COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Review of Auditor-General's reports, first quarter 2002-03; Review of Auditor-General's reports, first quarter 2002-03

FRIDAY, 28 MARCH 2003

CANBERRA

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Friday, 28 March 2003

Members: Mr Charles *(Chair)*, Ms Plibersek *(Vice Chair)*, Senators Conroy, Humphries, Lundy, Murray, Scullion and Watson and Mr Ciobo, Mr John Cobb, Mr Georgiou, Ms Grierson, Mr Griffin, Ms Catherine King, Mr Peter King and Mr Somlyay

Senators and members in attendance: Mr Charles, Ms Catherine King and Ms Plibersek

Terms of reference for the inquiry:

Review of Auditor-General's reports, first quarter 2002-2003.

WITNESSES

Committee met at 10.32 a.m.

CHAIRMAN—I open today's public hearing, which is the first in a series of hearings to examine reports tabled by the Auditor-General in the financial year 2002-03. This morning we will be taking evidence on two audit reports: audit report No. 2, *Grants management: Aboriginal and Torres Strait Islander Commission*, and audit report No. 7, *Client service in the Child Support Agency; Follow-up audit; Department of Family and Community Services.* 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 a committee can put questions to witnesses as 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 to respond directly to each other. Second, given the length of the program, statements and comments by witnesses should be relevant and succinct. Third, I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the parliament 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 the secretariat staff.

[10.34 a.m.]

MASON, Mr Stephen James, Acting Manager, National Network Office, Aboriginal and Torres Strait Islander Commission

MOWLE, Mr Terrence Anthony, Manager, Service Delivery Support, Aboriginal and Torres Strait Islander Commission

YATES, Mr Bernard, Deputy Chief Executive Officer, Aboriginal and Torres Strait Islander Commission

BLAIR, Mr Stephen, Acting Senior Director, Performance Audit Services Group, Australian National Audit Office

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

MEERT, Mr John Emil, Group Executive Director, Performance Audit Services Group, Australian National Audit Office

CHAIRMAN—The audit report being considered in this first segment is audit report No. 2, *Grants management: Aboriginal and Torres Strait Islander Commission*. I welcome representatives from the Australian National Audit Office and ATSIC to today's hearing. Mr Meert, do you have an opening statement?

Mr Meert—I will make a very brief statement. This audit examined the Community Development Employment Project, CDEP, and discretionary grants made by regional councils of ATSIC. The audit found that ATSIC had developed effective policies and procedures for administering grants which generally met better practice. After a number of external audits, including the government's special audit in 1996 focusing on ATSIC's financial management, we found that financial management of grants, including releases of funds and acquittals, was sound. ATSIC is continuing to improve the management of grant funding. We nevertheless found several administrative areas that required attention, and they are reflected in our recommendations. They included processes such as clear documentation, undertaking the required number of field visits to monitor grants and improving performance information. That is a summary of the audit.

CHAIRMAN—Thank you. Does ATSIC have a brief opening statement?

Mr Yates—Yes, Chairman. We welcome the opportunity to participate in these hearings and provide further information. We apologise for our written submission being sent in late, but it is there and we will not elaborate too much on it. Mr Meert has summarised the key findings in the overall performance of grant management. We acknowledge that we are very much in a process of continuous improvement. We have in the past invested quite heavily in financial management and compliance processes to meet our accountability obligations. I think the report essentially gives us a clean bill of health there. But we still have some way to go with a number of administration aspects of grant management. We recognise that improvements do need to be

made in a number of those areas, and Mr Meert has mentioned a number of them. ATSIC have readily agreed to all of the recommendations in the report and we are now progressing the implementation of those recommendations across the organisation. Our submission seeks to outline how that is being done.

Finally, I simply mention that the Auditor-General has also emphasised that ATSIC needs to strengthen its advocacy role in the face of the failure of mainstream programs delivered by other government agencies, both federal and state. This is important, because such failures lead to ATSIC's role as a supplement to those mainstream programs potentially being compromised. Instead, we get caught up in a situation where our Indigenous-specific programs are expected to do more than they are designed for and consequently focus less on the most disadvantaged clients. That was an issue highlighted by the Commonwealth Grants Commission in its 2001 report on Indigenous funding. We would be happy to take any questions from the committee.

