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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Friday, 23 August 2002

Members: Mr Charles (*Chairman*), Senators Colbeck, Hogg, Moore, Murray, Scullion and Watson and Mr Ciobo, Mr John Cobb, Mr Georgiou, Ms Grierson, Mr Griffin, Ms Catherine King, Mr Peter King, Ms Plibersek and Mr Somlyay

Senators and members in attendance: Senators Colbeck, Hogg, Moore and Murray and Mr Charles, Mr Ciobo, Mr John Cobb, Ms Grierson, Ms Catherine King and Mr Peter King

Terms of reference for the inquiry:

Review of Auditor-General's reports, fourth quarter 2001-2002.

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Committee met at 10.36 a.m.

CHAIRMAN—I declare open today's hearing. This is the second in a series of hearings to examine reports tabled by the Auditor-General in the financial year 2001-02. This morning we will take evidence on two audit reports: Audit report No. 40: *Corporate governance in the Australian Broadcasting Corporation* and Audit report No. 51: *Research project management*. The committee has received submissions from the Australian Broadcasting Corporation and the Commonwealth Scientific and Industrial Research Organisation. 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. First, only members of the committee may 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. Second, given the length of the program, statements and comments by witnesses should be relevant and succinct. I emphasise that point. Third, 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.

[10.38 a.m.]

BURNS, Mr Trevor John, Head, Government and Parliamentary Relations, Australian Broadcasting Corporation

HERIOT, Mr Geoff, Chief, Corporate Planning and Governance, Australian Broadcasting Corporation

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

MACKEY, Mr Richard Kevin, Senior Director, Performance Audit, Australian National Audit Office

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

CHAIRMAN—The audit report being considered in this first session is audit report No. 40: *Corporate governance in the Australian Broadcasting Corporation*. I welcome representatives from the Australian National Audit Office and the ABC to today's hearing. Does Mr Heriot wish to make a brief opening statement before we ask you our penetrating questions?

Mr Heriot—We will stand by the statement we offered, except to say that we welcome the opportunity to be here. It has been an engaging and robust process with the ANAO but one which we in the ABC felt to be very constructive.

Mr McPhee—I have a statement which I am happy to table, if that suits the committee.

CHAIRMAN—Thank you. We will proceed to questions. Mr Heriot, could you tell me which of the 14 issues addressed by ANAO you consider to be the most critical to get on top of?

Mr Heriot—There is some overlap in the recommendations. If I may, I will answer the question by identifying themes. In that respect, the first theme relates to strategic planning processes and the recommendations that relate to the identification of objectives and standards for the performance of services. The second theme I would identify relates to the highlighting of the ABC's legislative responsibilities—for example, responsibilities relating to accuracy, independence and impartiality—as distinct from those matters which the ABC itself identifies as being good policy that go beyond legislative responsibilities.

CHAIRMAN—You accepted recommendation 4(b) with qualification. The recommendation said:

(b) improve the specification of program objectives, including setting qualitative and quantitative targets directed at higher standards of performance, including increased reach and share.

You said:

... ABC Radio reports that future updates of program briefs, which are routinely prepared across all networks, will include quantitative and qualitative performance targets as appropriate ...

You said there is:

... complexity of schedule management in ABC Radio as a result of its multiple outlets ...

Mr McPhee can correct me if I am wrong, but my understanding from ANAO is that that recommendation was targeted at every single program. It meant each program should have an objective, including setting qualitative and quantitative targets directed at higher standards of performance. That is for each program that goes online. Your answer seems to be directed across the whole ABC sector. Would you like to respond to that?

Mr Heriot—Perhaps the most useful thing for me to do would be to give you an update on activities that we have pursued since offering our response to the ANAO. First, the radio division in July this year introduced a refined system of program commissioning and review. In essence, that means that every radio program across every network, (a), in order to be created and established needs to be formally commissioned and, (b), needs to undergo, apart from editorial review, which happens more frequently, an annual process of review to see if that program is fulfilling the objectives and targets set for it. Moreover, within the commissioning process there is now a more comprehensive process within radio that requires not only a clear program brief for each program but also the identification of targets, which include audience targets and qualitative expectations, which are then used as the basis of review. So there has been a distinct development since that time in relation to radio. The television commissioning processes are more complex and more heavily layered. A lot of the information that the ANAO referred to is dealt with one way or another within that process. At this point there is still not a fully integrated information process in television.

The corporation has, however, as a result of an instruction by the finance subcommittee of the board, had the internal audit unit doing the first phase of what will be a cross-media review of program commissioning processes, the first stage of which has been done in television. The results of this are not yet available, but we expect them to be tabled with our board by October. The finance committee highlighted that significant improvements could be made to control and due process overcommissioning and identified this as a vital part of ABC corporate governance. As a consequence of that, with television, radio, new media, news and current affairs, progressively this audit process will occur.

CHAIRMAN—Does ANAO have a response to that answer?

Mr Lewis—From our point of view, having a look at the commissioning processes is a positive step, and we would support that.

Senator HOGG—So I can understand what you have done in terms of radio, I have a question related to PNN, the Parliamentary News Network, and Radio Australia. How do you apply that to those organisations with regard to program commissioning and review, program brief, audience targets and so on, particularly with Radio Australia where the target audience is clearly offshore?

Mr Heriot—You are right to identify Radio Australia as a particular problem, because clearly it is much more difficult in the case of international broadcasting to obtain accurate or even sometimes indicative performance information about audiences. Nonetheless, the basic discipline is applied to those networks, Radio Australia included, not least in order to ensure that there is, within the program making community of Radio Australia, for example, a clear understanding not only as to the purpose and aims of the programs concerned but also to ensure that those programs are compatible with and support the strategies and objectives identified in divisional planning processes, and indeed at the higher level to the ABC corporate plan and the corporate objectives identified by the board.

CHAIRMAN—Who within the ABC is responsible for following up on this audit report, that in fact you do what you said you were going to do?

Mr Heriot—In an operational sense, I am responsible in a coordinating sense, but I draw attention to the statement which we submitted previously. There is an implementation framework in the corporation, which is a serious one. The board feels a strong sense of ownership to the report in the sense that it was quite strong in its determination to identify agreement with the recommendations.

There is an implementation steering committee that is convened and chaired by the managing director. It is just a small group. It has a board director and I am also on that. The role of that group is to provide high level patronage to ensure that there is a sharp focus, not diluted by the broad range of board responsibilities, to look at, advise on and promote activity if there is a sense that it is lacking.

Beneath that there is an interdivisional working party made up of delegates of the divisional executive directors. I convene that working party. A lot of these recommendations are occurring or being implemented in different parts of the organisation. Our role is to coordinate, to push and to fulfil those things that we can directly do. We are obliged to report quarterly to the board on progress.

CHAIRMAN—This is a practical question, then I will let my colleagues have a go because I know they all have questions. Figure 6 at the back of the report shows metro persons 25 to 39, 6 a.m. to midnight, for ABC television and across a decade, an apparent 10 per cent drop in reach and an almost 10 per cent drop in share across that audience group. Does that concern you?

Mr Heriot—Only in the most general sense, because we are advised that this is a trend common to free to air broadcasting. In that decade, there have been substantial changes to the broadcasting environment because of the introduction of not only subscription television services but also indirect competitors, including the Internet and DVD forms of entertainment. So that represents, if you like, an industry circumstance within available viewing audiences, and the ABC's share overall has performed more positively. In other words, our share of those audiences' viewing at a particular time has remained fairly robust.

CHAIRMAN—Would we expect, in this year's annual report, to see graphs like this?

Mr Heriot—We are working on the annual report as I speak. We are working very hard to provide more specific analysis of trends in reach and share and some indication of our responses

to that, as recommended in the ANAO report. The extent to which we succeed in doing that this time is going to depend on the efficacy of some of the data we have available.

CHAIRMAN—Mr Heriot, I can tell you on behalf of this committee that this committee is responsible for annual reports of all Commonwealth statutory authorities, at least in terms of what goes into them. We are more than determined, and have said so on many occasions, to see performance data in annual reports so that we know how agencies are performing. As a publicly funded body, you fall into that category.

Ms KING—As an external observer, it would be fair to say that the ABC has gone through a pretty traumatic year. To what extent is the organisation suffering from reform exhaustion? Is that impacting on the culture within the organisation at the moment? In terms of implementing the ANAO recommendations, is that also proving to be something that you are having to consider?

Mr Heriot—It would be unreasonable to suggest the organisation has not felt the impact of recent events, and there probably is a degree of reform fatigue, as you describe it, in sections of the corporation. I would like to emphasise today that a number of key reform initiatives that specifically relate to matters of corporate governance were instigated earlier—dating from 1999 when the board instigated some changes—and that, at the moment, a lot of our work is trying to consolidate those. Some matters are easier to implement and achieve than others and some continue to be the subject of fierce debate, but it is a period of consolidation in that respect.

Senator HOGG—What are the matters that are still the subject of fierce debate? Can you identify those for the committee? How will they be resolved? Are they solvable in the short term, or is it a long-term mission?

Mr Heriot—Some of them are intrinsic to any large organisation when you have very passionate people competing for very limited resources. There is always debate about prioritisation and about how that reflects upon the expectations of different units. Within that broad description, clearly there is a lot of debate. We are still part of the way through something of a journey. We are all fundamentally interested in programs, content and audiences and, when push comes to shove, that is where the passion is. We are still going through a period in the corporation of educating ourselves, in a collective sense, to some of the contemporary expectations of governance and accountability. We are accountable for a great deal in the organisation but we also live, as you know, in a changing environment of expectations. It is a continuous dynamic, a contest of ideas.

Senator HOGG—But what are the issues? Are there specific issues that are in contest or that have been contested?

Mr Heriot—Within the context of the matters raised in the ANAO report, one area that is, in a way, a matter of contest is that we are still working to fully enshrine the notion of service level agreements between divisional entities—that is, where you have mutual expectations of accountability between, for example, a media output area and areas that provide services or content. We have a number of service agreements—more than 20, I think—that have been, one way or another, actively signed off in the corporation, but in certain areas there are still contests

of ideas as to what the nature of those kinds of relationships ought be. That is a specific example.

Senator HOGG—Are those service level agreements standard or are they variable from one agreement to the next? Is that the area of concern?

Mr Heriot—The form of the agreements, to some measure—and I say this as a general comment; I am not familiar specifically with all of them—clearly varies to some extent to reflect the nature of them. For instance, an output agreement is going to, in some respects, look and feel a little different from one that is about the provision of IT services. They vary to some extent. I am not sure that the variation is a factor in the debate.

Senator COLBECK—At paragraph 17, the report reads:

The audit concluded there remained significant scope for the ABC to improve its strategic planning and measurement in order to demonstrate how well it was performing against its legislative requirements. Most of the consequent recommendations of the ANAO are consistent with the policies and/or strategic intent of the ABC Board and management. However, the implementation of recommendations will be subject to a progressive rollout.

How long is that expected to take? Is there a management process in place to log that rollout and to check the achievements against that?

Mr Heriot—In reverse order, yes, there is; and I refer back to the accountability process we have ultimately to the board on a quarterly basis to report on these things. The rate of implementation is influenced to some extent by cost impacts. The obvious example: a number of these recommendations, one way or another, assume or specifically call for investment in IT systems to better capture and allow us to integrate the systems for management information data. I cannot today indicate how long it will take before we fully acquire the capacity we would like to in order to fulfil these recommendations. We have an IT strategy process that has been under way since November-December looking at this whole range of issues—and I can talk more about that if you would like me to. Suffice to say, at the end of the day, there are many demands and there are limited resources. It may be some time before we get to where we would like to be, and we may need to do that in an incremental way. On other recommendations, we have been able to move much more quickly.

Senator COLBECK—Essentially, what you are saying is that there is a planning process towards getting to the end goals.

Mr Heriot—Yes.

Senator COLBECK—Thank you.

