of your report and what you have done, you do not seem to list the outstanding challenges for the future and how they are going to be met in a purposeful way or the achievements to date. I know we talked about immediate measures et cetera, but I think we are interested in those issues. Can you comment a little more about the intermediate results of what has been achieved? I think that question was raised with you and certainly was raised with us by the Auditor-General, and we

are looking for some guidance as to what has been achieved. I know a lot of the issues are really long-term outcomes, but we would need some guidance.

Also, at the same time, I wonder whether you could comment on the responsiveness of the states. Obviously, some states are pretty enthusiastic. Others tend to want to take the credit for themselves in a lot of these sorts of issues because it is a bit of a partnership. You are in a difficult position. Can you comment on that? I think there is a lot of variation in the reaction and the feedback and the quality of the feedback that you get from the states. We have had some cases where what we have had fed back is at variance with what you have been told.

Mr Thompson—I will comment on the intermediate outcomes. I think you are referring to what we are doing about Natural Heritage Trust stage 1, but what we are doing there also translates across into the standards and targets framework that Mr Hunter was talking about. As Mr Hunter indicated, we will be completing an evaluation and review of NHT1 early in 2003. Following up from what the ANAO said about the Natural Heritage Trust stage 1, with the approval of the ministerial board, we have been developing some intermediate indicators that we can apply to the Natural Heritage Trust in those three objective areas of providing a framework for capital investment, the complementary actions around the Natural Heritage Trust that we believe will lead to the sorts of changes we want, and the partnerships. So the sorts of things we are putting in place are things like changes in attitude in the community and adoption of practices which best scientific evidence suggests will lead to the long-term change—things like the rate of adoption of minimum tillage or property management planning. In biodiversity management, intermediate indicators relate to which areas of identified endangered species have been protected, areas of vegetation, protected areas, fencing of protected zones. In accordance with the model that says, 'If we change attitude, we change practice,' and we see certain land use changes take place or certain areas protected, this will lead to the long-term changes in the condition, which are going to be monitored through things like the land and water resources audit and their translation down to the regional level.

Senator WATSON—I acknowledge that, but again you talk in the future tense. I really want to bring it back to the intermediate situation. What can you see here and now? What can you report to us now on the significance of what has been done and the challenges that remain? Yes, I applaud what you are going to do in the future and that in 2003 we might have some of these answers, but as a committee we are a little bit impatient. We want to know the significance of what has been achieved to date. It might be a little bit fragmented, but there must be something that you can report to us.

Mr Hunter—The mid-term review of the Natural Heritage Trust looked at both the trust as a whole and then the various programs which are components of the trust and, to the extent that it was able, provided reporting on the results of the investment through the trust at that time. I do not have highlights, if you like, in my mind of the finding of that mid-term review.

Senator WATSON—I am very happy if you take it on notice. It is a big program.

Mr Hunter—I was going to suggest that we can provide you with some information about the key findings in relation to outcomes from that mid-term review.

ACTING CHAIR—Can I ask Mr Barrett to comment on that.

Mr Barrett—If the officers knew when the annual report was likely to be made available, that might also help Senator Watson.

ACTING CHAIR—Are you talking about the next annual report, Mr Barrett?

Mr Willcocks—I could answer that. The draft annual report for last year has been finalised and is currently with ministers for clearance. I think one of the questions that Senator Watson asked was about the challenges and difficulties. I think the criticism was that previous reports have been about too much good news rather than how we have handled difficulties and challenges. For this current report, assuming the ministers agree to it, there is a section under each of the 23 NHT programs on challenges and how some of the difficulties are being dealt with and identifying some of the issues that need to be dealt with in the future.

ACTING CHAIR—I am not sure that that was exactly the issue. I think the issue is that—and it comes from the work of the Audit Office—there is not enough information for the committee to identify good news or bad news, that there are not enough mid-term indicators for us to judge whether there has been any value for the money that has been spent. That is the issue. It is not that we are worried that the reports are just a PR job but that the administration of the funds themselves does not allow you to tell us whether any progress has been made because we do not have a regime in place to judge that progress.

Senator WATSON—We also need to be told the degree of cooperation and information that is coming back to you via the states. That is always a contentious issue, and there was a lot of money administered by the states. Do you have people on the ground, as they do when we spend money on roads—there is a Commonwealth officer working with and alongside the state people in partnership—to ensure the moneys are spent efficiently and effectively on a program? Sure, the moneys are spent on a program, but we are always interested in efficiency and effectiveness. I think we delivered the roads program pretty well because that working partnership between the Commonwealth and the states was built up over the years. Do you have anything comparable to that or do you just accept at face value what the states tell you?

Mr Hunter—Perhaps I can answer that in two ways. Firstly, I point to the example of the monitoring and evaluation activities currently under way in relation to Bushcare, which was I think the largest single program funded by the trust. There is an evaluation being undertaken now of 588 projects, which represents about 23 per cent of the total projects funded by Bushcare, looking at their performance as they occurred on the ground. This is being achieved by using the Bushcare facilitator and technical support network, and the process will also inevitably involve the states as well. So we have a fairly substantial on-ground activity taking place to evaluate outcomes.

Secondly, in respect of our relationship with the states, and perhaps looking forward a little bit, I mentioned to you a number of the initiatives that have been put in place in relation to the Natural Heritage Trust extension and the national action plan, particularly the standards, targets and monitoring and evaluation framework. They have all been devolved by a joint Commonwealth-state cooperative process. Our experience in the last year or so has been that states have been very willing to engage in establishing the frameworks which will provide us with the ongoing information and knowledge to enable monitoring and evaluation. It is also true, as I mentioned before, that the states are very active participants in the activities

undertaken by the national land and water resources audit. So at that level they have also been strong participators.

Senator HOGG—For those 588 projects that you mentioned, do you have a baseline against which the progress can be measured? Let me put this even broader question to you: are there projects that you do not have baselines for now?

Mr Rose—The projects that were selected through the Bushcare program were selected on a risk assessment of the quality of data that had been provided. In looking at the data from a report that would come in, normally there should be some assessment of what needs there would have been to undertake the activity. Within those projects themselves, the smaller ones would not have provided baseline data in the sense of a measurable area of vegetation. They would have identified the need for some protection of vegetation or some revegetation activity, if I can continue on that example. So the baseline in some of the projects would have tended to be that there was a justification for the need for that activity for the funding to occur. So you are almost starting at a zero baseline for those projects.

Senator HOGG—But that baseline did not exist previously, did it, in your evaluation process?

Mr Rose—No.

Senator HOGG—This is part of, as I understand it, the key performance guidelines that you have now developed. Is that correct?

Mr Rose—It is one of the strategies that has been developed to address a range of things—to gather information about the validity of the information that has been collected and about the comprehensiveness of the information that is being provided and to provide feedback to the proponents of the grant themselves on what they believe have been the key issues that they have addressed.

Senator HOGG—There are 588 projects there, for all of which you have now established a baseline from which you can measure the advancement that has been made in each project. Is there a range of projects that you do not have a baseline for at this stage, for which you are still working to get a baseline so that you can work out the effectiveness or otherwise of them?

Mr Rose—There would be an expectation within all of the final reports to be received over the next several months that that same process would occur. The Bushcare exercise is one of validating and checking that that has occurred. Through the risk assessment process, we have tried to identify those where the greatest level of validation problems might occur so that we can check out what might need to change. So we are making the assumption, based on the risk model, that a lot of those other reports would require reasonable levels of measurement.

Senator HOGG—If I can follow that with a general question: are those projects at the smaller or the bigger end of the range?

Mr Rose—They cover the full range. Obviously, materiality in terms of the projects is a significant area of risk that comes into the model, so larger dollar-value projects come under much higher scrutiny in the model itself.

Senator HOGG—So you are more stringent in the guidelines that you apply to those, in your baseline and your assessment, than you would be with some of the smaller projects?

Mr Rose—Yes. There is a greater probability that they will come under scrutiny and, in that case, a greater probability that we would put a more rigorous view over them. A smaller project, by comparison, if it were included in the sample, would be looked at in terms of the sorts of resources that might provide M and E with information, in which case it could be a small group of five to six people whereas others could be larger organisations.

Senator HOGG—To date, how many projects have not met the expectations that you would have for them?

Mr Rose—The exercise has not finished at this point in time, but we could certainly give you updated information on that.

Senator HOGG—Yes, that would be interesting.

ACTING CHAIR—In paragraph 4.20, the audit report makes a number of suggestions. It gives examples of the sorts of things that might have been useful to include in any sort of reporting that you are doing. It reads:

> For example, it might have been useful to illustrate the impact of the NHT on the extent of Australia's native vegetation cover state by state. It might also have been useful to demonstrate progress towards more sustainable use of the Murray-Darling Basin's river systems by aggregating results across different states. An analysis of the number of regions or catchments with institutional arrangements to measurably improve sustainable use of natural resources in Australia could also enable the reader to make an informed judgement on progress against NHT objectives. Measurement of the number and percentage of stormwater outfalls with litter traps, as well as catchment management strategies, could assist in the analysis of the impact of the NHT in coastal areas on a state by state basis.