CHAIRMAN—Thank you very much, Mr Yates. In 1997 we brought down report No. 355, *Aboriginal councils and Torres Strait Island councils: review of financial accountability requirements*. It was our first ever joint report with a state public accounts committee—that being Queensland. Our recommendation 1 asked for some standardisation with regard to grants provided by ATSIC, the Torres Strait Regional Authority, the Department of Family, Youth and Community Care and other appropriate agencies. Do you know if that has been implemented? ATSIC agreed with all four of our recommendations.

Mr Yates—We have made significant progress in developing more standardised processes and making that whole arrangement a lot more user friendly than it used to be. I think the ANAO report alludes to that. I do not know if Mr Mason can talk about that in any more detail.

Mr Mason—If I understand the question—and please correct me if I do not—it is about trying to bring our procedures closer to those of other agencies.

CHAIRMAN—It is so that, if you have a small community with not a lot of technical, financial and management expertise, you do not hit them with five very substantial requirements for grant acquittal from five different organisations. Outside of putting the money in five jam tins and taking it out of each one, they do not have any way of coping with it. That was our view.

Mr Mason—I believe that ATSIC understands those difficulties. In many cases we attempt to approach regional communities with a joint approach. I do not know that there has been a lot of work done in the area of determining whether our procedures are in line with others. ATSIC is currently involved in the whole of government, COAG, approach to communities. I am aware that we will be making some sorts of moves in the area of standardising delivery of processes, but I would not suggest that it has been concluded to any large extent to date.

CHAIRMAN—We also recommended that a grants provider forum be established at ministerial level between the Commonwealth, the states, the Aboriginal Coordinating Council and the Island Coordinating Council. I am not aware whether that has been accomplished or not; are you?

Mr Yates—I do not believe it has. This issue comes up over and over again. It looks like it is being addressed much more concertedly, in the context of the current COAG commitments, so

that it becomes a more concerted whole of government approach. One aspect of that is looking at the contract and grant arrangements that are utilised across the Commonwealth. There is a More Accessible Government initiative that the Department of Transport and Regional Services is progressing in order to achieve greater standardisation in the way government relates to communities, but I think we still have a long way to go. But it is on the agenda as part of the testing of that whole of government approach which, realistically, has not been done before in the way it is now being attempted.

CHAIRMAN—You will understand that we as individuals do not have knowledge about every different kind of grant you are involved in distributing or administrating, or that local councils or communities access, use and need to account for. But is the major grants program, as either primary or secondary funding for programs that are basically ongoing year after year, the right way to go about it or has it passed its use-by date?

Mr Yates—A substantial part of our program activity is tied up in CDEP and in our community housing and infrastructure program. That accounts for almost three-quarters of our funding. CDEP, for good or ill, is a very substantial program and a different way of delivering income support to Indigenous communities. We are certainly not satisfied that it is doing that as effectively as it needs to, and we are examining how it needs to be re-engineered. I think the report properly identifies that often the level of funding tends to be based on historical arrangements and it needs to be targeted more effectively than that. The recently elected board of ATSIC have called for a review of the formulas that underpin our grants funding. Clearly, that priority is going to be in front of us to ensure better alignment between levels of grants, nature of grants and needs in different areas. So, in that sense, we are picking up the thrust of the report: there is too much history driving what is happening, rather than a fresh assessment of relative need and relative levels of funding. The actual adequacy of the programs is another issue.

CHAIRMAN—But that does not really deal with it. I think that you have missed the nature of my question. I am really asking whether grants per se as a mechanism of funding is the appropriate way to now deal with, for example, CDEP rather than on a recurrent funding basis, which is constantly reviewed and put up and down as necessary.

Mr Yates—That is not continuous. They do get reviewed.

CHAIRMAN—Still, a grant is administered as a grant, not as a recurrent funding program.