Ms GRIERSON—I did attend Aunty's 70th birthday a week ago in Newcastle. There were many supporters there; the support for the ABC is very strong. However, I would also point out that I was amongst the youngest group of people there, and that always concerns me. That raises with me the targets that really are set for regional Australia and for youth. The future audiences always seem to be ones to target as well. In all your reporting outcomes and your setting of goals, what emphasis do you think is placed on regional Australia and youth?

Mr Heriot—We place a great emphasis on regional Australia. We have four objectives that broadly apply throughout the ABC. One of them is that we provide distinctive services and, in defining what distinctiveness means, one of the four or five elements is our spread and reach across Australia. You may be aware that, at a time when commercial services are tending to contract somewhat and syndicate their services more and more in regional Australia, the ABC has been seeking to continue to develop and, where possible, expand its services to regional Australia.

The government and the parliament provided additional funding over four years, which took effect in the last financial year, of \$17.8 million per annum. The single biggest component of that funding is being used to further enhance regional services, and that includes the opening of a couple of new regional radio stations and, at last count, something like an extra 6,000 hours of local programming this year. We are very strongly committed to regional Australia.

In terms of youth, as distinct from younger children—we have a very strong audience of younger children—it has been true historically that we have generally less support from teenage students except through Triple J and, increasingly, online services. It is that relatively lower level of support from those age groups that continues to be of interest and concern to us, of course. Triple J itself, at the moment, is undergoing a research and review process. This includes its branding and some focus group research to look at how it is appealing, or not, to those teenage audiences, among others. I am not sure what the outcome of that will be, but we are aware that there is a slight vulnerability and we are doing what we can to address that.

Ms GRIERSON—That links the report more closely to the targets that are set and whether the performance and attainment of those targets is very well monitored. I will leave that at this stage. With regard to output budgeting, it seems to me that the ABC does, and senior management do, have a major task, and you mentioned this earlier, in bringing together some of those more esoteric and creative goals with the corporate accountability goals. I would assume that, to do that, you would require a very inclusive culture that had excellent communications internally, supported by strong human resource management and professional development programs. Do you think those sorts of soft corporate culture skills are there in the ABC? Do they strengthen the ABC and produce a continuous learning culture and a committed one to a corporate purpose? It would be good, wouldn't it?

Mr Heriot—Wow!

CHAIRMAN—If you could do that in one sentence or less.

Mr Heriot—There are so many gateways into answering that question. In terms of development of our staff—and this is a very cold way of answering the question—a year or two back, for the first time to my knowledge, we set a minimum requirement that two per cent of the ABC salaries budget across the corporation be invested in staff development and training. The latest data we have indicates that, across the board, we have more than achieved that in the past financial year. In relation to certain other things, for instance, we have just finished a major review of ABC editorial policies—which is a key governance—and we are about to roll out a show of training, development and orientation. In terms of the broader question about whether the ABC is a sufficiently inclusive and nurturing culture, I find that a difficult one to answer, except to say that we try.

Ms GRIERSON—In terms of your reporting, and aligning that financial budgeting and output budgeting, it seemed to me there had been strong resistance to that. I would have thought it would have been one of the best supporting tools for the future of the ABC, that reporting on the social dividends and the triple bottom line—perhaps not so much the environmental but certainly economic and social dividends—would be an excellent way for the ABC to demonstrate its performance.

Mr Heriot—The structure of the current corporate plan and associated performance reporting framework—one that we are grateful for positive comments about from the ANAO—has not gone so far as to incorporate triple bottom line reporting, for example. In terms of our next major review of the plan, which will be finalised mid next year once we know the outcome of our triennial funding package—although we have not yet put this to the board—we will consider internally how we take the corporate framework to the next stage and whether we at that point include triple bottom line, for example.

Ms GRIERSON—I wish you well, because I guess we are all counting on you to get it right—even old Argonauts like me! Good luck.

Mr Heriot—Thank you.

Senator MOORE—I have a question that I asked earlier as well. It is to do with the recommendation in the report, and the immediate response from the ABC accepting it, that there needs to be a cultural acceptance of the changes and cultural assistance to ensure they happen. I have read your submission, and it goes into the dot point detail of different things you are going to do. I am interested in the ways the ABC is looking at this cultural change that everyone seems to agree has to happen. How do you see that being done and then assessed?

Mr Heriot—I took the ANAO comment in that regard to relate most specifically to the values of corporate governance, on which the report focused. Clearly, the most important groups or communities within the corporation who need to embrace robust and effective governance are the managers. The senior management, filtering through to middle management, is participating in a continuing and very substantial set of changes to governance arrangements. Again, in the contest of ideas that accompanies that, you are seeing a gradual shift in the understanding and commitment of people who—as I said—are fundamentally interested in output and programs to appreciating the broader context in which they exist. With respect to that reference in the recommendation of the ANAO, that is the way it is happening. I am not going to tell you that all 4,000 people in the ABC are committed to a culture of corporate governance. Not so many, I guess, are immediately interested.

Senator MOORE—Had they been asked?

Mr Heriot—Intrinsically they are, because throughout the organisation there is a structure, for example, of performance management. Once you go down the corporate, divisional, network and work area plans, each individual employee in the ABC, under a performance management system, has a one-on-one negotiation once a year to define a job plan and expectations. In the course of that plan—although I am sure that the term ‘corporate governance’ is not used—that whole discussion is about what my job means, where I am going, what my obligations are and,

indeed, what are the obligations of my superior to me in the course of the year. It seems to me that is the most meaningful context in which to embed those kinds of values.

Senator MOORE—Will you then link that with the response in future audits about how that has been achieved?

Mr Heriot—Yes.

Senator MOORE—Linking with the previous comment about the staff development process, it would be through there as well, I would imagine.

Mr Heriot—In principle, yes.

CHAIRMAN—I am a great fan of the ABC, and I say that without equivocation or qualification. Nonetheless, for a long time I have lived with the impression—perhaps wrongly; I do not know—that there is a culture within the ABC that says that the ABC is responsible to the ABC, that parliament or government is responsible for giving it the money that it needs to do what it wants to do, and that parliament or government really should just butt out and leave it alone. Can you comment on that?

Mr Heriot—It is difficult to comment with authority on perceptions. Perhaps I could answer by saying that we as a corporation are striving very hard through the formal processes, as well as the informal, to ensure that there is a robust outcomes kind of culture. For example, not merely in the formal outcomes and outputs frameworks of government but in the planning documents, in the work that we have been doing to sharpen up and introduce more effective performance indicators and in the way in which we are moving across the board to develop performance agreements both with managers—although that is a new system that is in the process of being introduced—and staff generally, as much as possible the emphasis we are trying to give is on output and audience. We are trying, where there needs to be improvement, to focus on accountability systems.

For instance, at the highest level, every month every executive director of an ABC division now has to provide a governance report to the board. That report, which includes a focus on things like accuracy, independence and impartiality, is a personal sign-off by the executive director, saying, ‘This month, to the best my knowledge, I assure you that we have done right by you; where there are issues of concern, they are identified.’ I know that is at the top of the pyramid. So without being able to sensibly address matters of perception I can only say that systemically, and in terms of the management culture, there is a very strong commitment to ensuring not only that there is a sense of external accountability and an output and outcomes focus on what we are doing but also that cascading through the organisation there is a culture of direct independent accountability for decisions and activities.

CHAIRMAN—You just spoke about external accountability. It is sometimes said of the ABC that, because it has statutory independence from government, it is not truly accountable to government and, because it has statutory independence from parliament, it is not accountable to parliament either. So your external accountability actions and culture are accountable to whom?

Mr Burns—We are subject to all the parliamentary accountabilities. We come to Senate estimates every session and we go through that process and annually report to parliament of course. We participate in public hearings—and there have been a number of inquiries including this audit into the ABC—and the like. We also participate in the parliamentary processes in terms of inquiries and submissions. I think the culture in the ABC is very much about its responsibility to parliament.

Mr Heriot—I suppose the independence of the ABC places considerable obligations on the ABC board as the primary governance entity in the corporation and, through the board, I think the key accountability processes, not least the portfolio budget statement and annual report, are pretty critical. The board has been pushing since 1999 when the chairman initiated a move for the board to take a more proactive role in strategy setting, for example, and in asking the managing director of the day to begin work on improving program accountability and other standards within the corporation. A lot of work has been done and we have today, albeit we would not claim perfection, in place in the corporation a much more specific, formal and targeted system and process for performance evaluation. My long experience in the ABC enables me to remember the past, so we believe that there is a genuine and conscientious effort within the context of our status as an independent statutory authority to ensure that that accountability is both present and robust.

CHAIRMAN—I do not know if you are aware that it was in fact this committee that was responsible for suggesting to the Auditor-General that this audit be a priority of the parliament, and we represent the parliament in that respect. We are certainly serious about accountability and we are serious about reporting on accountability, on reporting on real outcomes—that is performance reporting.

Mr CIOBO—We have had some discussion this morning about cultural aspects within the ABC. It is a fairly large organisation, is it not, in terms of the total population of the work force? Do you think that leads to some unique challenges in getting cultural evolution and cultural change through the organisation?

Mr Heriot—It is a complex organisation in the sense that it is both geographically disparate and, in a way, a highly professionalised organisation with a very high level of individual credentials. It is in a sense more like a university than many other organisations, if you look at the profile of its staff and its skill base and so on. It is an organisation whose whole purpose is about ideas, fundamentally. So you have an organisation where people live and work in different circumstances to some extent and serve different client bases, if you like. If you look at the difference between, say, those who are fundamentally rural reporters versus television drama producers, they have very different views on the world and their work. Where you have a lot of passionate people all with their own ideas, it is always going to be a handful and organisations like the ABC across the world are handfuls. But cultural change does occur.

Mr CIOBO—It just takes a while, does it?

Mr Heriot—It does take a while, yes.

Mr CIOBO—I noticed that in 1981 there was the Dix report that recommended to the ABC that output budgeting be adopted. Now 22 years later I think you made statements to the ANAO

indicating that that budget model would not be able to be implemented until 2003. Why has it taken 22 years for that to happen?

Mr Heriot—Even my long memory cannot fully encompass that! In a sense we have a dual system of budgeting. We are now reporting to the board—and this is since the ANAO draft report was prepared and to which we responded in that way—as part of our newly introduced corporate indicator reports: attributed cost reporting, which is in effect output reporting. There is a dual system of budget structures in the ABC that are operating now. One is for corporate reporting and external reporting. For example, output budgeting is used in preparation of the portfolio budget statements. We have for some time been reporting monthly in that way to Canberra as required. We are also now reporting to the board in the context of corporate indicator reports in the same way in order to provide the board and the corporation with a view of the whole cost of activities. Internally, of course, because of the way we are set up as a divisionalised organisation there are also divisional budget allocations that are formatted differently. As to why, as the ANAO report claims, it has taken so long to introduce output budgeting, there is some debate within the corporation and those with tribal memory, but I cannot sensibly answer that question.

Mr CIOBO—That debate, though, sums up the cultural difficulties that the ABC faces in adopting recommendations and then management implementing those recommendations throughout the organisation, as highlighted by your reference to the disparate nature of the organisation. Is that a fair comment?

Mr Heriot—I am not sure that it is a fair comment in this case. It may be a fair comment in relation to some issues. If you look at the activities of the corporation in a given year, whatever the strategic framework in place at a given time, at the end of the day divisional units and entities are allocated resources and responsibilities to manage those resources according to the board's priorities of the day. The inevitable structure of those is in divisionalised form. For other purposes, at the global level, we draw together in that output framework and attributed cost model to give a better perspective of the whole view and total cost of our operations. In other words, there are practical logistical considerations that have influenced the way budget structures have been put in place over time, but we have acknowledged the value of output budget reporting and, as I have said, have moved to incorporate that in board reports as well as external reports.

Mr CIOBO—There are mandatory requirements—

Mr Mackey—You might ask the ABC when it would progress recommendation 44A, which is about integrating financial and performance information, so that, as a matter of routine practice, management and the board got detailed accurate financial and performance information about the programs they are planning and the programs they produce.

CHAIRMAN—Mr Heriot, may I ask you what he just said?