You are talking about now beginning the process of setting baselines and so on. Have you taken up any of the auditor's recommendations from paragraph 4.20? Are they the sorts of things that you are going to look at?

Mr Hunter—Some of those have been picked up in the identification of the intermediate indicators which we will apply in the final evaluation of the first stage of the Natural Heritage Trust, or at least they are similar in character.

ACTING CHAIR—I understand that they are examples, but are they the sort of things that you will look at and can you give us other examples as well?

Mr Hunter—Yes.

Mr Thompson—They certainly would be the sorts of examples we have used. I am not familiar with the coastal management exercise but in terms of sustainable water use, with respect to the sorts of analyses that have taken place with the national land and water resources

audit, or for the state of the environment report which drew on that data, we would be looking to do some similar analogues. For example, we would want to be able to report that groundwater basins across the state borders were not to be restricted by the state borders, or to report in the case of vegetation—perhaps less about what is going on in an individual spot—about how that fits into a national picture of significant regions or against a measure of things like the degree of fragmentation and how we are tracking against that. The ability to do that has been substantially enhanced by the broader picture that is available under the audit now to give a baseline to show what we are tracking against.

ACTING CHAIR—Does the fact that you do not have a national database inhibit that sort of thing when you are talking about cross-border comparisons and so on?

Mr Thompson—To an extent it does inhibit—it would be ideal to have one national database. The process that has been followed with the national land and water resources audit in establishing consistent protocols and reporting arrangements for data has in a practical sense overcome a lot of those difficulties. As Mr Hunter said, while we do not have exactly the same techniques in every state we do have consistent ways of reporting them. A consistent set of intermediate outcomes will also enable us to report against the issues as to whether they affect one state or another. We will have a consistent approach to the standards and targets and monitoring evaluation framework that we are working to.

We are considering how we might go about having a coordinated or single database but there are some technical issues associated with making that work. The land and water resources audit has established an upper level framework of the protocols and the sorts of things that might be possible. We will be looking at that and, within the realms of practicability, seeing how far we can go in terms of having a database that will enable reporting that crosses state borders on a consistent basis, where that is necessary. As you go further down you may need to be able to report in more detail for particular regions about what is happening at their local level which does not have to aggregate up as much. So there is work going on in that area.

Ms KING—Given that the final evaluation for NHT1 will not be available until 2003, what lessons have you learned from the mid-term review that are going to inform NHT2 and can you articulate those please?

Mr Hunter—One of the key lessons from the mid-term evaluation, which has been applied in the design of the national action plan and the NHT2, is the use of integrated natural resource management planning at a catchment scale as a means of identifying priorities and guiding investment. That has become a building block for the national action plan.

In a sense, it has given us a framework through which priorities can be addressed in a meaningful way in terms of management on a regional scale and, frequently, in terms of catchments, when you are talking about inland Australia. I would point to that as one of the key lessons from the mid-term review that we have picked up and adapted. There are also a lot of the monitoring evaluation issues that we are talking about here which Mr Thompson might like to address.

Mr Thompson—I was going to add that the other significant one which we have talked about today has been the setting of targets under each of these natural resource management

plans in advance of the plans being finalised and funded. Those targets are then the framework for monitoring and reporting progress against for our purposes and also to motivate communities. They are the two bits that stand out to me—the integrated approach to resource management, as opposed to multiple programs, and the setting of targets to which people aspire—which we will manage and report accordingly.

Ms KING—Are there any moves to better integrate NHT2 with Green Corps?

Mr SOMLYAY—I have a similar question. In the process of evaluating the Green Corps project, has it been a success from the point of view of training and producing a work force of people who are environmentally conscious and who want to pursue careers in the environment field? I see it in the kids that participate in Green Corps in my electorate. They are all enthusiastic to continue a career path in that area. Are we helping them to go one step further after the Green Corps project is finished?

Mr Hunter—I am a bit limited to the extent to which I can answer that question as neither of these two agencies are actually responsible for the implementation of the Green Corps program. But I am able to say that under NHT1, proposed Green Corps projects have been referred to Environment Australia. We have assessed and provided comments to the agency providing the support and assessed Green Corps proposals. We have been trying to maximise the extent to which that program not only meets the training and development needs of the individuals involved but also is complementary to the outcomes that we have been seeking through the Natural Heritage Trust. We are still working through the detailed arrangements for the delivery of the second stage of the trust. I am not in a position to give you an answer as to precisely how we would interact with Green Corps into the future, but I would be happy to take that on notice.

ACTING CHAIR—Thank you.

Senator HOGG—I just want to return to the ANAO report and read to you a number of phrases out of it. ANAO talk about 'strong design features' but 'significant management and reporting challenges'. They go on to talk about 'the absence of baseline data on environmental condition'. They say that the most significant shortcomings were the absence of a finalised core set of indicators. At another place they say, 'The implementation of the performance information system has fallen substantially short of what was originally intended.' They say, 'There is significant variation in the approach.' They use phrases like 'little reporting on trends', 'make it difficult to be definitive as to what has been achieved', 'it is very difficult to make an informed decision' and so on. The tenure of that ANAO report—I acknowledge that it was some time ago—left a conclusion in my mind that everything was fairly loose within the reporting system. You have given us some clarification here today which tends to indicate that that is not the case now. Can one assume that there is a better accountability system in place and greater transparency in respect of the reporting processes covered by the NHT? Is there still further room for improving the accountability and the transparency of the processes that are in place and that will evolve in the longer term?

Mr Hunter—Senator, perhaps I could answer that in two ways: first of all, to reiterate that for the first stage of the Natural Heritage Trust we do now have an agreed set of intermediate indicators and the final evaluation of the trust will occur against those indicators. So to the extent that the ANAO report found that we could improve substantially by having such

indicators, we responded to that—we will have those established and they will be used in the first stage of the trust evaluation. As I pointed out, I think that in terms of all our planning and development for the implementation of the trust extension and the national action plan we have really paid very close attention to issues of baseline setting, monitoring and evaluation, lines of accountability and reporting. I believe that we went into those programs with a much more rigorous basic design, in terms of both program design generally and the particular parts we are talking about here, having learnt from the first stage of the trust and from the Auditor's report.

Senator HOGG—So one would expect that, if there is a follow-up audit by ANAO in the next two or three years, the way in which this report has been couched by them would not be expected to be seen again. One would hope that there would be a far more positive outlook than the nature of the wording in this report indicates.

Mr Hunter—First of all, I think the report acknowledged—as you yourself acknowledged, Senator—that much of the basics of the program design and so on were well worked through. They certainly pointed to areas where they could be improved. They also pointed to some of the intrinsic difficulties involved in measuring outcomes and interventions such as investment of funds where the outcome, in terms of natural resource condition, might be separated by many years and by a long distance. But having said that, yes, we will be seeking always to do much better in each area of program delivery and, in particular, in monitoring and evaluation.

ACTING CHAIR—I have one final question for either Mr Barrett or Mr McVay—I am not sure who would like to answer it. You have heard this morning of a number of changes that the Natural Heritage Trust are saying will address some of the issues that you have identified. You have said that it is very difficult to make an informed decision about whether the NHT is doing any good at all. Do you think that what you have heard this morning would allay any of those concerns?

Mr Barrett—I will leave my colleagues to answer but, quite frankly, I think an important test will be this annual report. I know it is not going to be as comprehensive in terms of the 2003 audit, but I think it is a test of the system to be able to say in the categories that Stephen mentioned that these are the challenges, this is what we are doing, this is what we are not doing, and why et cetera. It seems to me that, for the amount of money that has been spent and the national importance of this program overall, people—including parliamentarians obviously—are genuinely interested to know what is actually happening.

Section 4 of that report, of which you read out one paragraph, went a little further than we would normally go to suggest what might be done. We were stepping a little outside our expertise but, in essence, that was what was conveyed to us as being indicative of the kind of information that people would be able to make an assessment of. So I think the difficulty for the Commonwealth is that it has to get the states and local government as necessary on side. Part of the partnership arrangement is that there is an enjoined endeavour to meet that requirement, and if that occurs then I think that it will build on itself. That is my experience with other programs. I think there is now a test in this area to deliver. I am just reminded by colleagues, for instance, that in our previous reports the JCPA in 1998 was concerned that, despite a number of reviews and evaluations, they were not in a position to have a sense of what had been achieved. This was the JCPA's own view against the government's objectives, so I think that is really the continuing challenge.

ACTING CHAIR—Thank you, Mr Barrett. Do you have any additional comments to make, Mr McVay?

Mr McVay—I certainly was heartened by the positive approach agencies have taken to the audit and by the program of work that has been put in train. We await with interest the next annual report of the NHT and the evaluation to see what results have been established and what runs have been put on the board.

Ms GRIERSON—I would like to know what percentage of projects are refunded, because it seems that you probably do have long-term data on some projects.

ACTING CHAIR—Please take that question on notice. Thank you very much to all our witnesses. The hearing is adjourned until 2.15 p.m., but I remind my colleagues that we have a private briefing here at 1.45 p.m.