Mr Yates—That is correct. We are certainly examining quite actively at the moment the merits of a contracting approach to the delivery of a number of our programs as a way of achieving a more outcomes based approach to what is done with those grants or that funding. Some of our programs already utilise a contracted approach, but in major ones such as CDEP that has not been a feature. It is something that we are aiming to trial over the course of the next year.

Mr Mowle—To add to that, in our Community Housing and Infrastructure Program, for instance, 60 per cent of the entire program is now delivered through contracted relationships, including through state government agencies. Where we have bilateral agreements with Family and Community Services and state housing agencies, the funds are pooled at the state level and

the entire Commonwealth and state effort is delivered through one state based housing agency. ATSIC does not actually administer the grants.

CHAIRMAN—So it is not a grant; it is now recurrent funding.

Mr Mowle—It is a grant to the state government agency. In New South Wales we provide a grant of $12.5 million to the Aboriginal Housing Office. Family and Community Services put in their Commonwealth-State Housing Agreement money for that agency. That agency delivers one program of $70-odd million, provides one operational plan to ATSIC and FaCS and accounts for everything through that one report. We have those agreements in New South Wales, the Northern Territory, South Australia and Western Australia and we are trying to shore up bilateral agreements with the other states at the moment.

Mr Yates—That is an example of trying to do a joined-up approach, at least with regard to the housing area, which is a response to the recommendations and directions that you referred to earlier about governments coming together rather than relating—

CHAIRMAN—Yes, it does help answer that. Is it worth looking in a modern sense at a different way of financial distribution of the same amount of funds and accounting for them—to be able to do so more effectively and easily than an old-fashioned system of saying, 'There is so much in this bucket and so much in that,' once a year?

Mr Meert—I think it is. The issue of the threshold question is really about recurrent funding or supplementary funding. Whether you use a grants process or some other process—such as, managed at a state government level through some contractual basis—the threshold question is: if it is a supplementary funding program then how do you justify a recurrent funding system, be it grants or something else? You must have a sunset clause, because otherwise you run into the risk that it will not supplement somebody else doing their funding work; it will become a primary funder. That to me is a threshold question. Whether the grant is archaic and you can go into some other one is a valid question as well. Both need to be dealt with.

Mr Mason—We are currently looking at and have been discussing this sort of thing over a number of years: whether our submission process and the way of delivering funds by grants is effective. As Mr Mowle said, we have moved into contracting arrangements with some of our programs. In the next 12 months, as Mr Yates said, we are looking at a number of things in the area of contracts and different service providers—whether we go to a purchaser-provider model. Obviously, we have to look well into this to make sure that we do not run off the track of what we already have, because there are some quite fine achievements by organisations that we grant funds to and we have difficulties in other areas. We understand that. This is under examination and it will be quite an extensive examination, I would suggest.

CHAIRMAN—I understand you now. I read the report and I read your submission for this hearing today. It just came to me that maybe the world has moved on and maybe grants are no longer a modern mechanism for administrating funds. It is worth thinking about.

Ms PLIBERSEK—I want to take up something that Mr Meert was saying about the danger of ATSIC taking up responsibilities through its grants program that are really the responsibilities of other departments. Aboriginal people, as citizens of this country, have an entitlement to health, education and housing. Could you tell me about grants or funding sources from other

departments—the health department, the education department—and whether people, particularly in remote communities, who perhaps could be relying on their right to apply for money through other funding streams, just find it easier to apply through ATSIC because that is the funding stream that they are aware of, and, therefore, your grants program ends up taking on additional responsibilities. We have raised the issue of ongoing additional responsibilities rather than the grants program being a kind of safety net to pick up on things that have just fallen through the gaps. Instead, the grants program is trying to do everything.

Mr Yates—That is a very serious issue that we grapple with because, insofar as state and federal governments are not delivering core services and support to Indigenous citizens, we are in the invidious position of being the ones who are in their midst. Our presence and our funding are often the only resources that people feel that they have to work with. Regional councils then, despite their best endeavours to secure rights for their constituents, simply are faced at times with having to step in and plug a big hole. That is why I think the report says that we need to be more ardent advocates around this. It does get to some issues of ensuring that the accountabilities rest in the right places. Because of ATSIC's very direct presence, people, including Indigenous people, often presume that it is ATSIC's responsibility to deliver all of those services or to somehow make it happen. Clearly, we do have a leverage role to try and ensure that it happens but, at the end of the day, state governments, particularly in areas like health and education, are critically responsible.