Mr Heriot—The full implementation of a properly integrated system is to some extent dependent upon investment in new IT systems. We have, consistent with our response to the ANAO and IT strategy, a process that has been proceeding this year. One of the products of that work to date is a strategic and costed list of IT projects that we have identified as necessary.

Among those include the systems necessary to enable us to fully achieve that recommendation. What is not decided yet is the final order of priorities for IT acquisition over the next several years, because clearly there are more priorities than there are dollars available to spend, and I am not in a position to say what the final board-endorsed or management-endorsed priorities will be. What we have—and this came out of the implementation steering committee chaired by the managing director—is a requirement that, regardless of how long it takes us to get to the big bang solution, any IT system that is commissioned needs as part of the specifications to have and include the capacity for management reporting, that common platforms are used as much as possible and that systems that we get individually, as much as possible, are capable of being integrated as the systems grow and we move towards a full solution.

Mr CIOBO—You stated that mandatory requirements require and place special requirements on ABC broadcasting and programming. In particular, there is special mention of the need for accuracy in the collection and dissemination of information and that it is impartial with respect to news and current affairs programs and with respect to education programs. The ANAO commented that there was a lack of objective data that was being provided to the board. I note from your submission to the inquiry that you say that you have updated your editorial policies and further, at paragraph 6 in your submission, you make a comment that the ‘audit findings will be taken account of in a subsequent review of format and presentation’. First, when is that subsequent review going to occur and, secondly, what exactly are the various types of change to editorial policy? What is the information you will be collecting that will be used within the ABC to demonstrate its compliance with the charter of the ABC and provide it to the board?

Mr Heriot—First, the board at its July meeting endorsed the major review of ABC editorial policies to which we referred in our response to the ANAO. The commitment remains that we will embark upon a new round of review to again take account further of ANAO recommendations. I cannot tell you the precise timing of that because it took longer than we expected to get that first phase review finished and endorsed. We are in discussion at the moment with senior management about taking that to the next step. However, a number of changes have been made to take account of ANAO recommendations. For example, we have in the new edition a number of changes that sharpen up and clarify obligations and standards that relate, first of all, to news and current affairs programming and that other kind of information programming that incorporates a high level of news and current event focus while also taking account of the somewhat different nature of some other factual programs. For example, in terms of impartiality, you would not impose the same obligations on a book review program as you would on a current affairs program, because clearly a book review program is about opinion. So in the policies we have plugged a couple of loopholes and we have more clearly differentiated that.

The editorial policy, a draft of which I have in front of me, is a very extensive document and covers a whole range of obligations and standards, not just the legislated ones but those that go to matters of good taste and a whole range of things. We are in the process of fully implementing it over some months, but we have taken the first steps which are a number of changes to the complaints management processes in the corporation which also go to address this matter. For example, the board has now adopted, for the first time, as one of its key corporate performance indicators adherence to editorial policies. That specifically means that accuracy, impartiality and independence as well as other key requirements of editorial policy is

now established as one of the corporation's critical indicators. We are still in the process of building the system to fit within that. That drifts down into divisional reporting systems.

I mentioned earlier that executive directors now provide monthly governance reports to the board. The last board meeting has endorsed further improvements to complaints management that will take a few months to put in place but a more centralised system of reporting against complaints so that we can have a better overview of those in the corporation and the establishment of an audience contact telephone centre, which will help improve our responsiveness and our capacity to track and monitor.

Also we have, as you may know, a complaints review system in the ABC. There are two mechanisms: we have an independent complaints review panel to which people may go if they do not get satisfaction within six weeks of making a complaint or they can refer certain matters to the ABA. We want to be more robust internally and provide more timely responses. So we have now appointed a part-time complaints review executive, who is not associated with any of the program or media output divisions, whose role is to adjudicate on matters where there is a difference of opinion between us in corporate and the program division as to what our response ought to be. Also, it can quickly review complaints if a complainant is unsatisfied with the initial response being given by the ABC. And, finally, in certain exceptional circumstances, it can intervene directly to review matters of particular sensitivity. All of those things together represent significant improvements, I would suggest, to the pre-existing framework, and in the next iteration of the review of editorial policy we will look further at other aspects of the ANAO recommendations.

Mr CIOBO—I recognise that you cannot give me an exact date, but are we looking at this year or next year for that review—just ballpark?

Mr Heriot—I am confident that it will commence within a fairly short period, by which I mean weeks or months. I cannot verify that.

CHAIRMAN—Does ANAO have any final comments it would like to make regarding the discussion today?

Mr McPhee—No, thank you, Mr Chairman.

CHAIRMAN—Mr Heriot, if we have any further questions, you will not mind if we put them to you in writing rather than ask you to come back again?

Mr Heriot—We would be delighted.

CHAIRMAN—Thank you very much, and thank you for coming to today's hearing.

[11.36 a.m.]

GREENSLADE, Mr Alan, Executive Director, Australian National Audit Office

MARCUS, Mr David Charles, Auditor, Australian National Audit Office

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

GARRETT, Mr Robert, General Manager, Corporate Finance, Commonwealth Scientific and Industrial Research Organisation

HADDAD, Dr Gerald (Gerry) Neil, Deputy Chief, Telecommunications and Industrial Physics, Commonwealth Scientific and Industrial Research Organisation

O'CALLAGHAN, Mr Peter, General Manager, Risk Assessment and Audit, Commonwealth Scientific and Industrial Research Organisation

SANDLAND, Dr Ronald Lindsey, Deputy Chief Executive, Commonwealth Scientific and Industrial Research Organisation

CHAIRMAN—Welcome. We now come to the second report to be examined in this morning's public hearing: audit report No. 51, *Research Project Management* which relates to the Commonwealth Scientific and Industrial Research Organisation. 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 that may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Thank you for your submission. Mr Sandland, do you have a brief opening statement?

Dr Sandland—Yes, I have a brief opening statement.

CHAIRMAN—Very brief please. We have penetrating questions to ask.

Dr Sandland—Before the ANAO audit took place, CSIRO had already recognised the need for improved practice in the area of project management. It was identified as an organisational priority in May 2001 in our first strategic action plan. As a result of this, we commissioned Mr Frank Einhorn to study and report on our practice in that domain. Much of Mr Einhorn's study was carried out in parallel with the ANAO audit. CSIRO essentially agrees with all recommendations in the audit report, which closely mirror those of our own analysis of the situation. We are undertaking a significant program of work to implement the recommendations. A critical element of our organisation's future will be large, cross-disciplinary projects targeting major national priorities, such as preventative health, revitalising the landscape and energy futures. Effective project management will be the key to delivery of these critical projects and will significantly enhance the delivery across the remainder of our portfolio.

CSIRO is already delivering great value to the Australian taxpayer and our stakeholders. A recent independent analysis of our performance conducted by the internationally respected economic consultant CIE on four major projects showed prospective benefits exceeding costs by 80 to one. In relation to CSIRO's performance, our customer value surveys indicate customer value levels of satisfaction with the quality of our work that significantly exceed that of our competitors. The world's leading independent analyst of research performance, ISI, has found that CSIRO's research impact stands head and shoulders above those of other Australian research providers. We are, by a considerable margin, Australia's leading patenting organisation. Implementing the recommendations of the ANAO audit report will enhance that performance and lift us to the next level of excellence. We welcome the recommendations of the audit and are committed to a thoroughgoing initiative to implement them.

Mr McPhee—As has been indicated, the timing of the audit coincided with CSIRO's own plans to focus on improved project management. We got very good cooperation during the course of the audit. We worked closely together and provided feedback to CSIRO as we went through. We made nine recommendations aimed at strengthening their corporate approach to project management including in the areas of project planning, costing and risk assessment, monitoring of project progress and appropriate review on completion. As has been indicated, CSIRO agreed with all the recommendations.

CHAIRMAN—I am advised by Senator Moore, who has temporarily left us, that I should declare that I have a degree in science—

Senator HOGG—So have I.

CHAIRMAN—but that does not make me an operating professional scientist and I will conduct this hearing without bias!

Senator HOGG—I will ask questions without bias as well, Chairman, so that is two of us!

CHAIRMAN—Very good. Dr Sandland, who in CSIRO is going to be responsible for making sure that, after your nice nine responses that say 'agreed', all of these recommendations are actually implemented?

Dr Sandland—We have appointed a project manager to manage the implementation process, Dr Gerry Haddad. Gerry is currently reporting to me. We have just appointed a new person, Mr Mike Whelan, and Gerry's responsibilities will ultimately shift to Mike Whelan, whose general brief in CSIRO is operational excellence.

CHAIRMAN—I suppose all of us are concerned and disturbed that the audit report indicated such huge variability in project management approach, expertise, costing—all of those areas. We all accept that CSIRO has a fantastic international record, but how, in these modern times, did you manage to get this far without bringing in systems to measure costs and modern project management capability?

Dr Sandland—I will take the latter question first. Clearly, in a research organisation, as you may well be aware, the culture of scientific investigation has for many years been one of relatively unfettered inquiry. There are those who believe that such unfettered inquiry is part of

the science process. It is also fair to say that, in areas where we have had significant commercial exposure, the project management around those commercially oriented projects has been much tighter than the project management around free-inquiry, longer term research projects. We have recognised—and had recognised—that we did need to shift that practice. CSIRO has been a relatively culturally diverse organisation through its now 21 divisions. Since our new chief executive was appointed, we have moved to thinking about the way we go forward on a basis that we describe as ‘One CSIRO’, because on these large projects that I alluded to we really need to be able to manage across these traditional boundaries.

So there was a strong degree of recognition that we needed to move forward. Within individual research divisions, however, despite the fact that in some areas there was no formal project management associated with longer term fundamental research, for some time there has been a strong culture of recognising what the research priorities were and having active reviews of project areas within the research divisions. We are now attempting to formalise some of the mechanisms to ensure that there is a much more uniform quality associated with project management across the board.

CHAIRMAN—Dr Sandland, I doubt anyone has brought to your attention a report we wrote a couple of years ago on project management in the public sector. I recommend that report to you because as I read this audit report I remembered a public hearing in Melbourne during that inquiry when Telstra appeared, and they had come to the conclusion that their disparate parts were costing them one heck of a lot of money because there were different purchasing policies across different divisions of that huge corporation. They wound up centralising purchasing—I know that sounds like a no-no, but they did it—and they saved millions upon millions: not in terms of biros and paper but in terms of major purchases. I recommend that report to you, for whatever value you may find in it, because I can assure you that some of the departments around the place did find that report of great value.

Dr Sandland—Thank you. We will take that on board.

Senator HOGG—How many projects do you manage, and how do you classify your various projects—is it in terms of dollars?

Dr Haddad—It is a lot, and the classification has changed recently as a result of some things that we have put in place since the review and the audit report. We have around 2,000 projects a year, that sort of figure.

Senator HOGG—Are those 2,000 new projects a year?

Dr Haddad—Some of them will be; that is a mix of new and continuing projects. You have to appreciate that we have projects that range in length from a week to several years depending on the type of project. Short-term projects, which are typically funded externally, may only last a few days. Longer term projects which are aimed at discovering a new law of physics sometimes take quite a long while.

Senator HOGG—Yes.

Dr Haddad—Those longer term projects have suffered the worst from lack of project management.

Senator HOGG—In terms of the ANAO report, I understand that the management of projects that had an element of private funding was infinitely superior to the management of those that had money funded from the appropriations.

Dr Haddad—Correct.

Senator HOGG—Has that been reversed?

Dr Haddad—That is in the process of change as we speak. We have made sure that we are not subsidising the externally funded contracts with appropriation moneys and are putting in processes to manage all of our projects using modern project management techniques.

Senator HOGG—Has this met with any resistance or any difficulties?

Dr Haddad—As you would expect in a science organisation—

Senator HOGG—I think that is the best question I can ask them.

CHAIRMAN—Are apples red?