Proceedings suspended from 1.06 p.m. to 2.25 p.m.

ALLANSON, Mr Adam, Consultant, Australian National Audit Office

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

LACK, Mr Steven William, Executive Director, Performance Audit Services Group, Australian National Audit Office

MEERT, Mr John, Group Executive Director, Australian National Audit Office

JACKSON, Mr Wayne, Deputy Secretary, Family and Strategic Policy, Department of Family and Community Services

PRINCE, Ms Gwenda, Assistant Secretary, Seniors and Means Test Branch, Department of Family and Community Services

RAYMOND, Ms Judy, Assistant Secretary, Risk, Audit and Compliance, Department of Family and Community Services

STAFFORD, Mr Geoff, Director, Business Assurance, Department of Family and Community Services

GOLDSTEIN, Mr Michael, Chief Auditor, Centrelink

HOGG, Mrs Carolyn, General Manager, Service Integration Shop, Centrelink

VARDON, Ms Suzanne Sharon, Chief Executive Officer, Centrelink

WADESON, Mr John William, General Manager, Major Projects, Centrelink

CHAIRMAN—We will now examine the last two audit reports to be examined at today's hearing. I remind witnesses that the hearing today is a legal proceeding of the parliament and warrants the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. The audit reports being considered in this session are Audit Report No. 34, *Assessment of new claims for the age pension by Centrelink*, and Audit Report No. 35, *Family and Community Services' oversight of Centrelink's assessment of new claims for the age pension*. I welcome representatives from the Australian National Audit Office, Centrelink and the Department of Family and Community Services to today's hearing.

Ms Vardon, do you have a brief opening statement to make with regard to Audit Reports Nos 34 and 35? I remind you that we have received your written submission. If you do wish to make an opening statement, could you keep it to one or two minutes because we would like to ask questions.

Ms Vardon—I do have an opening statement.

CHAIRMAN—I will not have three or four pages, Ms Vardon.

Ms Vardon—Then I do not have an opening statement.

CHAIRMAN—Would you like your written statement incorporated in *Hansard*?

Ms Vardon—Yes, I would.

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

The statement read as follows—

Centrelink has and always will welcome constructive criticism. There are always things to be learnt and ways in which we can do things better. This audit was no exception. The most important lesson for us was that we must work more closely with the ANAO in the future to ensure that we better understand each others business.

We need to take a much more proactive role, at the start, to ensure that the sorts of methodological differences of views which came up too late in this audit, are avoided in the future. I am pleased to say that we now have improved arrangements with the ANAO which we both agree will achieve this.

Centrelink agreed with all the ANAO's recommendations because they were sound. They backed up our existing view that the system is too complex and that we need to get much better at defining how we and our client departments measure accuracy and other outcomes of the payments we make on their behalf.

When we talk about complexity we are not talking just about the complexity of policy although this is an issue and we do and will continue to work with FaCS to identify ways in which policy can be made less complex for our customers and staff.

We recognise that in a highly targeted social security system, complexity is unavoidable. Primarily however, our concerns with complexity relate to the layers and layers of administrative steps and rules, many of which have been added over the years but now add little value in the way of assuring that the payment has in fact been made 'to the right person, at the right rate, on the right dates'.

Our own follow up work of the cases examined by the ANAO demonstrated that we were getting it right in the vast majority of cases. But if the test is about whether our staff followed every small step along the route, irrespective of whether it was necessary to achieving that outcome, (and that was the case in this audit), then we failed.

The job of the Simplification Taskforce set up by Minister Vanstone last year was designed to clean up much of this unnecessary process and make life a lot easier for customers at the same time. I am sure my colleagues at FaCS will be happy to tell you more about this work.

I would not suggest for a minute that we are 100% perfect. Some time before this audit was completed, we had started a campaign to reinforce with our staff the basic principles needed to assure accuracy. We have called it the 'Getting it Right' campaign and I have issued a set of minimum standards and a direction under the APS code of conduct which make these mandatory.

There are many elements of the strategy including assessing staff knowledge and competencies and beefing up training. The Centrelink Virtual College which we established last August is playing a significant role in delivering technical training to our staff in their workplaces via the interactive satellite TV. We have also increased the number of specialist staff trained to assess the complex claims.

If recent experience is relevant, the policy is not likely to get simpler and we need to ensure we have staff on the front line who are able to deal with the ever increasing complexity of financial arrangements that retirees are entering into. We currently employ 172 Complex Assessment Officers compared with 42 at the time of the audit. From the end of this year, every one of our customer service centers will have access to a dedicated resource of this kind.

We are also investing in decision support systems. We have a partnership with Softlaw which is helping us develop a smart internet ready computer program called Edge which incorporates the thousands of rules within the family tax benefit system. Edge means that our staff, and eventually our customers, will only need to answer the personalised questions on the screen and they will get an accurate assessment of their entitlement. In the future similar programs will be built for other customer groups.

Finally, the ANAO audit underlined for both FaCS and ourselves the absolute importance of an assurance framework that works. This is not a simple process. Social Security systems across the world are struggling with the same issues we have in terms of how accuracy is defined and how you test it.

We sent our people overseas to look for best practice models from which we could learn and were told there is no simple solution. At the end of the day you need a range of measures and tests - both internal and external - and you need to keep refining and building on these as you learn, from experience.

In the last 12 months FaCS and Centrelink have made excellent progress in coming up with a model which we believe will contribute significantly to the quality of the assurance we can provide the Parliament.

There is information in our latest submission to the committee on all these initiatives and we are more than happy to elaborate.

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

Mr Jackson—Yes. Just briefly, the Department of Family and Community Services found the Auditor-General's report most helpful and agreed with all the recommendations. While the report specifically addressed new claims for age pensions, in partnership with Centrelink, we have taken the opportunity to develop the broader assurance framework across all payments at a systemic level, and we have consulted the Australian National Audit Office in the process of doing that. As the submissions from both the Secretary of the Department of Family and Community Services and Ms Vardon have indicated, we have made substantial progress in that area, although it is an area of continuing progress and improvement. We are happy to elaborate on the submissions.

CHAIRMAN—Mr Barrett, do you by any chance have a brief opening statement?

Mr Barrett—I would simply say that this is a complex area; it does require the kind of work that Wayne just mentioned, on an ongoing basis. We are supportive of that. We see the work that is being further done in the subsequent audit that we are doing, and we recognise the importance of getting expertise in this area. We continue to include professional staff from Centrelink in our audit teams.

CHAIRMAN—Thank you. The audit report has some fairly dramatic numbers—I think everybody would agree with that. Considering the fact that Centrelink and the department were both reporting error rates of less than five per cent but the audit report came up with an error rate of significant issues—that is the important criterion—of over 52 per cent, what confidence can the committee have that any information put in any annual report comparing performance with standards would be accurate?

Ms Vardon—I might start with that, because it is in our annual report that we make certain claims. We have reported for a long time using a tool called QOL, which is a quality on line tool. The quality on line tool was a measure of some things; it was not necessarily a measure of accuracy as tested by the audit. Neither David Rosalky nor I, after this audit, decided that we could use the QOL reporting tool, as it presently stood, as any indicator of the accuracy of the

payments. That did not mean to say that we did not think the payments were accurate; it is just that the QOL tool was not measuring the 200 steps against which the process of making a decision about a claim was tested by the auditor.

CHAIRMAN—If the audit found that 33.6 per cent of examined files contained tax file number errors, what confidence can this committee have in Centrelink's ability to meet new claims?

Ms Vardon—Half the problem here is the definition of 'error'. There are administrative errors; that is, our people have taken shortcuts—

CHAIRMAN—No, I said tax file numbers.

Ms Vardon—The tax file number error is the failure to take the tax file off the file. That is the error.

CHAIRMAN—Sorry?

Ms Vardon—The error that was measured was that our staff had failed to take the tax file number off the file. We are required to do that, although in examining that now we cannot quite find the origins of that requirement. But it was expected that we white out or take off or cut off every reference to the tax file number on the files. Some of our people failed to do that, basically.

CHAIRMAN—Could I ask Audit: does that sound right? Are we reporting as a tax file number error the fact that it is still on the file?

Mr Allanson—Essentially, yes. A tax file number has been left on the file, due to it either being left on the application form—there is a perforated component of the application form that can be taken off and disposed of—or being left on a supporting document on the paper file. So essentially the file has the customer's tax file number on it.

CHAIRMAN—Having read the audit report, it would indicate to me that there must be something wrong with the number, that there is a wrong number and we have got the wrong number with the right person.

Mr Allanson—No. It is really just saying that the tax file number has been left on the file.

Ms PLIBERSEK—In what proportion of the tax file number errors would that be the error?

Mr Allanson—I can look up the exact table, but it was of the order of one-third of files that had the tax file number left on the file. But allow me to look that up.

CHAIRMAN—So these were not errors of tax file number; they were an administrative mistake dealing with the privacy law?

Mr Allanson—That is right, and essentially that is an administrative error which was not incorporated in the overall measures of actionable error that we reported.