We are establishing agreements with states and federal agencies as a way of strengthening our influence and leverage with them and to try and work with them to ensure that mainstream programs are reaching Indigenous clients, which in turn has an important benefit for us in that our programs can do what they were designed to do. We have come a long way in terms of securing that sort of an outcome. The important initiative in the pipeline, which is now supported by COAG, is the development of a set of indicators of Indigenous disadvantage which can apply across the country to identify headline indicators of where Indigenous people's wellbeing stands vis-a-vis the non-Indigenous population, and also to look at strategic areas of change. Of course, associated with that have to be the accountabilities to the relevant level and area of government. It is fragmented and there is confusion. We happen to be the ones who are on the ground and, therefore, people tend to look to us to respond to needs that arise well beyond our direct responsibilities.

Mr Mason—As for the environment within which ATSIC works and the communities that we deal with, many of the services that are provided by state governments are largely on the basis of population. They are largely also on the basis of maintenance of services. The problem with a lot of our communities is they are not in the maintenance mode. This is where a lot of ATSIC funds are put in to try to boost that and to speed up that catch-up mode because of the disadvantage. Without that, those communities would not maintain. I do not believe that many of our communities are at the stage where they can. So that is the problem with continually trying to add to that.

Ms PLIBERSEK—What I am asking concerns two things. Firstly, are you doing enough to hold the Commonwealth and state governments responsible for what basic services they should be supplying? Secondly, do the people who are responsible in individual communities for putting in those grants have enough awareness of other funding sources?

Mr Yates—Insofar as our voice is part of the pressure on that accountability outcome, it is not achieving enough and we need to be more effective in that respect. Part of our challenge is overcoming the misrepresentation of ATSIC's responsibilities in the first instance and then actually achieving a productive dialogue with federal agencies and the states, rather than just standing back and joining the chorus of complainants. There is a significant risk in the practice of cost shifting. We see that in our communities with our endeavours to secure basic local government services and CDEP ends up becoming very much intertwined in the process of delivering those basic citizen services. An option which we have not taken is to simply withdraw and say we are no longer going to do this anymore because we are not at all confident that everyone will suddenly come to the party and say they will now do their bit. Clearly, our lobbying—and working as actively as we can—with the states and our federal counterparts has to be an urgent and important area of business. Part of the reorganisation of our national office here in Canberra is aimed at strengthening our capacity to do that, because it has not been something that we have done effectively.

Ms KING—The ANAO recommended that ATSIC develop a systematic method of collating information to identify funding needs within Indigenous communities. What steps have you taken to do that and, if you have, how is that going?

Mr Yates—We have established a unit within the organisation that is aimed at improving our data collection and management and our capacity to improve the quality and usefulness of information for regional councils. Drawing on that expertise has been the major exercise that has been evolving in the Ministerial Council on Aboriginal and Torres Strait Islander Affairs and is now subsumed within the broader COAG program. We see that as a very important vehicle for getting authoritative data—it is being developed by the Productivity Commission—that stands up to good scrutiny and that is supported by all of the jurisdictions, because often the difficulty is that they do not want to necessarily share some of their data. We have committed ourselves to some major survey work aimed at plugging gaps in the data which the Bureau of Statistics, for example, collects. It is an area that is fraught because of the gaps in achieving reliable data, so we have made some concerted efforts in that regard and we are looking particularly to COAG's first report on Indigenous disadvantage as an important tool to assist us in that regard.

I should also mention, just to complete that, that the Office of Evaluation and Audit, under the ATSIC Act, is currently giving priority to an evaluation and assessment of the data or information needs of regional councils. That will be an important complement to that as well.

Ms KING—You mentioned previously that you are currently undergoing a reorganisation. Can you tell me a little bit about that?