Dr Haddad—Exactly. This is a cultural change of enormous magnitude for some people in the organisation. The typical scientist of 10 years ago, certainly, was of the attitude: 'Just slip the cheque under the door, leave me alone and I'll get on with it.' That has changed certainly within my time in CSIRO. I would have to say that there are still a few people around who believe that science cannot be managed—you hear that still, to my distress—whereas I am a believer that it can be managed in just the same way as anything else can be managed. The techniques will be slightly different, the milestones will be slightly different and the risk assessment will be slightly different and so on, but you can manage any project provided you choose the appropriate tools.

Senator HOGG—How are you introducing a more systematic approach and more transparency into the whole approach?

Dr Haddad—For a start, as Dr Sandland has said, we are centralising much of the process. We have 21 business units out there that were more or less doing their own thing in terms of project management. So we are putting together a program centrally which will see processes, policies, tools, data collection and so on centralised rather than distributed out through the divisions.

Senator HOGG—Are you having service level agreements between the various projects and the central office? How are you setting up that arrangement?

Dr Haddad—All of our projects are reported on centrally in terms of some aspects of the way they are run—their financial aspects, their HR aspects and so on. We are simply extending

that system to cope with the remainder of the information and putting in processes that need to be followed in terms of the good project management practices that you need to see throughout the organisation on all of the projects.

Mr Garrett—I think it would be fair to say that probably we are adopting a more prescriptive approach from a corporate perspective in terms of the definitions of projects and how people should use the systems. I think the audit finding was that we do have a project support system that identifies costs and other aspects of each project but we have not actually been prescriptive across all of those business units as to how they ought to use that system. It is a far more prescriptive and corporate approach to consistent use across the organisation.

Dr Sandland—I would also like to add that, nevertheless, the project management will ultimately be devolved to a manager who will be responsible for managing the project according to some guidelines that we have established and ensuring that the correct data are entered into our project support system.

Senator HOGG—Are these project managers skilled in project management, or are they scientists—and I am not saying that a scientist—

Dr Haddad—Are they exclusive?

Senator HOGG—I was about to say that they could be mutually exclusive but there could be a little bit of inclusiveness there.

Dr Haddad—We have had formal project management training within the organisation for many years. As you would expect, there are some project leaders who are extremely skilled in project management and there are others that are not so good. But we have, again, offered centrally, through our leadership and development unit, formal project management courses which responsible managers will send their project leaders on if they think they are a bit lacking and will send their new project leaders on when they need to get some training and so on.

Ms KING—You may need to take this question on notice, but can you tell me the number of your staff who have gone through project management training to the level that is required and what proportion of your total staff that is?

Dr Sandland—We will have to take that on notice.

Senator COLBECK—The report says:

CSIRO is considering relevant enhancements to policy and systems which, if implemented well, should markedly improve corporate governance in these areas.

I think the key words there are 'considering' and 'if implemented well'. How is the consideration process going? If you have got past that to the implementation, how is that going?

Dr Sandland—The implementation itself is going to be an extensive process because it involves cultural change, it means that compliance needs to be built up. Consideration of the policy has certainly taken place, and all of the chiefs of the organisation have signed on to a set

of recommendations on how project management should occur in the organisation. We are developing beneath that. We have agreed that all of our activities should be managed by project; that has been uniformly accepted. We are now developing some guidelines as to exactly what that means, being more prescriptive and teasing out the details of what that means.

We have brought in mandatory effort logging across the organisation and that roll-out is already well under way. That is an area which has attracted a certain amount of resistance from some scientists; nevertheless, we have on our internal web site a compliance measure so that people understand where they are actually sitting in terms of that compliance. Currently, the level of compliance is about 35 per cent.

Dr Haddad—That is expected to be 80 per cent by the end of the year.

Senator COLBECK—So you have some targets with respect to achieving those compliance levels—in terms of a timetable?

Dr Haddad—Yes, we are talking particularly about effort logging here: 80 per cent by the end of this year; 100 per cent by the end of the financial year.

Senator COLBECK—We heard this morning, during the earlier part of the hearing, that CSIRO is effectively siloed in certain elements. You had all the divisions and some of them are almost siloed off from each other. Do you assess that that has had any negative impact on perhaps overall capacity for scientific goals and outcomes, or on the outcomes that were being looked for as specifically defined within those silos? Could there have been better outcomes had there been more broad interaction across the divisions?

Dr Sandland—Generally speaking, the research divisions have achieved pretty strong outcomes within their silos. The projects, which I have alluded to before and the benefits thereof, have been carried out using the old siloing model. As part of the change process that our new chief executive brought in in May last year, we agreed to this key strategic focus concept of one CSIRO and developing large projects that really call on the whole strength across the whole organisation. The only way of giving effect to those kinds of projects—we call them our flagship projects—is to be able to take a perspective that crosses those kinds of boundaries. So really the answer to your question is: we could have achieved more, but you need quite a strong cultural change to understand that working across the organisation can deliver stronger benefits than working just in one particular sector. That is an area we have been working on for quite some time. Indeed, to just give an example, all the projects that achieved strong benefit to cost ratios, as found out in this CIE analysis, were essentially cross-divisional projects. So we have worked across the boundaries for some years. Can we do better? Yes, we can.

Mr JOHN COBB—Just back on project management, has the ability of a project manager to stick to a project target and a budget ever been an issue that effected remuneration or seniority?

Dr Sandland—I am sure that in individual divisions there have been instances where the ability or the inability of a person to stick to budget or meet milestones has led to significant remuneration issues, or significant lack of progress for people who have not performed. We have a performance evaluation mechanism and, depending on the particular roles of an

individual, their performance is assessed against that. If a person is a project manager, their performance in that role would be assessed as part of their annual performance review.

Mr JOHN COBB—It is pretty obvious why jobs that were being done specifically for industry were more on target than those which were not. Would it be true to say then that you would have kept project managers with a bad record that way away from doing jobs for private industry?

Dr Sandland—I do not think that is the inference I would draw from it. When we actually look at how we invest our money there is a very strong correlation between appropriation funded projects and those that are longer term, building up intellectual property for future use within industry. Because the results of such longer-term research projects are not in any way as easy to predict as the outcomes of an industry funded project then the relationship between the longer-term research and levels of appropriation funding is strong. It is that longer-term research that has, if you like, the less rigorous project management associated with it. It is coincidental in some sense that it was appropriation funded.

Mr JOHN COBB—Is your way of dealing with that to try to train the scientists who have ended up in administration or to bring others in who are not so much scientists but managers?

Dr Sandland—I really think it is a balance between the two. We are certainly training scientists, and their understanding of science and technology is often important in delivering, but increasingly we have been bringing people in from outside CSIRO, from outside scientific domains, to assist in all aspects of the highest level leadership of the organisation.

Senator COLBECK—Do you have an element dedicated to that sort of training?

Dr Sandland—We do not have a specific element that is targeted as training but there is a lot of training carried out in the organisation, and some divisions actually measure the amount of training they do. I will just ask my colleague if we can do an overall training assessment.

Mr Garrett—Not readily; we could get the information. But to add to that, we have had for many years now, within our corporate HR area, a leadership training and development group who have actively run a program on project management. For example, I would go to that and spend half a day with them on financial aspects of program management, use of systems, where they get information and general principles. In addition to that, we would have people from outside from some of the major companies who would come in. For example, I know that in the past we have used people from KPMG, who have come in and given a commercial interpretation of project management to expose people to those sorts of principles. That area has been actively going on. It is run on a user-pays basis. They put a program together, there are three modules lasting a week each that are generally spread three or four months apart and there would be 20 project managers per module. I know that they have run something in the order of 15 of those modules. I think PM15 was the last one I went to. Something in the order of 300 people at the project manager level have gone through a formal course internally. In addition to that, they would also be going to courses run externally.

Ms GRIERSON—I have to declare a subjective interest in this as well because my electorate is host to your national energy centre that is now under construction. It is a \$30 million

investment from state and federal government—an excellent joint program, showing that governments, when they work together, can certainly support some of our purposes down here. Looking at the report now, I feel much more responsible for making sure that its outputs and outcomes are of benefit. When I look at your areas of benefit, there are those industry and economic ones, of course, and also the environmental ones—we are a coal region and energy is certainly an area of expertise. I know that will be easy for CSIRO because of the location of that energy centre but I also know that it will be looked at in terms of return for investment.

I suppose if we do not get some of these project management processes and these outputs in terms of joint ventures and generating new industry and economic growth then it will not be seen as a great flagship for CSIRO. I am determined that it will be, so I suppose my interest is in making sure that some of these rigorous processes are successful. At the moment, though, in this report you say that 33 per cent of your budget is achieved through other sources, through external parties. Is that an acceptable target or has that changed under your new strategic plan?

Dr Sandland—I think in our new strategic approach we committed to grow the organisation. The reason for wanting to grow the organisation is to enable more research to be done. We see growth not as an end in itself. There is no particular reason for us to earn more money, other than to generate higher levels of research. Indeed, in terms of our flagship, project energy has been one of the areas that we are targeting as being of critical importance to the future of the country.

Ms GRIERSON—I think our treasurers and economists would agree that it is certainly the trade of the future. You have taken 22 industry sectors and now regrouped them into new divisions. How many divisions, and how has that worked? Do you think that will work successfully? Is it able to align with the national priorities when they are determined?

Dr Sandland—I think firstly we ran the organisation as a matrix, with divisions being responsible for, I suppose, the technological and disciplinary leadership—the feeding and quartering of staff, the provision of a home for them—and the sectors, on the other hand, being the industry-facing component of the organisation. Over time we have reduced the number of divisions; 21 is the lowest it has been for quite some time. That is for efficiency of management. Recently we also reduced the number of sectors from 22 down to seven to get a really strongly focused and boundary-crossing approach from industry leaders in that domain as well. It is early days for that new approach to sectors but I think we are quite hopeful that the information we will get will be critical in shaping our response to the challenges in all of those domains.

Ms GRIERSON—Looking at the projects, many of them were small projects with values of less than \$20,000. The 300 largest projects certainly dominated the budget allocation. In your statement to us you talk about picking winners or choosing projects and having a strategic investment process so that you can do that. What criteria will you use, and just how will you compare the value of projects?

Dr Sandland—We have gone through a process of looking at those areas. First of all, we have declared that we would like to see between 30 and 40 per cent of our budget being spent in those large flagship project areas. I think the fact is, having been on the front foot in terms of seeing these flagship projects and very deliberately seeking to align them with national priorities, that we are well-positioned in how the national priorities process pans out. We are

very strongly engaged in that process. So I do believe that we will be able to align very effectively with the national priorities process, and we believe it is exactly the right thing.

Indeed, in thinking about which areas we pick prior to this national priorities process we spent lots of time interviewing business and political leaders and asking, 'What are the priority areas?' and then actually correlating those with the proposals that we had on the table. We have a longstanding methodology of looking at which projects we actually accept. We rank them in terms of both attractiveness and the feasibility of carrying them out. So a combination probably of a less formal application of the attractiveness/feasibility framework and a protracted series of interviews to ensure that we have the major themes up there from industry, government and political leaders was the approach we took to selecting those flagships.

Ms GRIERSON—Yes, I think they do position us well for this century. A lot of the report dwells on the project budgets and the fact that they often were not taking into account corporate overheads. Have you made those changes to the financial arrangements so that you are not double counting or double providing in your budget for those areas?

Dr Sandland—I will ask Bob to answer that one.

Mr Garrett—Yes, we have. Prior to 1 July this year, all projects had overheads allocated to them relating to the division that they were undertaken in, but they did not have the corporate office overheads, if you like, allocated—although, in terms of the pricing decisions that people were making in a division, they knew there was a factor that they should be loading into their pricing to include that cost so that they were pricing on a full cost recovery basis. Since 1 July of this year, the costs of running the corporate office, if I can put it that way, are now formally allocated out as overheads to divisions.

Ms GRIERSON—I would hope that is sufficient and it puts more money into research. The report also comments that project budgets have a tendency to blow out at times and there is not enough risk assessment throughout the projects. I would imagine that it would be very hard to predict that sometimes. There would be a very fluid component to research. So how do you handle contingency budgets in terms of being able to adapt or change a project budget?