CHAIRMAN—I gained the impression from reading the report that these eight critical indicators were important things like the person's name—if you do not get the person's name right, you cannot have much surety in the file itself or in getting the payment right to the person—or their birth date or where they live or their telephone number or their tax file number, their income and some other things. But you are telling me that there was nothing wrong with the tax file number except that they had left the tax file number on the file.

Mr Allanson—And that is why essentially that is not being considered an actionable error.

Mr Lack—It is not part of the eight criteria.

Mr Allanson—It is essentially an administrative issue.

CHAIRMAN—And you write 'nonactionable error'?

Mr Allanson—I can run through the eight criteria, if you would like, that were essentially used.

CHAIRMAN—My understanding is that Senator Vanstone announced an initiative aimed at simplifying the existing administrative requirements and arrangements for new customers when they first access pensions, allowances and ancillary benefits. It says that, after commencing, it will report to the minister in August. How far advanced are you?

Ms Raymond—That report has been submitted to the minister. There were 20 recommendations in all: a number of them have already been announced by the minister, and progress is being made on the others.

CHAIRMAN—To what extent do they simplify Centrelink's work?

Ms Raymond—There were a lot of areas where simplification could occur. These were areas where, for example, customers were returning to Centrelink within 52 weeks of their initial claim. In the past they had to go through a completely new claim process and provide all their proof of identity each time they approached Centrelink to go through that process. The new arrangements mean that they do not have to go through that full claim process each time they come back for a payment, as long as it is within that 52-week period.

The other area where major simplification has been able to occur is in the actual claim process itself. There were initially about 237 questions in the claim form that people had to answer. After a very intensive process, Centrelink and FACS managed to reduce those questions down to about 90, I think. A lot of error that the ANAO found was in relation to the fact that duplicate questions were not always completed in the claim process. So we have been able to eliminate all that duplication of questions.

With respect to the actual administrative rules that apply—things like date stamping and the customer signing the claim form et cetera—we agreed with the ANAO that they were still necessary because of proof for possible appeal processes further down the track; we needed to have that documentation in case there happened to be an appeal further down the track.

CHAIRMAN—Ms Vardon or anybody else from Centrelink can answer this question: in your submission No. 1, you made this statement:

We have agreed with ANAO on the importance of effective consultation at the start of each audit as well as during the audit itself so that methodological concerns can be escalated early and these sorts of concerns avoided in the future. As part of this understanding we have negotiated a new protocol with ANAO which takes account of the risks associated with external auditing of large and very complex programs. In this context Centrelink has requested that the ANAO establish a dedicated audit team.

With that combination of sentences, are you trying to tell us that you disagree with the audit; that ANAO was measuring something that you do not measure and reporting on something that you do not report on?

Ms Vardon—I think the best thing for me to say is that we believe the audit was a snapshot on a pathway and the pathway itself had other checks and balances built into it. Social security payments are very complicated and have grown with their rules like coral reefs over the years. Of course, we have the most highly targeted social security system in the world and so there are, in fact, 30,000 rules that our people have to administer.

We believe that to properly audit—and I say this with great respect because I have great respect for the ANAO—it would be useful if we could have within us people who understood the whole of the pathway. The ANAO is not able to do that—to give us a special team—and we understand that because it is about resources and things. But I have to say that more recently we have been extremely impressed with Mr Lack and his understanding of the complexity of the payment system and the whole audit process that needs to be taken into account. We were trying to build that relationship and I believe that relationship now exists.

CHAIRMAN—Does ANAO have a comment?

Mr Barrett—As I said, we have sought Centrelink professionals for our audits and these are being supplied. As the report indicated, we were very pleased with the contribution made and we now have an arrangement with the current audit that is being done for a group of Centrelink professionals to again be on that audit.

The thing that is always a problem for audits is the lack of expertise in particular areas. What is the particular expertise that is required? Not surprisingly, I would put at No. 1 audit expertise and at No. 2 subject matter expertise. For a lot of our audits, in Defence or otherwise, we get subject matter expertise for the audit process.

Sue is asking us to understand the umbrella approach that is being taken and we have endeavoured to do that; to understand the broad strategy and where it all fits in and not to just look at the bits. In this case, there was an agreement struck between FACS and Centrelink; there was a performance measure and it was part of a series of audits we will do in Centrelink. It is up the sharp, pointy end; it is at the preventive end rather than the detective end. I think it was

instructive to look at that to start off with within the framework that Sue was endeavouring to put in place for the whole organisation.

Senator HOGG—Is there an ongoing internal audit process within Centrelink at this stage?

Ms Vardon—There is.

Senator HOGG—Could we have an outline of that.

Mr Goldstein—We have quite a strong internal audit process. We have quite a number of auditors, some based out in the states and some in Canberra. We report to both the CEO and the audit committee of the board. We have three SES in the audit area and we have an audit program that is developed each year in consultation with Centrelink that is approved by the board. It is also done in consultation with the ANAO. It has quite a strong internal audit focus and we report to the board every quarter against that program.

Senator HOGG—Based on the error rates that the ANAO reported on—which I understand Centrelink disagreed with, but let us put that aside for one moment—what are the current error rates that are being experienced by the audit team within Centrelink?

Mr Goldstein—It varies by program and the definitions you use in framing up the audit.

Senator HOGG—I will stop you there. In terms of the error rates that were found by the ANAO—you may well need to take this on notice—are you able to give us a comparison with the rates that you claim exist today in those areas as opposed to those which you as Centrelink may claim were in existence when the ANAO report was done?

Mr Goldstein—We have not done exactly the same sort of audit as the ANAO has done, so it would be very hard to make that sort of comparison unless we had done exactly the same audit. What we try to do is audit in areas that the ANAO has not done, to give us the greatest assurance possible so that we are not duplicating. So we have not done one that is exactly like what they have done.

Senator HOGG—Since their audit, which I understand was back in June to September 2000, you have not done a comparable audit to see if there has been either an improvement or a deterioration in the rate of error?

Mr Goldstein—Within the pensions program we have not because the ANAO is back auditing that very same program again. At the same time, my team monitors the findings of both the internal audits and the ANAO audits and we report back every quarter to the CEO and the board on progress against those findings in terms of rectification and mitigation of the risk.

Ms Vardon—I would add that one of the issues that the audit raised for us was something that David Rosalky and I had been concerned about and that was that we did not have a really good assurance framework—that is, how we could assure the government via the department of the quality of our decision making. This is not a problem that is ours alone in Australia, it is a global issue. I sent a team of two people to the places in the world where we thought there might be a better way of demonstrating accuracy and correctness of decision making. We came

back and discussed this issue and what we were actually going to measure so that we could give confidence. With FACS and our own internal assurance people—because we have an assurance group as well as an audit group—we were able to sit down and work out a new business assurance framework which the new secretary of Family and Community Services and I have signed off on. In a sense, what we have really done is to work hard at getting the definitions right while we have been putting in a lot of other processes to improve decision making. Before we just went out to measure again. We wanted to get something that we would agree was a framework within which measurement should happen.

Senator HOGG—I accept that and that is all well and good, but how do people such as ourselves, sitting on a committee such as this, reading an ANAO report and reading your response to that audit report, assure ourselves that there is both the accountability and the transparency in the undertakings that you are given through the process of government?

Ms Vardon—One of the things that we wanted to do with the framework was to actually make it transparent, something that we could report against in an annual report that we would agree with some confidence represented the truth and definitions that we all agreed to, because there was no real definition of agreement. We could not agree on the definition of error. We could not agree on lots of things. It was not that we were arguing, it was just that we had never got around to getting an agreement.

Senator HOGG—The best that you came up with with ANAO was to agree to disagree rather than to agree on a range of issues?

Ms Vardon—I am sorry, I was talking about Family and Community Services.

Senator HOGG—That is all right.

Ms Vardon—No, we were not disagreeing with the ANAO. We did not really have an agreed set of definitions between us. It is probably that we had not got around to it, but we knew that it was an issue that had to be dealt with so we worked hard to get that agreement.

Senator HOGG—I will just go to the ANAO results and Centrelink's comment on the results where Centrelink states that 'the actual error rates were significantly smaller, less than a third, than that reported by the ANAO'. That is a reasonable summation of the position of Centrelink, is it not?

Ms Vardon—I think that is correct.

Senator HOGG—In the ANAO report at point 29, for example, they state:

... the error rate for new claims assessed was estimated at 52.1% (+/-6.8 percentage points(pp)).

Then at paragraph 30 they say:

... the audit demonstrated that around one quarter of the new Age Pension claimants i.e. 27.6% (+/-5.9 pp) within the audit sample period had an incorrect claims assessment where the error impacted directly on payment and could be quantified by ANAO.

Then they go to another figure in paragraph 31 where they say:

... that 13.5% (+/-4.2pp) of new claims assessments contained payment rate errors.

In paragraph 32 they say:

... another 17.0% (+/-5.0 pp) contained possible payment rate errors ...

and so on. Is it fair for me to assess, based on your response, that the ANAO figures, in your view, should really be two-thirds of what they say there? Is that something that I can read into it? For example, in the first case, instead of 52.1 per cent, should it be about 33 per cent? In the last instance, should an error rate of 17 per cent really be about 12 per cent?