Mr Yates—It has a number of dimensions to it, but it is particularly aimed at bringing greater coherence to our policy development within the national office, which has been fragmented in a number of regards, including the way issues have been managed. Also, some years ago we decentralised a number of key policy development activities to our state offices. We are in the business of relocating those functions back to Canberra because our ability to engage with our counterparts in Commonwealth agencies has been hamstrung by that decentralisation.

Also, in reshaping the units within the national office, we have established them parallel to a set of policy committees within the elected arm of the organisation. Not only is the ATSIC

board meeting regularly as a board but also it has broken up into four or five policy committees that mirror the organisational units in ATSIC. They will be looking at issues with land, water and economic development; economic and social participation; and cultural rights, justice issues and the like, so that there is stronger alignment between the way the organisation is structured and the way the board operates in its advocacy and policy setting role. Clearly, as part of this there is some significant restaffing of senior positions as well, to pick up some expertise we have not had before.

CHAIRMAN—In paragraph 10 of your submission you made what I thought was a particularly powerful statement:

A significant number of grantee organisations are considered to be lacking in ability to efficiently and effectively manage the physical and financial aspects of ATSIC grant funded activities and operations in accordance with ATSIC Terms and Conditions of Grant, generally accepted good business practice and acceptable service delivery levels.

Would you like to tell us about that? Can you define what 'significant number' means, too?

Mr Mason—I cannot provide you with an actual number, but a lot of grantee organisations' grants are administered through our 29 regional offices. The difficulty with a lot of organisations—particularly in remote areas—is, firstly, in the make-up of the communities themselves. There are lower education levels and also lower experience levels in dealing with a lot of things they need to deal with in the area of grants, such as financial management and so on. Another great difficulty we have—and ATSIC has been working with a couple of non-government organisations to try to improve this—is the ability of grantee organisations to attract and retain competent and committed staff to deal with financial management. It is also a matter of organisations in more remote areas having sufficient funds to employ people with sufficient expertise in that area. People who have those administration skills are unlikely to sit in a community of 150 Indigenous people out in the middle of nowhere, so that is a difficulty.

Over the last few years, we have increased our processes and procedures due to political pressure and in an attempt to raise that level of accountability. Our reporting requirements are quite stringent. It is also difficult for a lot of Indigenous communities to have forward thinking and development when, day to day, they are more concerned with employment and housing. Long-term planning in a lot of our communities is hampered by the fact that people are living in situations in which many of us would not live. What we are attempting to do about that—next week, in fact—is look at a range of measures that we might go down the line of implementing. We are looking at providing greater assistance to organisations that are having difficulties in financial management.

I want to make it clear that the incidence of misappropriation of funds is not significant. How to manage those funds and get the outcomes that you are trying to achieve from those funds is the difficulty. A lot of these organisations have been operating for two or three years. They have not been operating in this environment with a background of hundreds of years, as many of us have. It is something that we are cognisant of and are doing something about. There will possibly be some shifts in the way we assist organisations to manage. At the moment, we are looking at greater involvement, unfortunately, in organisations which cannot or do not seem to have the background to manage financially. ATSIC will necessarily have to put in some measures to assist in that control, as we do now when organisations get into difficulty.

It is not a matter, as I say, of organisations not having the will to do it. It is about having the expertise, appropriate assistance and amount of resources to be able to deal with those problems. There are a lot of areas for which these organisations are the only possible service deliverer. We are continuing to work with them to try to raise that level of accountability, but also to raise that level of involvement and give a sense of future.

CHAIRMAN—Do you use grants commissioners to help these organisations that are falling through the cracks?

Mr Mason—I am sorry; what was the term?

CHAIRMAN—Do you bring in outside help to help them?

Mr Mason—Absolutely. For organisations that we know are having more than acceptable difficulty—and for the protection of public funds—we have the option of installing what we call grant controllers or administrators—financial controllers. We have a program—although it is not resourced widely enough—to assist communities to develop the expertise in how to deal with the money system and how to make what outside people might call appropriate decisions, remembering of course that a lot of Indigenous communities operate on their own hierarchical management system and we have to marry up the two. They are in some cases quite distinct. We take action when organisations have more difficulty than we can allow, but we have to be cognisant of the control element as against the development element and the understanding of self-management. We cannot be controlling all organisations.