Dr Sandland—I will ask Mr O'Callaghan to comment on our overall risk management approach. I think you are absolutely right. Generally speaking, when a project is formulated for an industrial partnership, there are pretty clear guidelines. Even then, obviously a project can blow out. When, however, it is about the creation of new knowledge, then it really is quite difficult to predict exactly how a project will come out. Handling contingencies is one of those difficulties that we have in the day-to-day life of our senior managers. Perhaps Mr O'Callaghan would like to comment on our risk management approach for projects.

Mr O'Callaghan—Some years ago, we developed a corporate risk management approach which is based on the Australian-New Zealand risk management standard. That has been in place, right down to division land, for some years. We did not cascade it and make it mandatory that every project adopt that risk assessment, which would obviously highlight things that were going out of whack during a project and the actions that needed to be taken. We have developed that approach and we are trialing it on a number of projects. We are doing some training on

project risk assessment at selected sites. So we feel as though we have an answer to that part of the process.

Ms GRIERSON—In regard to training—we made this point at our previous hearing—the development of soft skills and investing in those at times of great change is always worth the expenditure. The other thing is—and I suppose this particularly relates to my interest in the energy centre: how will you measure the value adding you produce by having a centre like that? That applies to all your programs. Do you have ways of measuring not just the instant outputs but also the wonderful value adding that the CSIRO does achieve in terms of technology and industry development?

Dr Sandland—We have developed a methodology with the CIE—the Centre for International Economics—to look both prospectively and retrospectively at the benefits that we actually create. They have developed a very rigorous methodology that has been audited by international experts and which fully analyses all the prospective benefits. CSIRO as a research agency is focusing on the triple bottom line—not just on industry benefits but on society and environmental benefits. This methodology basically develops a model that evaluates all those benefits. So we will continue to use that methodology, which we have found extremely valuable, not just at the stage of prospective evaluation but also at the stage of planning where we go. So the work that we do in our new Newcastle laboratory will be subject to that kind of analysis as part of the planning.

Ms GRIERSON—I am pleased to hear that. Thank you very much; I will follow that with interest.

Senator COLBECK—Do you have any sense of the value of the intellectual property that CSIRO holds?

Dr Sandland—We have recently appointed a new director of commercial and business development, Mr Mehrdad Baghai, who comes to us with an extraordinary pedigree as McKinsey's former growth practice leader in New York. He has joined CSIRO, and certainly the evaluation of our intellectual property portfolio is one of the key priorities that he will be working towards. We have valuations as part of our portfolio, but we do not have that for the whole organisation. But it is certainly a priority for the future.

Senator COLBECK—Given the renown and the reputation of the organisation, it would have to be an extremely valuable commodity.

Dr Sandland—We believe it is, and we also believe that this is an area where we need to improve our game. We believe that we can dramatically increase the leverage that we get from the intellectual property that we have, so we have very aggressive targets associated with increasing the income associated with the licensing of our intellectual property.

Senator COLBECK—So you are essentially developing some serious management capacity around that, through this employment?

Dr Sandland—I believe that what we are putting in place under Mehrdad Baghai will be absolutely world class.

CHAIRMAN—I will continue with intellectual property because I have a question that I want to ask. Speaking broadly about your commercial projects—that is to say, research projects undertaken with industry—do you have a common, across-the-organisation policy in respect of the value of intellectual property being shared? In other words, do you have a common policy as to what percentage of licence fees, sale rights or whatever goes to industry, what stays with CSIRO and what goes to the researcher?

Dr Sandland—We do not have a common policy—

CHAIRMAN—Why not?

Dr Sandland—That is because not all situations are in fact the same. Different clients and different potential partners place different demands on the situation. Generally speaking, however, if a project is what we describe as co-investment, where both the partner and CSIRO make an investment, then we see a sharing of the intellectual property with rights for independent exploitation as being the way we would go. If an industry partner were to fully fund a project then generally speaking we would cede the intellectual property rights for that particular application, but never the background intellectual property rights, to that partner. On the other hand, intellectual property that is developed through our own investment in research would, generally speaking, be fully maintained within CSIRO. So, while I say we have no definitive policy that would give the same answer in every situation, we do have that kind of broad rule for the allocation of intellectual property.

CHAIRMAN—Two years ago I had a discussion with the President of Purdue University in Indiana, which is the world's largest engineering school. They have a technology park of some 600 acres and they deal with major and minor corporations all across the United States and indeed around the world. He tells me that they have a single, non-negotiable policy with respect to intellectual property—that is, that the company gets one-third, the university gets one-third and the researcher gets one-third—and they refuse to take on any project that does not meet those criteria. Their research base has been growing so rapidly that they hardly know what to do with the money. I have discussed this same issue with Robin Batterham and he agrees that it would be a desirable outcome if our universities, CSIRO and the independent research institutes thought about that.

Dr Sandland—I think it is a very interesting suggestion, but I also know that our universities all have different policies within Australia on intellectual property.

CHAIRMAN—I accept that, but I think you will find that Melbourne University follows the same procedure that I just talked about for Purdue University. My next question is one that I ask of agencies very commonly as they come to talk to this committee: how good is your costing?

Mr Garrett—Our costing is a lot better than it was five years ago, but we still have a long way to go.

CHAIRMAN—That does not tell me much, does it?

Mr Garrett—Recognising that salary expenses make up something like 65 per cent of our total expenses, the push to effort logging mentioned earlier on by Dr Haddad is very important

for us to improve that major cost item. Prior to that, people would make an estimate in advance of how much time they thought they would spend on a project and that might have been the way the project was costed. In some other cases, contracts were entered into where they had to actually bill on a cost-plus basis—effort logging has been around for a long time and people would record hours and things. So there are significant efforts going into salaries. I believe the other elements of our cost allocations are pretty strong in terms of projects.

One of the issues that came out of this audit—and I think it is something we have to really improve on—is what I call the transparency between what is actually happening at the bench level and what is evident in our financial or project systems. I will give you an example of what was happening because of a lack of strong corporate policy. A project at the laboratory or bench level had a particular definition and concept and there were resources allocated and people managing that, but within our financial systems it was not evident or transparent exactly one on one as to how that was happening. There may have been, for example, people allocating the budget amongst three or four different scientists involved in the project. So in our financial system you would have four projects but in reality, in terms of deliverables and what the science was about, there was one project. I am sure our colleagues from ANAO would agree that that is the element we will get right, and it is the one that we are concentrating on at the moment such that that transparency will be there. I believe we are pretty strong in the area of absolute costings.

CHAIRMAN—If I pick up your next annual report, what will I see in terms of performance indicators?

Dr Sandland—We had a bunch of compliance performance indicators that we have been reporting against for a number of years. We are now trying to extend that list of performance indicators to give us not just compliance based measures but also measures that we can really manage our organisation by. At the last board meeting, which was held on Tuesday of this week, we discussed the latest generation of performance indicators.

With the advent of our new chief financial officer, Mr Mike Whelan, with a brief for operational excellence, he is certainly very interested in working on enhancing those performance indicators. We are looking at enhancing the representation of those performance indicators in information systems so that we can live by them on a daily basis as opposed to reporting against them once a year in the annual report.

CHAIRMAN—I assume that you report on your successes. Do you also report on your failures?

Dr Sandland—I guess we have the opportunity to report on our targets when ANAO come in and do a thorough analysis of a particular situation.

CHAIRMAN—You obviously undertake primary basic research projects that fail.

Dr Sandland—Yes.

CHAIRMAN—In fact, the majority undoubtedly fail: only a very small percentage are completely successful or provide useful information for ongoing research or a development project. Do you report that kind of information—

Dr Sandland—Yes—we occasionally do so.

CHAIRMAN—or do you try to hide it; put it under a blanket?

Dr Sandland—In fact, it is a very interesting question because I think probably as an organisation we have too few failures. It is possibly because we are slightly more risk averse than we ought to be. I think there are certainly allusions to failures. We have certainly reported on failures in commercial contracts that have led to litigation in the past and it has been subject to extensive discussion. I think it is a really good question. I do not think we do it enough.

Mr Garrett—But it is fair to say we do not report in our annual report on every single project in CSIRO. Therefore you do not get the good and the bad.

CHAIRMAN—You might tell us the percentage of completed projects during the preceding 12 months that were successful versus those that were failures.

Mr Garrett—They are the sorts of performance measures that we are working on.

CHAIRMAN—I would think that would be excellent. I understand that there are some members of the public and there will be some people in this parliament that would look on a list of failures as being terrible. I think any of us with any realism will understand that science is delving into the unknown and that it is not all going to work.

Dr Sandland—Absolutely.

Ms GRIERSON—I think that sort of action research does not always mean failure, does it? The use of the term ‘failure’ is perhaps a harsh one.

CHAIRMAN—That is fair enough. I also understand from Robin Batterham that over 90 per cent of all primary research funding in Australia comes from the public purse. That was part of the argument he used for government increasing the amount of research funding available to you, to universities and to private research institutes. But in the United States it is still at 80 per cent for funding of primary research. What percentage of your business is basic research versus applied research?

Dr Sandland—The most recent figure for basic research in CSIRO is six per cent, but that should not be interpreted to mean that that is the only fundamental research we do. We have a significantly larger component that we describe, using the OECD definition, as ‘strategic research’, which is research that is carried out for multiple purposes and therefore generates potentially significant intellectual property. The CSIRO has its own niche, if you like, in the spectrum of research providers, with the universities doing significantly more basic research and CSIRO doing quite a bit more strategic research, which has a specific end in mind but nevertheless multiple uses. CSIRO also does a lot more applied research. Roughly speaking—and I can give you the exact figures on notice—it is about six per cent basic research. Actually I

can give you the exact figures. When I said six per cent, that figure was a year old—although I think six per cent is the current figure. The figures from 2000-01 are 31.8 per cent strategic basic research, five per cent pure basic research, 14.5 per cent experimental development and 48.7 per cent applied research.

Ms GRIERSON—What is position with value adding? The science innovation committee of this parliament is conducting an inquiry into research and development by the corporate sector in the science and innovation areas, and I would have hoped that the CSIRO's experiences might enhance that inquiry.

Dr Sandland—CSIRO is making a significant input to that inquiry.

Ms GRIERSON—Thank you. That is excellent.

CHAIRMAN—Does ANAO have any comments following our discussions?

Mr McPhee—No, other than to say that CSIRO have responded very positively, obviously, to the audit report with their own initiatives to improve project management, and we plan to schedule a follow-up audit in about 12 months time just to check those.

CHAIRMAN—We will look forward to receiving that, Mr McPhee. Thank you for coming today, for your submission and for being open and honest with us, Dr Sandland. I assume that you will not mind, should we have any further questions, if we put them to you in writing rather than bothering you to come back again?

Dr Sandland—Absolutely not.

CHAIRMAN—Thank you very much.

Proceedings suspended from 12.31 p.m. to 2.04 p.m.

HAWLEY, Mr John Maxwell, Executive Director, Australian National Audit Office

HINCHCLIFFE, Ms Suzanne Maree, Director, Assurance Audit Services, Australian National Audit Office

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

GREENWOOD, Mr Ross Macarthur, Director, Border Control and Compliance Strategy and Services Sector, Department of Immigration and Multicultural and Indigenous Affairs

MOORHOUSE, Mr David John, First Assistant Secretary, Border Control and Compliance Division, Department of Immigration and Multicultural and Indigenous Affairs

SIEGMUND, Ms Nelly, Assistant Secretary, Border Protection Branch, Department of Immigration and Multicultural and Indigenous Affairs

CHAIRMAN—We now come to the third audit report to be examined in today's public hearing. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. 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. 57, *Management Framework for Preventing Unlawful Entry into Australian Territory*. I welcome representatives from the Australian National Audit Office and the Department of Immigration and Multicultural and Indigenous Affairs to today's hearing. Mr Moorhouse, do you have a brief opening statement?

Mr Moorhouse—No.

CHAIRMAN—Good. Mr McPhee.

Mr McPhee—I feel that I should follow suit. I will pass, thank you.

Senator HOGG—As it is Friday afternoon, that is very well done.