Ms Vardon—I did not really want to engage in this conversation, but I am very happy to introduce you to John Wadeson, who is the absolute expert in our organisation and the one who, at my request, redid the sample that had been presented. As I have already said, we were concerned about the snapshot in time and the complexities of the system, and it was his work and that of an expert team that caused us to find different conclusions. Without getting into too much argument, we might give you one or two examples of the difference.

Senator HOGG—My question is a relatively simple question, Mr Wadeson. All I want to know is: are you saying the figures that were quoted in that report by ANAO are wrong by a third—in the broader sense?

Mr Wadeson—No, we are not quite saying that. What we did look at was where the ANAO, from their methodology, concluded that there had been an error in rate—that is, the ongoing rate of pension paid was wrong. We had the advantage of course of looking at this some considerable time after the audit. The files had gone back to the office, the staff had looked at the audit conclusions and had to take action; so we had the advantage of looking at that action and seeing what had been done. In that sense, we were able to work out what had happened and what the measure of the rate was.

Senator HOGG—What was the rate, in your estimation?

Mr Wadeson—The audit presents a number of percentages, and they do not add readily together. But if, under various calculations, you said that the possible and definite, I think are their words, error rates were about 35 per cent in total—and I am including in error rates those cases where Audit said should not have been on pension at all or had been rejected but should have been accepted; so I put those in there and call that about 35 per cent—then we verify the statement that we made at estimates that we thought the actual error rate was about a third of that. It is in fact under 12 per cent, on our calculations—all size errors.

Senator HOGG—So you are saying the error rate is 12 per cent, roughly?

Mr Wadeson—No, I am saying it is less than that.

Senator HOGG—All right.

Mr Wadeson—There are some issues here about what you call an error; it is quite complex.

Senator HOGG—I do not want to get into splitting hairs about this; I just want a rough rate that you say was the error rate at that time. Would you be happy with 12 per cent as an error rate? That is what I wanted to get to.

Mr Wadeson—No—

Senator HOGG—It seems to me that at 12 per cent, even if the ANAO way of calculating the error rate is not accepted, the error rate is far too high. Is that correct?

Mr Wadeson—We found the number of errors to be around eight per cent—that would be our calculation—but I would want to qualify that to some extent. You are getting down to very small numbers. In this sample, for example, we found 12 errors where the rate was greater than $10 a fortnight. Twelve out of the sample is not a large number, but four of those related to valuations. If you come in to claim a pension and your assets are such that you may be subject to the assets test—there is a limit; it says that, if you are within $10,000, by rights the property or whatever it is should be valued by the Australian Valuations Office—that is part of the rules. People come in, they may have the licensed valuer's valuation—they might have just bought the property—and staff will sometimes say that they do not need to get a valuation from the Australian Valuations Office. That was the error that Audit identified. That resulted in a payment error, because by the time we went back and did the valuations, which in some cases might have been up to a year after the audit, we got a different valuation.

Whether it was wrong at grant is an interesting point, but I am including those four in there. So if you said we had 12 fairly significant errors, with four of them, yes, our staff should have got evaluations from this valuation. Whether they were wrong on the day, whether the valuation would have been different if it had been done at that time, is an argument, but that is the level we have to go to to look at this sort of discussion.

Senator HOGG—It seems to me that you and the ANAO were operating from two different sets of criteria. They were operating from a set of criteria that evaluated the process up front. You evaluated the process upon its completion and that is why there is a substantial difference in your error rates. Is that correct?

Mr Wadeson—Our system does record the time and the event. We had to go back and, as best we could, construct the environment as it was at the time of the new grant. Fortunately, our system is very good. It logs everything when anything happens to the record. One interesting case that perhaps I can talk a little about here concerned a very complex issue. There were sales of trusts and various properties involved.

CHAIRMAN—Could I interrupt. We can understand that there are going to be difficulties with complex issues. That is not what we are talking about and that is not the senator's question. With the greatest of respect, he is asking you about percentage error rates versus what the ANAO specified in the audit report, and you are heading off in some other direction. I would like you to come back to the senator's question.

Mr Wadeson—I was going to make the point that what happened in the particular case in my mind was that a decision was made at the time of grant. Later on, the customer asked the accountant to speak to Centrelink and the accountant provided more information. This was counted as an error. In our view, it was right at the time of grant. Later the customer became eligible for a pension, which brings you to that sort of issue: what do you mean by the time of grant? This basis was not agreed before the audit started and it explains why the percentages vary.

CHAIRMAN—I would like to follow up something. My understanding is that your BPA was 95 per cent of new claims correctly assessed, and the 2000-01 standard was 95 per cent of all claims completely accurate. You stated in your 1999-2000 annual report that you had met the majority of your performance targets and that you had exceeded the 95 per cent accuracy rate for processing new age pension claims, achieving a 97 per cent and 98 per cent accuracy standard in these two reporting years respectively. How can you sit there and tell the senator that you have an actual, final, measured error rate of 12 per cent or eight per cent or whatever it is and then say that your annual report was not wrong and misleading to the House and to the Senate?

Ms Vardon—We would have to say that we still do not agree with any of those figures.

CHAIRMAN—Your response to the audit report does not say so, neither do your comments in the audit report itself.

Ms Vardon—I am just saying that we have other ways of measuring. We have reviews. When we do reviews of the age pension we get a figure like 1.4 per cent of inaccurate decision making. So the point we have made is that the tool used by us, and by Social Security before us, to measure was not measuring the whole of correctness, if I can say that. In the end, whether or not we make a wrong judgment, we still do not know exactly what that figure is, because of this report. Whether or not we affected the outlays or whether or not we followed the 200 steps that needed to be followed and that were written in our own instructions—and we accept that—are two entirely different things. What David Rosalky and I agreed was that, with that 95 per cent, we were not sure what it was that we were reporting, because it was not a tool that actually measured what you are now expecting us to measure.

CHAIRMAN—Why did you report it?

Ms Vardon—Because it was the best tool that we had at the time.

CHAIRMAN—Mr Jackson, is it your understanding that the ANAO and Centrelink and the department had agreed before the audit commenced on what it was that the ANAO was going to measure and test during the audit?

Mr Jackson—In a very general sense, but the point I was making earlier was about the opportunity this has given us—working with Centrelink and liaising closely with the National Audit Office—to develop our understanding and clearer definitions of what an error is and how quality should be measured. As Ms Vardon was indicating, these were things we had not really given full attention to. There was a lot of historical practice that this report has helped to surface, which has enabled us to develop a more sophisticated approach and to deal with these

quality assurance systems at a much more systemic level. That is where we feel the report has provided the opportunity to address and overtake some of the differences that this report has surfaced in terms of the views about what an error is and come to a more agreed way forward which would be much more robust.

Mr Barrett—The methodologies and the concepts were agreed at the start of the audit, but I think the main points are the ones that Wayne is making now. My simple point is that in a number of these audits we focus on issues that agencies need to look at. We may have it wrong—that is correct—but it at least faces the agency up, saying, 'Look, have we got this right or have we not?' or, 'Is this the appropriate measure?' In fact, we did make the observation in our report that we did not question the reasonableness of the standard or its achievability. It was really looking at what Centrelink had put up for themselves to assess as part of the agreement process.

Really, at the end of the day, I can give you my concern, which I would think is the concern of the citizen, that there are the administrative processes which cost government and citizens, and these are wrong payments. The point that we are making in the report is that the right payment might be made, but if there is an overpayment—and overpayment is just as bad or worse than an underpayment—all it is is working with agencies in this difficult area of performance information and, as you have heard, reducing the complexity of the environment— and this is a complex environment—not to its utter simplicity, because then you would take away the problem, but to get it to at least a reasonable level so that people out there who have to administer it understand clearly what they are meant to do and that, at the end of the day, if there is an issue that will reflect on their entitlement—the payment or no payment, as the case may be—there are systems in place to redress that as quickly as possible. In other words, you might get it wrong first time up, but are there systems in place to review that quickly and to get the right payment made as quickly as possible?

These are issues that need to be looked at on an ongoing basis. Sure, as we have found by working in the regions, there are some differences. There are some that are highly effective and some that are not so effective; some people are very motivated and some people are not so motivated. The problem for Centrelink and any other organisation is to get their staff motivated and switched on and using a system that they can understand and comprehend so that they can convey to their customer, client groups—citizens—in a way that puts the least burden on them but actually ensures that, to the best of their ability, they will get the information in a timely and informative way that will enable them to make the assessment.

CHAIRMAN—The senator has one more question, but could I make a comment to both Centrelink and the department before you move off this issue. This committee considers very important the role that it plays in determining what the content of annual reports is, and I can tell you that I cannot imagine that the committee would view lightly highly inaccurate statements of performance in annual reports. So we consider that this is an extremely important issue and, if we are going to measure performance—from my viewpoint anyway, and I will speak for the committee—we want you to get it right.