Ms PLIBERSEK—I think that we understand and accept that, in a community of a hundred people or a couple of hundred people, you are not necessarily going to have an accountant on hand all day, every day. These are some of the things that I am curious about: firstly, when you are talking about outside grant administrators coming in, is that left too late in the process or is there adequate support from the very beginning of the grant process? Does someone come in once a month and look at how the bookkeeping is going and provide initial support, rather than wait until a problem is identified? Secondly, if someone in a remote community, for example, said, 'I don't really know how to do this but I'm really interested in learning,' is there any way of supporting them to do a short course or a long weekend course somewhere with other people who are in similar situations, and take those skills back to their communities, rather than relying on people from outside the community to wish to move there and do the administration?

Mr Mason—The short answer to all of that is yes. The long answer is, in early action, yes, we have field officers in our regional offices, with varying expertise in the area of finance, who will go out to communities and assist them with it. Our first point of call is assisting the community to develop or gather that expertise. From my own experience, having spent 10 years in remote areas of the Northern Territory in ATSIC, it is a matter of trying to get a balance between controlling the administration of an organisation and developing it. I agree that sometimes, in our efforts to help the organisation along, we may leave direct intervention too late or later than would be seen as appropriate. Then we have to put much more effort in—and so does the organisation, obviously—and more funding, and so on, to get out of that hole.

On the issue of whether people have access to training, I would have to say that in many parts of Australia the Indigenous population are the most trained people ever. The difficulty is getting employment after that. We developed a number of training program avenues in administration

in ATSIC up to two years ago. We developed an Indigenous organisations training package, which is accredited. That deals with governance issues and management of staffing—the whole range of administrative duties that you might have to come along with. That program now sits with the Registrar of Aboriginal Organisations because it was seen more as a governance issue. The level of funding to that program, like many others, is not extensive, but there are organisations that are making a concerted effort to try and raise their own, apart from constraints or conditions put on them.

Could we do more? Absolutely. Could we do more in the area of community development? Yes. Over the last number of years ATSIC has been largely a grant administrator, looking at accountability issues. We need to develop, contract in or buy in expertise in the area of community development type things and capacity building. A lot of our communities, of course, have suffered a mismatch between traditional governance and modern governance. That has thrown some communities into disarray as to who has the controlling power in the community. So there are a number of issues we have to deal with. Do we provide assistance? Yes. Do we attempt to buy in outside expertise with community agreement? Yes. Is there more to be done? Absolutely.

Mr Mowle—To add to Steve's comments, I will touch on a few initiatives where we came in and had that support—for instance, with our large housing infrastructure projects. A lot of those are done through the use of contract program managers, where the community does not get the money but, rather, it goes to a large international engineering firm. They negotiate with the community on the outcomes and the employment, and all the other spin-offs from the capital construction. They manage the contracting and the actual capital construction on behalf of the community. That is an instance where the community is still the nominal grantee. It owns the project, but all the management and financial accountability goes through a contracted program manager.

In a lot of those communities, we have moved to regionalisation and rationalising our service delivery points. For instance, where there are a number of outstations, we now go through a centralised resource agency. They provide the service to a range of smaller communities. What we are trying to emphasise now—we are just having another look at it—is that, when we are appraising the grant initially through our risk appraisal, we have to consider the initial support and monitoring, and all of the other support requirements for that organisation. We are just revisiting at the moment how we implement our risk management strategy. If there is an issue right up-front about the organisation's capacity, we make the decision—and it is a condition of the grant—to buy in those technical and financial supporting services. We increase or decrease our monitoring and all our controls through the grant process as a result of our assessment of that organisation's capabilities.

CHAIRMAN—How many communities does ATSIC deal with?

Mr Mowle—Twelve to thirteen hundred communities in total but, in terms of the grants, we are probably funding less than 400 or 500.

CHAIRMAN—Really?