CHAIRMAN—That is excellent and very helpful because we like our questions better than bureaucratspeak. At first glance, this report would seem—because there are only four recommendations and the responses are agreed, agreed, agreed and agreed—to be a good clean audit and to indicate that nothing was wrong. But when you read behind it, perhaps what was going on inside DIMIA is more like the chaos theory. Is that reasonable, Mr Moorhouse?

Mr Moorhouse—It is certainly not a reasonable reflection of the reality within DIMIA. I accept that the comments within the audit report contain quite a number of critical observations.

CHAIRMAN—And you are actively working to address all of those?

Mr Moorhouse—We are actively working to address virtually all of them—not all of them we think are entirely justified. Certainly, we are actively working in relation to all of the recommendations.

Senator HOGG—What is not entirely justified?

Mr Moorhouse—It is difficult without going through the report in some detail. What I would say in relation to the tenor of the report is that the department is, to a degree, disappointed that there is little acknowledgment of the level of achievement that the government and we have made in relation to preventing the entry of unauthorised arrivals. What acknowledgment there is, I think, is rather restrained in the face of what we would consider to be quite considerable success in preventing unauthorised arrivals. In relation to the specific comments that are made, some of those are not as well informed as they could be, but I do not really want to take issue with those. It is often the case when someone comes and looks at an organisation that they may not have the same degree of insight into processes that people within the organisation might have.

Senator HOGG—I think you should take issue with them. I think that is the purpose of having you before this committee, such that this committee can flesh out where those difficulties may well be. We are interested as much in the performance of the Audit Office in performing the audit as we are in your department, on whom the audit has been performed. Is that well said?

CHAIRMAN—Absolutely.

Senator HOGG—So, if you can enlighten us, it would be interesting indeed.

Mr Moorhouse—Perhaps I should give an overview of our reaction to the report. The recommendations of the report relate to the processes of internal governance. We accept those recommendations and we are putting considerable resources into addressing them. I would observe that we were already putting some resources into them at the time of the audit and had made considerable investments in this area before the audit report was tabled.

In relation to the specific comments that are made within the report, it is our view that as an organisation DIMIA had made considerable positive steps towards more effective corporate governance. Certainly within the area covered by this audit there have been in recent years considerable pressures that have been caused by substantial increases in the business with which we deal—in other words, the level of unauthorised arrivals. To a degree, the extent to which the Border Control and Compliance Division had implemented some of the next steps in improving corporate governance was impacted upon by those increases in our business. In other words, if an organisation is going through a particularly challenging and difficult period, it is difficult to focus to the extent that might otherwise be desirable upon formal strategic planning and documentation processes.

Senator HOGG—You do not think that has been taken account of in this assessment by the ANAO?

Mr Moorhouse—That is not what I am trying to say, Senator. What I am trying to say is that we acknowledge that certainly at the time of the audit there was considerable ground that we needed to address. The point that I am trying to make is that, at the time of the audit, our priorities and the allocation of our resources were very much directed towards addressing a significant challenge to the border integrity of Australia. Therefore, our priority was dealing with the problem, not developing strategic plans and documenting relationships and so on. We do not question the significance of undertaking those actions for good corporate governance and, indeed, that is why we are investing significant resources in that area. We would have felt more fairly treated if there had been a more substantial acknowledgment of the strategy that we were undertaking and the achievements that we had made.

Senator HOGG—I know Mr McPhee will want to comment, but there is important question. Do you take to task then that the mere title of this report, which is *The Management Framework for Preventing Unlawful Entry into Australian Territory*, gets to some of the difficulties that you have with the ANAO?

Mr Moorhouse—No.

Senator HOGG—In that the report covers just a specific element—this was an issue I have raised with the ANAO previously and they acknowledge in the report that there are three aspects to the unlawful entry into Australian territory and the prevention of that unlawful entry—the title may not cover the full spectrum of your brief.

Mr Moorhouse—Exactly. The title does not cover the full spectrum of our brief. However, I do not take issue with the title and, indeed, in relation to the subject of the audit we appreciate the nature of the comments made by the ANAO. Indeed, the comments made by the ANAO in the audit report are proving to be practically very useful to us in the improvements that we are now making to our corporate and strategic planning.

Senator HOGG—Would you have made those improvements without the ANAO report?

Mr Moorhouse—Yes, we would have and we were already in the process of making some improvements, although I would also, again, like to acknowledge that at the time of the audit we were at the first stage of making those improvements and, therefore, I do not take issue with the fact that the ANAO have made comments in relation to those—in fact, we welcome them and we find them to be constructive in providing guidance to us in improving our strategic and business planning.

CHAIRMAN—Mr McPhee, do you have any comments on this line of questioning?

Mr McPhee—As I understand Mr Moorhouse, I think he is not taking issue with the particular focus of the audit report and the approaches the department might explore in improving corporate governance in the department. I think he is making the point that the department has had an enormous workload—and has worked under a lot of pressure—and

certainly from its perspective would have achieved good results and probably would have liked to see some greater acknowledgment of that in the report.

CHAIRMAN—A pat on the back.

Mr McPhee—I think so. Our audit had a particular focus. We did make the point that we felt that the department did place too much emphasis on the ability of individuals to respond effectively to particular situations based on their skills and experience rather than to rely on accepted governance practices. The very clear message in the report from our point of view was that you cannot continue to rely on individuals responding to situations or it is risky doing that; you need to put in place sound and accepted governance arrangements as well. And I think that has been accepted. So I do not think we are too far apart in terms of the governance issues which the report has raised.

CHAIRMAN—Mr Moorhouse, I believe that ANAO recommended the completion of an MOU between AFP and DIMIA in this area. You would recall that we commented on MOUs in our Coastwatch report. We quite like them. We think they are pretty good stuff. Why aren't you finished yet?

Mr Moorhouse—Perhaps I could Ms Siegmund to comment on that.

Ms Siegmund—We have been working on a draft MOU for some time with the AFP.

CHAIRMAN—Not since 1999.

Ms Siegmund—We have made considerable amendments and suggestions to the AFP, who have taken on the task of drafting and finalising the MOU. It is currently with them for finalisation after we have made considerable comment, and we have been waiting for them to finalise it.

CHAIRMAN—That is an awfully long time.

Senator HOGG—What is the hold-up?

Ms Siegmund—Without having the document in front of me—

Senator HOGG—In a broad sense. We just want the feeling of what is going wrong.

Ms Siegmund—I am not sure that anything has gone wrong. It is an issue of getting two operational agencies to come to terms with having a joint agency strike team, which is a relatively unique structure in a lot of ways. The AFP have a good deal of experience of running operations but, in the main, they run them with AFP officers. This is a situation where they are running a joint strike team—a joint operation—which involves having DIMIA officers with them. Both agencies have wanted to be very clear in the MOU about what the roles are of both agencies but, in the same context, how the agencies are brought together to manage that joint task force.

CHAIRMAN—Ms Siegmund, I hear you, but it seems to me that, if I were going to sit down to design a system of border protection, or border control, or whatever you want to call it, I certainly would never have set out and designed what we have. This is me, Bob Charles; I am a particular fan of what we wound up with, but I would never have designed it in the first place and I cannot imagine anybody who would. But the strength of it, what makes it work, is a memorandum of understanding where there are clear lines of communication and responsibilities between all these multiagencies and multiparties that are trying to assist in one common objective, and that is to make sure that we do not get disease and pests across our borders, that we do not get illegal immigrants across our borders and that people and things that come here leave us relatively safe. That is what it is all about. And a myriad different agencies who have different expertise contribute to that. But if you are going to squabble between yourselves and cannot reach an MOU—this is 2002, from 1999—you are not giving me confidence that we are ever going to get there.

Ms Siegmund—If I can clarify: the MOU that I am referring to about the joint agency strike team covers one aspect of the whole spectrum. We do have, with the AFP, a client service agreement—a broad based agreement—that covers how the two agencies as a whole deal with each other. That has been in place for some time. The MOU is specifically to do with the operations of the joint agency strike team, whose focus is on the prosecution of the criminal elements within people-smuggling.

In relation to the other aspects that you quite rightly raised to do with a boat that might try to enter Australia, we do have a protocol that was drawn up between Customs, us, the AFP and AQIS that looked at the whole aspect of how we would manage an unauthorised arrival attempting to come to Australia—in other words, how the agencies would do what and who would do what at what time. That has also been in place for several years. Apart from that, we have a range of other mechanisms that coordinate agencies which have different roles to play. For example, on the intelligence side, there is the intel oversight committee, which pulls together all the intelligence communities so that, again, the left and right hand do know what they are doing in terms of how we deal with those functions. I did not want to mislead you. The joint agency strike team is one aspect of the overarching way in which we deal with the whole problem of people-smuggling.

CHAIRMAN—Thank you for the clarification. The AFP submission to the committee said ‘The AFP believes that ANAO’s findings, as qualified by DIMA’. Can you tell us what they are talking about?

Ms Siegmund—No.

Mr Moorhouse—No, I do not think we can give you an insight into what they mean. I guess the extent to which we—

CHAIRMAN—Would you have used those words?

Mr Moorhouse—I am not sure that we are seeking to qualify the ANAO report. What we seek to do is to observe that there have been considerable achievements in the area of preventing unauthorised and unlawful entry, which should be acknowledged. I presume that is what the AFP is referring to.

Mr Greenwood—In relation to recommendation No. 1, which is the section of the report where the comment is made regarding the operation of the AFP-DIMIA strike team, there is a DIMIA response to the recommendation, but the DIMIA response broadly agrees with the recommendation. That is the only qualification.

CHAIRMAN—It is hardly a qualification, Mr Greenwood. The AFP are not here so you do not know what they are talking about. We will not worry about it.

Ms KING—In order to give me a context in which to understand this report, I hope that you can provide me with the following: how many unauthorised arrivals were there during the audit period; how many overstayers were there during the audit period; and how many persons who breached their visa conditions were there during the audit period? Are you able to supply that to me today?

Mr Moorhouse—Some of it I can.

Ms KING—Whilst I am aware that overstayers were not covered by the audit, I am asking for those figures in order to provide a context for the audit.

Mr Moorhouse—In relation to unauthorised arrivals, the audit period, as I understand it, covered two financial years. In the financial year 2000-01, there were 4,137 unauthorised arrivals by boat and 1,508 unauthorised arrivals by air. In the following financial year 2001-02, which covers part of that period, there were 1,193 unauthorised arrivals by air and, from what I can see here, 1,212 unauthorised arrivals by sea. I would like to confirm that figure, if I can, because the information I have here is not entirely clear.

Ms KING—Is that unauthorised arrivals?

Mr Moorhouse—Yes.

Ms KING—Do you have the figures for overstayers?

Mr Moorhouse—The latest report we have in relation to overstayers is at the end of December. We call the figure that we have produced in relation to overstayers an 'estimate'.

Ms KING—I understand that.

Mr Moorhouse—It is a precisely based and statistically valid estimate. It is just over 60,000, but I will try to give you a precise number. Unfortunately, this number in a sense gives a false degree of precision. It is 60,103. I would prefer to say just over 60,000 because it is a statistic.

Senator HOGG—I am glad it is not 60,103.5. Then we would worry.

Mr Moorhouse—In relation to breaches, it is a difficult question to answer precisely but I can give you details in relation to the number of visa cancellations.

Ms KING—Yes, that would be fine.

Mr Moorhouse—The number of visa cancellations in the last financial year, 2001-02—this is onshore because the offshore one does not relate to the matters you are talking about—onshore alone was 12,985.

Ms KING—What resources, both financial and personnel, are allocated to all aspects of the unlawful non-citizens program? You may have to take that on notice, but I would hope you would have some vague indication of what your budget allocation for those programs would be.

Mr Moorhouse—I think it is probably better that I take it on notice because the staffing within the division covers aspects that are not related to those matters—for example, the regulation of entry to Australia and so on—so it is difficult for us to extract that. I can certainly give you some rough indications if you are interested in that.

Ms KING—Yes, that would be fine.