Senator HOGG—I want to go back to that discussion that we were having. Is it fair to say that your assessment of the error rate under the audit that ANAO undertook was of the order of 12 per cent? It is not a trick question.

Mr Wadeson—I realise that, but there are so many different things measured in the audit report. It is a very complex set of tables and there is no consistency.

Senator HOGG—I accept all of that, but is it of the order of 12 per cent?

Mr Wadeson—No.

Senator HOGG—Is it 10 per cent?

Mr Wadeson—No. I can give you an example. There is a figure in one of the central tables that says in this audit that we have a 13.5 per cent, I think, insufficient proof of identity. It is 13.5 per cent and it is called 'Insufficient proof of identity'. If you take a later audit—

Senator HOGG—What page is that?

Mr Wadeson—It is page 67. If you take a later audit, which is the 'Management of fraud and incorrect payment in Centrelink', which came out not that long ago you can see it has a table called 'National proof of identity compliance results'. I might say that there was quite a different methodology in this audit. If you look at that table it says, 'POI not fully established at time of claim; five cases, a percentage of 0.4 of one per cent.' Then you can see that, in this audit here, it does list some fairly high numbers on what are regarded as coding and administrative errors, but what it is saying is that the number of cases where we actually did not have POI, in the view of this audit, was only 0.5 of one per cent. You do get these sorts of figures, depending on what you are calling, how you are defining your errors and what you regard as insufficient or sufficient proof of identity. That is why it is impossible to say that there is one overall figure of administrative error.

Senator HOGG—Have the error rates decreased as a result of the ANAO audit report? Do you have evidence to indicate that that has happened? Have the error rates remained the same or have they increased?

Ms Vardon—What we would have to say is that, before this report of the ANAO and subsequently, our organisation has been blitzed by the Getting it Right strategy. I say that because it is across Australia; it is very extensive. We have done about 15 things, and I can list them if the committee wants to hear them, to make sure that accuracy and correctness—correctness in this case anyway—are improved in our organisation. We are confident that people are taking this very seriously. In fact, for the next development agreement, I have made it very clear that part of any percentage increase that we give our staff would be associated with accuracy improvements. So we will be measuring accuracy improvements and attaching them to pay as well as our accuracy of our reporting.

Senator HOGG—That does not answer my question.

Ms Vardon—We are looking forward, in a sense, to the next ANAO audit, because it will pick up the time between the last ones, when we actually had a very big campaign.

Senator HOGG—So you have no evidence internally to say whether the error rate—whether you agree or disagree with their benchmarking or the way in which they approached it—that

you may have established, based on their audit report, has increased, decreased or remained the same since that audit report was done?

Ms Vardon—I do not have the figures. I will have to take it on notice.

Senator HOGG—I would be only too pleased if you would. I would think that if you do not know that we are in a lot of trouble.

Ms Vardon—I know that because I go around and I talk to people all over Australia, and I talk about this topic. Supervisors and others report that people are making better decisions. We know there is a greater take-up rate of tools and we have improved the tools. We have not had an audit to test that, but we have a series of measures all around Australia, at the local level and at the area level, that people are testing in their own right. I am happy to report to you on the Getting it Right strategy. Although we may not have one audit, there are other measures that we can bring together to answer your question.

Senator HOGG—I must say that you have not convinced me. I will leave it to my colleagues.

Ms PLIBERSEK—I noticed in the opening statements that were tabled by you that you have had an increase in the number of complex assessment officers from 42 at the time of the audit to 172 now. I would like to know who you are employing for these jobs, what sorts of skills the people have and what sort of training they have. I will have some follow-up questions after that.

Mrs Hogg—By and large, the people to whom we give the complex assessment officer jobs are people with a lot of experience in the particular area. We do not generally recruit people externally specifically for these roles because it does take a very long time generally for somebody to be totally conversant, particularly with the complexity of the age pension program. Usually they are internal people who have shown us over time that they have a good grasp of the material.

Ms PLIBERSEK—One of the issues that I think the audit identifies is that there is a continuum of errors, and there are the errors of recording people's names or addresses wrongly. At the other end, there is the sort of work that the complex assessment officers would be dealing with, I presume—where you have someone with some money in superannuation, a family trust, perhaps quite a complex portfolio of money, some of which is assessable and some of which, I presume in the case of family trusts, is not. That sort of information is very difficult for a layperson to understand. In fact, I am sure it is very difficult for some accountants to follow what would be considered income or assets under the act. What sort of specialised training do people have to help them deal with that sort of complexity?

Mrs Hogg—In relation to trusts and companies, which is one of the later government initiatives that has introduced a whole new layer of complexity, I am very happy to table a document here that we use as part of our training material to assist people in how to determine the sorts of steps that one needs to go through to assess the effect of a trust or company on their entitlements. We have various methods, obviously, of training people. For the trusts and companies, obviously it was a new initiative and we had significant training for people who were selected to do this work, particularly in the task force type arrangement. By way of

keeping up those skills we have invested very heavily now in Centrelink in online learning. We have a Centrelink education network, where we can identify gaps in material that may be available to people and that we can quickly get consistent information to the network. It is not being cascaded down through the network. There is one broadcast and everybody hears the same information, so we have been very concerned about consistency. There are any number of methodologies like that that we can employ for people.

Ms PLIBERSEK—There are 172 complex assessment officers. How many Centrelink offices are there around the country?

Mrs Hogg—Offices as in bricks and mortar?

Ms PLIBERSEK—Yes.

Mrs Hogg—There are 320.

Ms PLIBERSEK—So there is about one complex assessment officer for every two offices, which might be okay in an area like mine. This might be very boring for the rest of the committee, but when my pensioners were going to be forced to travel from Redfern to Maroubra to have their pensions assessed, there was a great deal of concern in that community because people do not have access to public transport very easily. The idea that you have to travel to another office to have your pension entitlement assessed is bad enough in an area like mine, which is urban. I do not know how far people are expected to travel in rural and regional areas if they have a complex assessment to be made.

Mrs Hogg—Usually some of the bigger offices can have a complex assessment, or more than one, on site. But by and large, because it is a specialist role, what we usually do is centralise the skills in one particular site or even work on an area basis. The actual work with the customer is done at their local site, but the assessment of the implications of the trust, company or investment can be done off site, so we move the paperwork to where the skills are rather than putting the customer to that inconvenience.

Ms PLIBERSEK—Do you notice, then, that there is a difficulty with someone who is not at the highest skill level taking the initial information and perhaps not taking all of the information that is necessary for the complex assessment officer to make a complex assessment?

Mrs Hogg—That can be the case. Often when a very highly skilled officer is looking at these things they may well find that they need information, and then they can contact the customer directly and arrange for them to provide it locally, or whatever.

Ms PLIBERSEK—I want to ask a question about errors at the other end of the continuum, which are errors in taking down basic information or, indeed, Centrelink being notified of changes in circumstances, changes of address and so on and that information not being recorded properly, even after several notifications. I know that you will find it difficult to believe, but I can assure you that in our electorate offices we deal with such cases every day of the week. Do you believe that those errors at the simple end of the scale are due to poor morale, understaffing or overworking? How do you explain them?

Ms Vardon—Let me take it up, because it is a very big issue. We have about 300 million transactions a year with people in Australia.

Ms PLIBERSEK—In 'transactions', would you include automatic payments?

Ms Vardon—Yes. For us, that basically means any place where an error can be made. Of all of the places, the aged people are the most satisfied; we have a very high satisfaction rating with them.

Ms PLIBERSEK—They are probably grateful for anything they get. They were brought up to be grateful for anything they get.

Ms Vardon—We have a very good response system for them. We have very sensitive people and we have good retirement teams who go out of their way to work with the old people. In our place, it is the best place to be. It is the team that most people like to be in, because they work with old people. Generally, you have a more stable staff, and they know their people and do quite well. We have a retirements line, and when someone gives us a change of circumstances on the phone they get a receipt. Certainly we have occasion to look at why there has not been a recording in the computer. One of the things that we have done is re-engineer the whole of our organisation—and we are happy to talk to you about how that re-engineering is done—so that the papers are now processed as a person comes into our organisation and do not get set aside. We are improving our PCs and all sorts of other things. A lot of it is about system and process improvements which we have put into place lately. I have to say, though, that the bulk of all the processing has been accurate in the past. Of course there are going to be people we make mistakes with or who claim that they have told us things that they have not. I always accept that there is a reality and a perception in that. Our staff are very busy people but, as a general rule, our staff satisfaction—we measure it every six months—is going up very significantly.

Ms PLIBERSEK—Can you give us the figures on that?

Ms Vardon—It is about 80 per cent for 'Do you know what your job is?' 'Do you know what your organisation does?' and 'Have you got the tools for your job?' When it comes to 'Is your organisation committed to you?' those figures are lower—they are in the 50s and 60s—but they have gone up significantly and we are working very hard to lift that. Customer satisfaction ratings have gone up, and so on.