Mr Mowle—Yes.

CHAIRMAN—So, all communities do not get grants?

Mr Mowle—There is a total of something like 1,300-odd communities around Australia. We do not directly grant fund a lot of those smaller communities; they go through these resource agencies—a centralised community. So, we never directly grant fund the 400 or 500 smaller communities.

CHAIRMAN—ANAO found that the extent of knowledge about alternative funding sources varied significantly from region to region. What steps have ATSIC taken to try to enhance the information used to inform decisions about funding priorities and alternative sources of funding?

Mr Yates—One of the things that our regional councils—we have 35 of those around the country—are required to develop is regional plans. Those regional plans identify key priorities for activities within the region and, clearly, as part of that, they need to identify what resources they can call upon to support that. We have a range of specific programs that can do some of the work with them but, with regard to other avenues, which are in the hands of other government agencies and the like, I do not believe we play a particularly active broker role in that regard.

Various arms of government have tried to present an easier face in terms of transaction centres and the like but—and I think it comes back to some points made by the committee earlier—who in the equation is responsible for making it easier for communities to relate to government? All of us who are involved in services and funding for Indigenous communities have a responsibility to promote and facilitate access. To the extent that a number of those organisations do not meet their obligations terribly well or consistently across over 1,000 communities, the communities do not become adequately aware of them or do not know how they can click into them.

I do not want to put too much weight on the COAG trials process that we alluded to earlier, but in a fundamental sense it is the first time that the three levels of government have seriously come together to expose the issues and constraints that they themselves have presented to Indigenous communities by the way in which they have related to them. This is throwing up not just the issues that we are all familiar with in the need for capacity building within Indigenous communities themselves but also the development of a new appreciation within government that its capacity to effectively relate to Indigenous communities has got a lot of faults with it. Call it what we like, our ability to do things in a joined up way is being seen for what it is, namely, often hand-on-heart commitments but not a lot of active preparedness to go and really visit the program guidelines that you operate with to ensure that they are more standardised. They have been talked about but now, through this COAG exercise, where we have actually gone in on the ground, where core ministers have backed the exercise and where the heads of agencies are taking a lead role in being responsible for these trials and are using their political and bureaucratic leverage to come at this quite differently, we are starting to see an opening up and a confronting of those organisational barriers and cultures which have really confounded Indigenous communities historically.

CHAIRMAN—If you pick almost any service you can think of in Australia, some element of it may be delivered by local government, some by state government, some by Commonwealth government, some by private agencies, some by volunteers and some just by individuals. If a constituent of Ms Plibersek or mine comes to our offices and asks, ‘Is there any grant money

available for X; is there any program where I might access some funds?' we are expected to know the answer. I will tell you what: it is not easy. It is very hard for us to know the answer even with respect to the Commonwealth. If you tell me all the lead Commonwealth agencies work absolutely together on the delivery of funds or programs towards specific outcomes and only one agency at a time does that then I will tell you that you are living in cuckoo land.

Mr Yates—No, it is not just one agency. One agency is taking the lead role. They are the ones that are brokering the participation of all the other players.

CHAIRMAN—Shouldn't the Aboriginal and Torres Strait Islander Commission—either its bureaucratic or its elected arm—be working towards advising the communities of the various range of funding alternatives those communities might have, so they do not have to go out and do it for themselves? Is that a valid question?

Ms PLIBERSEK—I think what Mr Yates has been saying is that those agencies should be informing Aboriginal communities as well as non-Aboriginal communities of what sources of funding are available.

CHAIRMAN—I do not disagree that they should. I am just telling you from a practical viewpoint, and it has been my experience over the years that I have been here, that somehow there needs to be a collection point that says, 'Hey, you've got 12 agencies dispensing funds and what programs do they have?' and a single point—whether it is my office or somebody in PM&C, Finance or wherever—that says, 'Look, these are the kinds of options and, through information technology, we can find out what programs are available.' In fact, we have that now federally, but we are not tied to the states or the local government and all that.