Mr Moorhouse—In relation to onshore compliance, which is the field activities that we conduct in Australia—and I am focusing now on the staff in the states and territories because they are the people—

Ms KING—Do they deal with both breaches and overstayers?

Mr Moorhouse—That is correct. This is unfortunate, Senator, because we have 187.5. We do have part-time staff though.

Ms KING—We understand that.

Senator MOORE—It is 187.5 dedicated to compliance, which is general field activity, and 33.25 allocated to student compliance.

CHAIRMAN—What percentage of the time were they sick?

Mr Moorhouse—I could not tell you that. In addition to that, there are staff involved in investigations and prosecution and staff involved offshore in relation to trying to prevent entry, and there are staff at the airport who play a related role. If you are comfortable with those numbers I will leave it at that.

Ms KING—I would like to get the precise numbers, if I could.

Mr Moorhouse—The precise numbers? I can give you some more.

Ms KING—You can do that on notice. In terms of the unauthorised arrivals, I assume you can only provide me with figures for staff from your own department. I would be interested in getting some broader figures, but if you can supply me with information on the staffing and financial resources which are allocated in your department I would be grateful.

Mr Moorhouse—Are you happy if we take that on notice?

Ms KING—Absolutely. That is fine. In taking that on notice, if you are not able to provide those figures now, I would also like a breakdown for my own information in terms of the unauthorised arrivals, overstayers and breaches, as to what proportion of your resources are allocated to each of those. I would also like an indication, which you hopefully will be able to give me now, as to how you actually determine the allocation of those resources between each of those categories.

Mr Moorhouse—I could take that on notice, but it is actually a difficult question for us to answer because we do not distinguish in terms of the allocation of resources to, for example, overstayers and breaches. The compliance field teams that we have—

Ms KING—If you want to collapse those into one category I am quite happy with that.

Mr Moorhouse—That is fine.

Ms KING—I would be interested to know how you determine the allocation of those resources between overstayers and breaches, as one category, and unauthorised arrivals. Are you happy to take that on notice?

Mr Moorhouse—I can give you a broad answer. In relation to unauthorised arrivals, our allocation of resources is determined by demand. If there are people arriving in Australia without authority, then teams of staff are brought together to deal with those people, to interview them, to identify them, to collect intelligence from them and to then consider any claims that they wish to make. That is simply a question of a demand driven process.

In relation to what we call onshore compliance—those people dealing with breaches and overstayers—we have a base allocation for staff across Australia for that type of activity. But in the present environment our activities are governed by a purchasing agreement. Therefore, our managers around Australia are able to make what is in effect a business decision in relation to the resources that they invest in this area. If we believe that there are people who are able to be located, then our managers in the states are able to recruit staff, take on staff in order to address the level of overstay or breach of visa conditions.

Ms KING—You have told me about the allocation of resources between each of those programs; you have not said how you determine the allocation between each of those. How do you weight it up? Do you put more money in unauthorised arrivals or do you put more money in overstayers and breaches, or do you not take any consideration to do with that?

Mr Moorhouse—They are essentially unrelated. As I said, dealing with unauthorised arrivals who arrive onshore is a demand driven process. If people arrive in Australia, the staff who are allocated to that task are the staff who are necessary to deal with it. I am conscious that I may not be giving you a completely comprehensive answer in the sense that we are talking about unauthorised arrivals rather than unauthorised travel to Australia. We do have allocations, of course, in relation to the number of immigration compliance staff and airline liaison officers that we have located overseas who attempt to interdict or prevent travel by unauthorised entrants.

To come back to the question, dealing with unauthorised arrivals in Australia and dealing with people who are in breach of conditions or who have overstayed are essentially two

unrelated activities. As I said, dealing with unauthorised arrivals is essentially demand driven. We simply have to provide the resources to deal with those people. When dealing with visa breaches and overstayers, essentially we put resources into that area according to the level of non-compliance that we believe exists. I tried to relate it earlier to the purchasing agreement that we have with Department of Finance and Administration. That gives us the capacity to put as many staff on as we think are necessary. If we make a misjudgment and we put too many staff on, then as an organisation we have to absorb the excessive costs in relation to that. So it is a business decision that we make.

Ms Siegmund—I can add a couple of stats that we have here at the moment. Mr Moorhouse mentioned some of our offshore resources. We have in fact nine airline liaison officers. These are staff who are posted with airlines mostly around the hub. I can give you the airports they are at, if you need that. We have 24 compliance officers offshore as well who are based in Australian missions overseas and have a particular specialised function in terms of compliance activities.

Mr Greenwood—If the question is attempting to tease out the strategic allocation of those resources, then I would say that we are attempting to minimise the negative impact on the community of the entry of persons who are undesirable because of a concern for security, a concern for criminality, a concern for health, a concern in other areas. We are applying some strategic principles to have a regulatory framework to enforce immigration law and to deter and disrupt that activity, and the allocation of resources is against those principles.

Ms KING—Which are based on your assessment of risk.

Mr Greenwood—As the ANAO observes, we have not yet had in place a formal framework for dealing with that. It has been our business for a long time, and we have been successful in our business. We are now putting in place a planning framework that is integrated, that takes account of risk management and risk planning and includes indicators of success: performance indicators, set standards, intermediate targets—the sorts of issues that are discussed in the report.

Senator MURRAY—Mr McPhee might like to comment on this question as well. Mr Moorhouse, is it appropriate when looking at this area—which is very difficult, to put it mildly—for us to look at whether international benchmarking is relevant? If you look at the OECD countries—all of which to some degree or other have unlawful entry as a problem, and some have it on a huge scale—do you see any circumstances comparable with what we do and how we manage these issues and the frameworks we use that can be benchmarked to make sure that we are taking advantage of others' experience, or perhaps they are taking advantage of ours?

Mr Moorhouse—I believe there are international benchmarks that are useful in this area, but they are not necessarily the ones that one might consider to be immediately obvious. They are, indeed, quite complex. The reasons for that are the different legal systems, the different challenges and the levels of risk that are faced by different countries. But I do think, if you are attempting to benchmark Australia's achievement in this area, it is important to look at the magnitude of the problem that we face and the extent to which we have been able to address that problem and reduce the size of the problem. I have not come armed with figures in this

area, so I do not want to try to put numbers against it but, if we were to look at the level of undocumented or unauthorised arrival at the borders of countries that are similarly attractive to unlawful entrants, I think one would have to conclude that Australia is performing very well indeed in deterring unlawful entry.

Senator MURRAY—I am particularly thinking of an area which is very similar world wide, and it is not our coast but our airports. Every major airport in the world in an OECD country has the danger of unauthorised air arrivals, with all that they bring with them. I just wondered—and I would like to hear from the ANAO as well—whether, within the framework of this audit, those questions were asked or were relevant to the particular audit.

Mr Moorhouse—I thank you for your question, Senator, because I think the point you are making is particularly relevant to Australia and, indeed, comes to the point of what I was trying to say in my introductory comments. I would like to make a couple of observations before the ANAO comments. In relation to deterring unlawful entry, Australia utilises a number of mechanisms. One of the principal mechanisms we use is our ALO scheme. We were the country that trialed the ALO concept on behalf of the IATA control authority's working group in 1990, and we were the first country to put airline liaison officers in place. Although other similar countries adopted different models to deal with attempted unlawful entry, other countries have now come to the model that Australia has put in place—in other words, having documentation specialists placed with airlines in major hub airports. So if you were to look at other countries such as the United Kingdom and the United States, you would see that they have followed the same model that we have had in place for the last 12 years.

Another dimension of our strategy for dealing with this particular problem is, for example, our advanced passenger processing system, which I will refer to as APP. APP is acknowledged by everyone in the business as the most advanced passenger screening system in the world by a long way. It gives Australia the capacity to screen people who are seeking to board flights travelling to Australia and to advise the airline whether those people should be carried to Australia or not. Indeed, APP is having a very substantial effect on the number of unlawful arrivals in Australia. If you look at the numbers of unlawful arrivals by air that I gave to you, you will see that there has been a substantial drop in recent years. One of the reasons for that is that now, before an airline boards a person, they key in that person's passport number and a few other keystrokes, and that results in the airline system communicating with our systems, confirming whether a person has a current valid authority to travel to Australia and then communicating with the airline whether or not that person can be allowed to board the aircraft to Australia.

Many other countries in the world are in the process of implementing what are called advanced passenger information systems. But even what they are putting in place now are one-way systems, where information about the passenger is conveyed to the country so that, if there is any threat, the immigration authorities can be ready for them when they arrive. Australia has had in place now for a few years a system whereby we go one level ahead of that. The person's information is put into the system, the information is transferred to Australia and we send back to the boarding point advice on whether or not that person can be allowed to board the aircraft. That is working extremely effectively and it is indeed preventing many people who would otherwise have been able to con or cheat their way on board an aircraft from being able to do so.

Senator MURRAY—That sounds very encouraging, but I then move on to this report. If I deal with, for instance, ANAO recommendation 1, that would seem to imply that you have very good operational procedures but that they are not integrated into an overall strategic or planned approach. My question would follow that, if the ANAO is saying, for instance, ‘Introduce recommendation 1’, with which you agree, how would that improve the situation you have just outlined to me? Otherwise, what is the point of it?

Mr Moorhouse—If I may hog the microphone for a little while longer, and I apologise for doing this—

Senator HOGG—I would not ‘hog’ the microphone!

Mr Moorhouse—Sorry, Senator.

Senator HOGG—I get a little bit sensitive over people ‘hogging’ things: that is my domain!

Mr Moorhouse—I beg your pardon. If I may take your time a little longer, what we are acknowledging in agreeing with that recommendation is that the challenge we face these days is very sophisticated. We have people involved in the people-smuggling business who are not dumbos but smart people who are well resourced and involved in a very profitable business. Therefore, there is a high level of organisation behind attempts to bring unlawful or unauthorised people to Australia.

Senator MURRAY—Are you referring just to boats?

Mr Moorhouse—I am referring to all different types. Boats are just one manifestation of the business.

Senator MURRAY—As long as I understand that when you say people smugglers you are referring to the air as well.

Mr Moorhouse—That is correct. The value in the ANAO’s recommendation and the reason why we acknowledge it readily is that when one is facing such a well organised and well resourced opponent one cannot afford to be complacent. We have to adopt the best practice in relation to strategic planning. We as an organisation believe that we have been extremely effective in countering unlawful entry to Australia. We believe that, if anyone took the time to look at the sort of benchmarking that you referred to, they could not avoid acknowledging the level of achievement that has been made. The point I am making—and where we agree with the ANAO—is that there is absolutely no room for complacency and we have to adopt best practice, and I believe the recommendations by the ANAO will give us some guidance in that regard.

Mr McPhee—Senator Murray, I would not disagree with anything Mr Moorhouse said in terms of what DIMIA is doing and where it might be going in the future. All this report is doing is providing it with a stimulus to focus on the governance issues going forward. I do not deny the very good initiatives that the department has put in place. I think in one of our earlier reports a year or two back—I forget the name of it—we acknowledged that the work DIMIA was doing

with the reservation systems et cetera overseas was world class. There is no dispute about that. We are asking for a bit more discipline in the management framework going forward.

Senator MURRAY—Where I go to—and I will conclude here—is that recommendation No. 1 strikes me as being fairly forceful. However, I wonder whether the response indicated that it is a ‘nice to do’ thing, as opposed to a ‘must do’ thing—must-do things can result in measurable outcomes which will significantly improve the performance. I am not sure from the answers whether it is in the area of, ‘Yes, that is nice to do and will polish off the edges,’ or whether it is right to the centre and is saying, ‘Yes, we have achieved this. We think that is very good. We want to benchmark further, and we think if we do this we will actually have greater improvements.’ I did not get that sense from the response I got. I got a sense of great pride from Mr Moorhouse and his department at their achievements, and that might be quite proper, but I did not get a sense that the acceptance of a recommendation like that will actually make a significant difference.

Mr Moorhouse—If I can acknowledge that, because indeed the way that you just laid it out is certainly the way we would see it.