I want to spend a moment on technological reform, because the solution to some of our issues lies in enhancements to our computer system. One thing that I offered the committee, but I was unable to present it, was something called Edge, which is an expert decision support system, whereby we have taken the 8,000 rules in families and we have put them in the computer rather than in the heads of our staff. Our families processing and calculations will be done by computer by the middle of this year. The standard of decision that comes out of those is very high, and that will roll into retirements and so on. You asked me a general question, and as a general statement we are working hard and using our technology to improve correctness every day. As I said before, we have been doing 15 different things to do that, including a new education network and all the streamlining work that has been done with Family and Community Services. We are restructuring our job so that there are senior practitioners. We have people who are expert in every team. There is a lot going on in our place.

Ms GRIERSON—I am very pleased to hear you say that technology improvements are on the way, because from my electorate experience it seems that there would be fewer errors if the software program were able to accommodate more variations and deviations. One would have hoped that that could be done. Between these two departments and the Audit Office there will be an agreed performance reporting methodology that we could have some confidence in—that is something that this committee has to be convinced of—but on the ground error is built in, and therefore your quality assurance systems have to be excellent. Are the 15 measures you keep reiterating part of a quality assurance program aimed at all those areas—for example, administrative error, training et cetera?

Ms Vardon—Yes.

Senator WATSON—I need to take you back to when, because of the enthusiasm of the committee, we did not allow you the opportunity to present a couple of examples which explain the differences in methodology in the snapshot of a pathway approach adopted by the Audit Office compared with the way you look at the whole thing. Perhaps you should be given the opportunity to put the couple of examples that you wished to give just before Mr Wadeson spoke about those differences and the reasons for those differences.

Ms Vardon—The example that I was going to give was that when I saw the findings of the audit report—with some alarm, I might say—I started to investigate. I had not heard earlier that there were issues that were coming through. I said that these issues in relation to proof of identity were the first things that stuck in my mind. The POI was 13.5 per cent. I then had an all-points exercise throughout our organisation to find the 300 people and see if they were real people. Even though the audit reported that the 13 per cent may not have been the people who they supposedly were, 300 of them were real people. I have not said that very clearly, but there was no error in identifying the people, because they were. Some of the things that we take into account are identification when a person is in receipt of another payment and they may not have proof of identity in this exercise but our people knew them in another place. To establish proof of identity you have to find all the other places where they have proved their identity inside our system. I think that is probably the best example of some of our fundamental concerns. I do not disagree that we had to make a lot of improvements, but it was something that you could not just take a snapshot of.

Senator WATSON—The implementation—or your acceptance—of this Edge computer software program has resulted in the capacity to reduce the error rate significantly or by a factor of what?

Ms Vardon—If we consider error being administrative error—have you checked all of the following things?—the decision support system does not allow you to progress through the computer until you have established every single step. What we did not want to do was to replace the 200 old rules in the new system. We have been able to cut them back a bit but not totally. There is an exercise of re-engineering going on that Carolyn Hogg is doing, but with FACS—and we do this together—we have put a more streamlined system into decision support and our staff will be forced to go through the steps. There can be no shortcuts. When it comes to those errors that relate to process, we believe there will be a great improvement. When it comes to those errors that might be in determination, we know already that there is an improvement as well. So we hold a lot of hope for the new decision support systems.

Senator WATSON—Thank you.

Ms KING—I find it somewhat astounding that there has not been an agreed definition of 'error' between the Audit Office, Centrelink and FACS. I have to say, in my view, it calls your whole performance management system into some question. I am also concerned that, in the definition of error, there seems to be some dismissal of administrative errors. Through my electorate office—and I am sure I am not alone with this—it is sometimes those process errors that cause the most pain for the constituents that we see. I hope that they do not get dismissed in that process. Regardless of disagreement about the definitions of error rates, can you identify what are the main and key causes for errors in this current system?

Ms Vardon—Can I say that it is not about a definition of 'error'. The definitional issue for us was what is 'correctness' and what is 'accuracy'. Error is the downside of that. The most important things to define were correctness and accuracy. 'Correctness' is that we make the right payment to the right person in the right program over the right period. 'Accuracy' is adding the words 'all of the time'. Accuracy depends upon a person keeping us informed of the changes of their circumstances, whereas correctness relates to the first decision that we make. What we have got now is agreement on 'correctness' as a definition and on 'accuracy' as a definition. We also now have ways of agreeing how they should be measured—by a series of random reviews within a framework of checking those reviews, and they should be quality reviews.

I do not dismiss administrative error at all. I am just saying that when you lump error and you call it all the one thing it can be alarmist, in a sense. What we were concerned about was that the old people of Australia would be frightened that they all had the wrong pension. In fact, they rang the call centres and said they did not believe it anyway and that we had always been very nice to them. So there was not any alarm. You asked me a question about what the errors are in our system at the moment.

Ms KING—No, what you see as the main causes for those errors, regardless of the rate and the disagreement about them.

Ms Vardon—Some of them are human nature. Can I just say that the bulk of the time we do not make errors; we get the right payment to the right people. I do not want to sit here and get too defensive about that. To the extent that there are occasions when we do not get it right, there are human errors. To give you a classic case, people can record on a system that a certain payment should be stopped, and a temporary person can be putting the data into the computer in some other place and not get it right. From time to time, when we have peaks and troughs, our temporary staff do not enter data right. Everybody knows that the failure to enter data is a human condition; so, to the best that we can, we want to get the data entry done at the front, when a person comes in, with a very experienced officer.

Ms KING—The Edge system will not improve that—

Ms Vardon—Yes, it will.

Ms KING—If it is only as good as the inputs that you put in, and you are saying that there are some problems with the inputs—

Ms Vardon—Yes, but what we are saying is that, if you have a temporary person or somebody who is not well trained, they are more likely to make an error than an experienced person on a new claim, or a new experience, and where it is done in front of the customer who can see it. The computer spits out what we call an 'offer' in writing and we ask if it is correct. Your claim is that you sign it as a correct document. So they get to see the data that has been entered because it comes back out to them immediately. So they do not fill in forms anymore. The paper record out of the machine is the form, if I can say it like that, and people have a chance to inspect the information that has been put in and confirm it. That is a very significant improvement in data accuracy. So the biggest errors are those connected to the human condition and the fact that our people are very busy. But those are not an excuse sufficient for us. We have put a lot of emphasis on training and knowing it.

One of the things that the age pension audit showed to us—which was a bit of a shock, and I accept it absolutely—was that people who were considered experts in our organisation were not in fact experts. They were people who knew a lot but who had not necessarily kept themselves up to date. So we are putting much more emphasis on accrediting people for their expertise and saying that you can only have that accredited position for, say, two years and then you have to be reaccredited. We are trying to build in alternatives. So you have to pass tests of your expertise. So in every place that we think there is a potential for a mistake being made we are now trying to improve the system to get rid of those mistakes.

CHAIRMAN—Just before I call Senator Colbeck, does ANAO have any comments regarding the last lot of statements by Centrelink? Nothing in particular.

Senator COLBECK—I suppose it goes without saying that we shared your alarm when we saw the figures and the percentages that came through, and obviously that is reflected in the proceedings today. You talked about transfer of information and instances where you have known somebody who has been on your files for a long time, and therefore you are satisfied that you understand who they are. I can understand that from your perspective but, from an audit perspective, if they pick up a file without the information in it, they are going to say that that is an error. I can understand that that is their perspective.

How can you assure us that things that you say are right can be reflected in what comes up through the audit process? It is the job of the auditors to review what your rules are, to say whether or not they are complied with, but they are not necessarily aware of the intricacies of the issues that you have described today with respect to the transfer and other things. How do we have confidence that those things are going to apply? Does the Edge system, for example, allow you to transfer information across so that, when the rules are checked next time or the audit comes up next time and you report back to us in the parliament, we can have confidence in what is coming out at the other end? I could imagine the chaos in my electorate, for example, if every time someone went from one program to another they had to provide proof of who they were again. The system does not seem to be able to transport that properly. I certainly do not want people coming in saying, 'I have been going there for 10 or 15 years; they know who I am. Why do I have to prove who I am again?' It seems that there are a lot of almost stupid things in the system that just do not mesh. How can we have confidence that they are going to come out correctly at the other end?

Ms Vardon—Can I introduce the concept of the customer account at this point because I think a lot of those things that we have been talking about will be overcome by the customer account. I am going to ask the person who is designing it to speak. That is Carolyn Hogg. One of the things that we want to be able to demonstrate is the new business assurance framework and, using the agreed definitions, we have a way of reviewing the correctness or otherwise of the decisions that we are making. The ANAO audit, both internal and external, can then look at that business assurance model and see if it has integrity. If we can spend a moment talking to you about the customer account, I think you might get some relief from this new development.

Mrs Hogg—There are two things I want to say initially. One is that, particularly with proof of identity, if the customer is known to the staff member, and we have not adequately recorded the reason why, we have not taken the evidence again, then we suffer a problem. We have to show externally the reason why we have taken that decision. A lot of times we have not been adequately recording why we have taken a certain decision.

Immediately after the audit report, we started to focus very heavily on what we call minium standards for the operation of our staff so that they could quite clearly see the priorities that were important in their day-to-day work. We picked six minimum standards. We thought that if we could at least get a real focus and a very high profile on these standards for the network that would make an immediate impact. The CEO actually issued a CEO instruction—which I think has not been done before or after—in relation to giving a requirement to the staff to perform in a certain way. One of those minimum standards was that we must document the decisions that we make. There is evidence of that having an impact. Our ADP system which we use to hold those decisions is about to break. We are now holding so much information about why we are making certain decisions and commentary about what staff are finding when they talk to customers that we really now have another problem, which is that we have to revise and rebuild this to have adequate space and a robust system.

The second thing is that, through the rule simplification work, we like you started to look at the reasons why we were re-collecting information when perhaps we needed to ask the customer to refresh information and tell us what had changed since we last saw them to find out if what we were holding was correct and what we needed to add to their record. This is what we are really calling the customer account. It will be a process of showing the customer every time exactly what we are holding so that, if they are living at No.7 and we have No.9, they can pick that up. Those are some of the straight coding and keying errors that can cause difficulty for our customers as well as ourselves. Every time that they come back to us with a change of circumstances we will be refreshing that information and they will walk away with or get some copy of what we are holding. That is not the case now, by and large. By and large, what they do now is give us a claim form and we transcribe from that. They do not actually see what we are holding.

We are hoping that this will improve the need to repeat information for people and make it a simpler and quicker process for them, plus also put that extra level of assurance in that what we are holding there is correct. We are going to progressively introduce that across all payments over a period of time. So, if circumstances change, from the customer's point of view, we will have produced for them a point in time copy of what we are holding on our system to assess their eligibility et cetera.

Senator COLBECK—So, where we have a situation, for example, where people claim to have advice—although it does not relate specifically to the issue in the audit, which was a specific section of your business—of change of circumstances with respect to income for family payment, that should be provided by them and then they can then actually verify themselves that you have got that information and got it correct?

Mrs Hogg—Yes. We are also working through this customer account process to give them much greater access to the information than they currently have. By and large, most customers get information from us now by either walking into an office or calling. If they do have the capacity, we want to be able to give them facilities to look at that information online, or perhaps even phone in on regular occasions and be taken through their account, in much the same way that perhaps you and I can do with bank accounts et cetera. This will be part of the development of that, so that there will be an encouragement by us for customers to take a lot more ownership of their own information through this process and not to have to go through Centrelink to get that information to make sure that it is right. We may well even provide that sort of access within our own sites, so that you will see much more in the future our Centrelink offices having these capabilities for people. We may even train our customers to be able to access their information in this way. We will start very practically, of course, by giving them maybe an account statement on a regular basis, which can help to replace the millions of letters that we send out on individual issues. That will also help them help us to keep their information more accurate and up to date.

Senator COLBECK—Ms Vardon, you mentioned the issue of receipting?

Ms Vardon—Yes.

Senator COLBECK—If someone makes an inquiry, makes a change, they should be receipted for that?

Ms Vardon—In the call centres, as an automatic thing—

Senator COLBECK—In call centres only?

Ms Vardon—In the call centres, people are asked whether they would like a receipt and a receipt number is given. People who change their circumstances by using families assist online when they want to make changes online about family payments have a record inside their own computer. But at the customer service centre level, we have not yet worked out a receipting mechanism. That is something that we want to be able to do.

Ms GRIERSON—With respect to the receipting number, perhaps other members of parliament would tell you that we are getting complaints that call centres are not offering receipt numbers. I would also suggest to you that if you want quality data about experts, we probably have some of that information for you—who your experts are in your Centrelink offices.

The Getting it Right stage 2 action plan has many first-quarter targets and indicators. I am wondering how far you have progressed at looking at those 15 to 20 targets—whether they are being reached. I would also like to ask the Department of Family and Community Services how the Getting it Right stage 2 action plan reflects the performance indicators that you are setting

for Centrelink. Are these enmeshed in some way? Do they reflect your changed and modified requirements that may have come out of this audit report?

Ms Raymond—FACS and Centrelink have been working through this strategy together very closely. We have agreed on the approach that we should take in respect of both the Getting it Right strategy and how it feeds into the overall assurance framework that we are building both for Centrelink and for FACS. So, yes, there is complete integration there.

Ms GRIERSON—So the business partnership agreement has been modified to reflect this in some way?

Ms Raymond—At the moment the business partnership agreement is being modified for 2002-03. That is when the changes will be reflected.

Ms GRIERSON—Did you negotiate any different indicators or strategies that were required for Centrelink to respond to?

Ms Raymond—The process is under way right now. I cannot give you—

Ms GRIERSON—So it is probably not reflected in Getting it Right stage 2 as we see it?

Ms Raymond—No.

Ms Vardon—I have our Getting it Right expert here, but rather than go through every single thing, why don't I give you an update of the Getting it Right strategy in answer to your question and table it?

Ms GRIERSON—That would be excellent—in terms of first-quarter indicators and targets?

Ms Vardon—Yes. We would be happy to say that we have made an awful lot of progress.

Ms KING—I would like to have a look at the Edge software if it would be possible for that to be done in Ballarat.

Ms Vardon—We would be delighted to show it to you.

Ms KING—If someone could contact my office, that would be terrific.

Ms Vardon—Mr Martin Kos, who is sitting here, is our expert and he would be happy to do that.

Ms KING—Thank you.

Ms PLIBERSEK—I would like to see it. If we are going to do it in our own electorates, that would be great. I would love to go along to Darlinghurst or Redfern and have a look.

CHAIRMAN—I have a couple of things I would like to finish up on. Ms Vardon, I am informed that—and I have only one ear, you speak softly and I have trouble hearing you—in response to one of my colleagues, you said that you were not aware of the results of the audit report before it was tabled.

Ms Vardon—No, I did not say that; certainly not.

CHAIRMAN—I was quite surprised, quite frankly.

Ms Vardon—No, I did not say that. It took a long time, but when we got the first draft in, the first rushes, I had a look at it—and that is the time when I got surprised and started to pay significant attention.

CHAIRMAN—I wanted to ask both Centrelink and department senior personnel if they had ever worked in a Centrelink office for even a day.

Ms Vardon—You could start along the row.

CHAIRMAN—Has anybody worked in a Centrelink office for even a day?

Mrs Hogg—My career started in 1974, attaching pieces of paper in the file room, and I came to Canberra in 1986.

CHAIRMAN—I am not interested in DSS. We have moved on from DSS and we have Centrelink now. I will try again.

Mrs Hogg—I beg your pardon.

CHAIRMAN—None?

Ms Vardon—No, that is not true. I spend three days a week, practically—when parliament is not sitting—in Centrelink offices, so I am very familiar with Centrelink offices.

CHAIRMAN—On the counter, dealing with clients?

Ms Vardon—I have been on the counter, I have sat in interviews, I have sat in call centres. I spend a large amount of my time on the front line.

CHAIRMAN—Good.

Mr Jackson—In respect of the Department of Family and Community Services, we have an arrangement with Centrelink called an outbound course, where senior personnel go and spend several days visiting Centrelink offices, sitting in on interviews and interacting with the staff. That is the exposure that we systematically make sure we get, as well.

CHAIRMAN—Could I make a suggestion to you. You might like to consider as part of your procedure visiting a few MPs' and senators' offices and hearing from our staff directly the kinds

of issues that we get. I have a personal view that it is better than it was in the old DSS days—even though I am giving you a rough time about this report because I am quite serious about that and I am really unhappy. But I have to say that almost every time we get a Centrelink issue you are wrong and the constituent is right.

Ms Vardon—Public servants have always accepted that.

CHAIRMAN—It is pretty serious by the time it gets to us, and everybody has stuffed up.

Mr SOMLYAY—Nobody rings you to tell you there is no problem, of course.

Senator WATSON—With respect, my record shows that Centrelink fixes the issue pretty quickly—as soon as you raise it with them.

Mr SOMLYAY—Mine, too.

CHAIRMAN—I did not say that. I said Centrelink is doing better, heaps better, than the old DSS did, but by the time I get a constituent complaint generally the constituent is right.

Ms Vardon—I will also say that I often knock on the door of the local member of parliament if I am in their area and sit down with their electorate staff and ask, 'How are we going?' Mostly they have good relationships with their local offices and things get fixed.

CHAIRMAN—Thank you for that. Have you anything else you would like to add?

Ms Vardon—No, I have not.

CHAIRMAN—Does the department? Does ANAO?

Mr Barrett—No.

CHAIRMAN—Would either the department or Centrelink mind if we put any further questions in writing to you?

Ms Vardon—We would be delighted.

CHAIRMAN—Thank you very much. Is it the wish of the committee that the documents entitled *2001-02 Reserve Recruiting Achievement*, presented by Colonel Stedman, and *Trusts and Companies Attribution Rules, Centrelink*, presented by Carolyn Hogg, be received as evidence for the hearing? There being no objection, it is so ordered. I thank Centrelink, I thank the department and I thank ANAO. I thank my colleagues, our secretariat and, last but definitely not least, Hansard. Thank you very much.

Resolved (on motion by **Ms Plibersek**):

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

Committee adjourned at 3.49 p.m.