Senator COLBECK—That goes to what I was intending to look at. Is it possible that some of the management practices recommended in the report could have been put into place prior to the upsurge in activity levels that you had?

Mr Moorhouse—I think the short answer to that is yes, but there are a couple of important comments that I would make in relation to that. There are two dimensions to the recommendations of the report: one is enhanced strategic and business planning and performance measurement and reporting; the other is a more strategic approach to intelligence collection. In relation to the latter point, it is important to acknowledge that you have got to make some first steps. If we are talking about a strategic intelligence capacity within the organisation, the first thing one needs is an intelligence collection network. You have got to have some information to deal with first. We started putting in place our immigration compliance officer network in the early nineties. We have gradually built on that network and now have, as Ms Siegmund said, 24 staff offshore. We have an offshore intelligence collection network, and the staff do other work beyond that.

A couple of years ago, we established a better resourced and a much more focused intelligence analysis capacity. We had intelligence analysis capacity before then, but it was not as well structured, it was not as well resourced and it was not as well focused. So I see those as being necessary steps before you can move to being an organisation that is intelligence driven and that makes effective use of strategic intelligence. As an organisation, yes it is important that you have the collection network, the analysis capacity and then move on to using that intelligence available to you in a strategic way and become an intelligence driven organisation. We could always have done it faster, but it is important to build that capacity in a structured way.

Coming back to the first part of the report’s recommendations in relation to strategic planning, business planning, performance measurement and so on, I think that DIMIA has made considerable achievements and has been towards the front of the pack in establishing an outcome and output framework as an organisation and in implementing accrual accounting and

output based budgeting. As an organisation, we have been at the front of the pack in relation to those sorts of measures. I acknowledge that in the area that we are discussing today some of the next steps have been delayed. The point that I have tried to make is that one of the reasons why those next steps have been delayed is that we came under a very significant challenge with the numbers of unauthorised arrivals. It would have been desirable and better had we had the resources to respond to that challenge while, at the same time, keeping up the pace in relation to the improvements in corporate governance within this part of our organisation.

To answer your question, yes, it is something that could conceptually have been done faster, but the reality is that we have only so many skilled resources within any organisation. Frankly, our resources were very much directed towards dealing with the particular challenge that we were facing as a country and as the immigration authority in relation to the large numbers of unauthorised arrivals and the activities of people smugglers. So it could have been done faster, but as soon as we have had a chance to turn to it, that is where we have been putting our resources.

Senator COLBECK—Thank you for that; it is quite comprehensive. So you are essentially saying that had some of those things been in place, it may have been easier for you to deal with some of the issues that came up in the upswing in activity levels that you had to put in place but, effectively, it was a matter of where you were at the time?

Mr Moorhouse—Certainly on the latter part of your comment, yes, it was a matter of where we were at the time.

Senator COLBECK—Do you think that where you were in your structural development and your overall management practices had some impact on your capacity to complete the MOU with the AFP?

Ms Siegmund—It may have done. Certainly, as Mr Moorhouse said, the two financial years 2000-01 and 1999-2000 saw record numbers, as you would be aware, of unauthorised arrivals entering Australia so we were very focused on trying to deal with that, more so than we were on finalising the MOU. So, yes, it would have had an impact in that sense.

Senator COLBECK—Given that you have just been through this process, because of the cross-agency links that are tending to be developed to deal with some of these issues now, is there any scope for some modelling or review of the process that you have been through so that future interagency relationships can be put together more quickly?

Mr Moorhouse—I would not go that far. I think the circumstances are very particular to any organisation. There may be observations that other people could draw from it, but I would not go as far as saying that it provided a model or that we should be modelling it. We are attempting to address improvements in corporate government, strategic planning and business planning, and the integration of business planning, performance measurement and reporting. In an integrated way, within our organisation, we look to other organisations as potential models for us. We are doing that now. We are looking at different models of strategic planning and business planning within and outside our organisation. Certainly we are looking at best practice in other areas. There is a reference made in the report to the intelligence doctrine of Customs. We are looking to other organisations, such as Customs and others, with a developed intelligence

capacity to provide models for us, in terms of how we proceed in developing our strategic intelligence capacity and so on. Modelling is of value. We will certainly be focusing on learning what we can, both from the audit report and other organisations.

Senator MOORE—Page 33 of the ANAO document, which is actually for someone who has not worked in the area, seems to spread quite clearly the way the three levels of protection are divided between offshore, border and onshore. Does that have departmental endorsement? If I look at that, can I feel sure that the department accepts that that is a fair division of structure?

Mr Moorhouse—It is difficult for me to say, Senator, because I have not really looked at it in that way before. I think it is a reasonably accurate reflection of what we do. I recall that in some discussions about this report we have made observations that perhaps there could have been some movement between the boxes. But that is at the margins, I think. I think it is reasonably accurate, but I do not want to necessarily endorse it without going through it more carefully.

Ms Siegmund—Perhaps I could make an additional comment to Mr Moorhouse's. I did have an opportunity at the time we were being questioned for the audit to look at some previous versions of this model. It is a difficult area in which to come up with 'the model', in a sense, given that the whole area of people-smuggling and fraud and attempts to enter Australia illegally are very complex and broad ranging—covering air, boat et cetera. Whilst it may not be the ultimately perfect model, it was certainly a useable model from our perspective.

Senator MOORE—I am happy with it being something that is useable to define, because it is a very difficult area to grasp.

Ms Siegmund—It is.

Senator MOORE—When you are trying to refine awareness of resources, particularly risk management, someone from outside needs something like that as a guide.

Ms Siegmund—Absolutely.

Senator MOORE—I just wanted to make sure it was fine.

Ms Siegmund—As Mr Moorhouse said, too, with a lot of models of this type there is a lot of fluid movement between some of the boxes, it is not quite as categorical as it is. The other difficulty is that, for a lot of this, we are really reliant upon things beyond our control. If you look at issues such as transnational crime and organised criminality that supports that, they are a group of organised criminals who change their modus operandi quite quickly and often. What is built into this is an attempt for flexibility and broadness that will allow you to deal with basically whatever comes at you.

Mr Greenwood—Senator Moore, as a specific observation, border and onshore were essentially outside the scope of the audit, so obviously we did not focus on that part of it. One of the results of passenger clearance for a very small proportion of passengers arriving in Australia is that they are refused entry to Australia and returned to their own country. Arguably, that is part of the passenger clearance or it might be another dash point. It is arguably something involved in detection, but there is also an obvious deterrent value with somebody being refused

entry and sent back. That sends a message back with them. So, at the margins, there are observations to be made.

CHAIRMAN—Mr Moorhouse and Ms Siegmund, I note both of you have given DIMIA big pats on the back for excellent performance. You talk about the very difficult environment that precedes that, but don't you admit that we are missing an extremely difficult environment that other nations have—that is, land borders?

Mr Moorhouse—I agree entirely. We are extremely fortunate in that regard.

CHAIRMAN—Thank you.

Senator MOORE—I have a question relating to the answers that Mr Greenwood and Ms Siegmund gave earlier about resource distribution. I know you have regional bases where you have, in major capital cities, the state offices, but are the kinds of programs you are talking about nationally driven program areas with resources held nationally and distributed? For instance, with the compliance and the investigations area, which we talked about at length before—about how you could look at the work that was being done, the current way that the work is being done, and where you have done the business a long time and you are now building in risk management—is that done at a national level to get a feel for what is happening across the whole country to then be able to flexibly move resources if there is a major issue in Queensland or South Australia? Or is it located at the state level and run on that basis?

Mr Moorhouse—It is both. There are dimensions that are managed at the national level and there is a strong degree of coordination and direction at the local level. For example, in relation to overall strategic management and policy development, procedural development and broad resource allocation, that would be done at the national level. In relation to the local strategies, which are quite important in this area, the level of resources that are committed to particular activities—the distribution of resources and operational activities—they are managed at the local level. So it is a complex coordination task. People within our organisation are used to working in what might be called a matrix management organisation. I am not entirely sure what that means, but it is where you are working to a program manager or an output manager in central office in relation to policy matters and providing feedback on policy, strategy and so on, but you are working with the state director and state executive in relation to local program activities, local resource distribution and so on.

Ms Siegmund—I will give a quick example to clarify. We recently were involved in a compliance activity that was based in Darwin. It was a joint agency activity with the Australian Taxation Office and Centrelink. But, due to the broad range of that activity, officers from the compliance office in Victoria and from the ACT office were also invited to participate. It was a dual purpose; it gave additional personnel but it also allowed the three offices to work together and share some best practice and experiences with each other. We have certainly encouraged that, where it is financially and physically possible amongst our offices across Australia.

It is also done in a number of other ways. We have regular telephone hook-ups once a month with offices, for similar reasons. But where it is physically and financially possible—and where it is appropriate—we run joint operations, for those very reasons.

Senator MOORE—Following on from what I took as one of the inferences of the report, which was to not only look at what you are doing but also take into account a more effective risk management process to best link the resources to the task, that kind of flexibility is current under the structure that you have now got? When you have the risk management structure in place—which you have now started—and the data starts coming in, you feel confident that the current structure in the department will be able to reflect that?

Mr Moorhouse—Completely.

Ms Siegmund—Yes, absolutely.

Senator MOORE—There are just two more points, both out of the audit. One was the inference that Mr McPhee gave in his overview that perhaps there is a reliance on current effective personnel doing the job rather than putting in place some kind of program to ensure that, regardless of which personnel are there, the job can get done. It is linked a little to the questions about IT resources in the department—the management systems and IT and all the things you put in place. Is there a time frame for getting the IT resources in place that have been recommended by your department?

Ms Siegmund—There are two aspects to that question. We are currently in the process of introducing an intelligence database—an IT system. I am not a computer person, so I am probably going to give you all the wrong terms.

Senator MOORE—The term ‘intelligence database’ terrifies me because it is something that—

Senator HOGG—It is all right; you have friends over here.

Senator MOORE—You put the stuff somewhere that is safe and from where it can be moved around.

Ms Siegmund—Don’t worry, Senator Hogg, I am a nervous Nellie on this as well, so I sympathise with you. In all seriousness, though, that has been a very important resource for us and we have pressed forward with respect to obtaining it. It is a complicated one as well, because there are obvious issues of security on the IT side with all the complexities of having a database brought in to an agency that already has quite a substantial IT system in place.

There is one other quick point I want to make about the comments to do with a heavy reliance on staff who have a particular skill. We pointedly recruited into the agency, when we were setting up the intelligence analysis section in particular, persons who had intelligence experience of some kind—either intelligence professionals or persons who had worked in that field—and that was done for a very good reason. We wanted to develop a tactical and operational intelligence response as quickly as possible but as effectively as possible, and we needed to do that pretty quickly. The best way of doing that is to get people who know what they are doing and who are intelligence professionals. They understand the intelligence cycle, they understand how to collect, collate, analyse and disseminate, and get it back out there again in the way that the intelligence professional cycle works.

As Mr Moorhouse said earlier, in answer to Senator Colbeck's question, that has enabled us to have that firm base—now that we have the tactical and the operational needs—and enabled us to now look at how we go to the next level, which is strategic. In other words, what is going to hit us over the horizon and how can we utilise strategic intelligence to best arm the agency to be ready for whatever is going to hit us next? By doing that, though, by getting those professionals in, I think it has stood us in very good stead. It has assisted us also in getting a good reputation in the rest of the intelligence community. As you understand, we are heavily reliant on our partner agencies. We have worked very hard to develop that professionalism and reputation so that we have their confidence in their providing us with the intelligence that we desperately need and, in turn, accepting our product as we put it out.

CHAIRMAN—Does the ANAO have any response to all of that?

Mr McPhee—No, thank you. We are happy with that.

CHAIRMAN—Is it the wish of the committee that the submission from Mr Ian McPhee on corporate governance in the ABC dated 23 August be accepted as evidence for this review? There being no objection, it is so ordered.

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

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

CHAIRMAN—I thank the witnesses, the gallery, the secretariat, my colleagues and Hansard. I declare this public hearing closed.