Mr Mason—I am sure we have the capacity—it does happen on many occasions—to direct communities or even broker alternative funding sources with other government departments on behalf of that community. The difficulty is that we have a number of programs. Each department has a number of programs with a number of guidelines, a number of different stipulations. For ATSIC as a whole to be able to know the intricacies of all of those, I think that would require quite a large increase in the resources, if you know what I mean. There is a huge range of programs.

CHAIRMAN—I accept that.

Ms PLIBERSEK—Could I add to that and ask whether—with your particular expertise about, say, small or isolated communities—you are asked by other government departments to help them in their communications strategies with those communities?

Mr Mason—Yes, in areas I have worked in that is the case; also in a lot of remote communities. Of course, there is that working together with local government staff from state and territory governments, the health department, and the Commonwealth. There is quite a deal of interchange there at the moment. But, yes, we are asked. An interesting one I have to go to today, which I am sure you are interested in, is the taxation department, which is interested in assisting communities to deal with their obligations. They want to hook into our network, our training periods and introduction type stuff. So, yes, there is a degree of that.

Mr Mowle—A lot of the Commonwealth and state departments expect ATSIC to be the conduit to a lot of those communities. Some Commonwealth agencies think ATSIC actually owns and manages them. We are cooperating with a lot of agencies about how to consult with communities and how to use the existing networks. A lot of that is done through our regional offices, which takes a lot of coordination.

Mr Yates—It is made difficult when various arms of government do not use the institutional arrangements that are there. We have established ATSIC in an elected process—regional councils with regional plans—but we often find arms of government setting up their own advisory committees or consultative mechanisms completely at arms-length from this. One of the things we have been pressing very hard with, say, the COAG trials is to ensure that they do not set up at arms-length from but, rather, work very closely with those processes, otherwise it is just another recipe for another layer and another point of confusion for the communities.

Mr Mason—To add to that, you might understand there are lead agencies that take a particular state or territory. ATSIC has none of those, and that was done on purpose, to be integral in each of those. We are, I think, the only Commonwealth organisation that has a hook into each of them.

Ms PLIBERSEK—How many regional councils are there?

Mr Mason—We have 35.

CHAIRMAN—Thank you very much. We have come to the end of our time. Do you have any final statements, Mr Yates?

Mr Yates—No, just to say that I have appreciated the discussion that we have had.

CHAIRMAN—Does ANAO have any comments following the answers given by ATSIC?

Mr Meert—No, thank you.

CHAIRMAN—Thank you very much. We will now move on to audit report No. 7.

[11.34 a.m.]

ARGALL, Ms Catherine Ann, General Manager/Registrar, Child Support Agency

BIRD, Ms Sheila Margaret, Assistant General Manager, Child Support Agency

MUTTON, Mr Geoff, Acting Assistant General Manager, Business Strategy Branch, Child Support Agency

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

MEERT, Mr John Emil, Group Executive Director, Performance Audit Services Group, Australian National Audit Office

MORRIS, Mr Andrew, Senior Director, Performance Audit Services Group, Australian National Audit Office

O'CONNOR, Mr Paul Anthony, Director, Performance Audit Services Group, Australian National Audit Office

CHAIRMAN—We now come to the second audit report to be examined in this morning's public hearing. I welcome representatives from the Australian National Audit Office and the Child Support Agency. 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. The audit report being considered in this session is audit report No. 7, *Client service in the Child Support Agency—follow-up audit: Department of Family and Community Services*. Does CSA have a very brief opening statement?

Ms Argall—We do, Mr Chairman, and it is very brief. The Child Support Agency today is an organisation that cares about separated parents and seeks to work with them to achieve the best outcomes for them and their children within the framework of the child support legislation. The ANAO report has confirmed that our efforts have delivered sound results across all aspects of our business operations. Opportunities to build on our achievements lie in, firstly, harnessing the investment we have made in all aspects of our client service delivery model; secondly, continuing to build partnerships with other parts of the family law system, including community, legal and other government services; and, thirdly, increasing community understanding of how the child support scheme works and how it impacts on all the players. Thank you.

Mr Meert—I will just make a very brief summary on the follow-up audit. There were 12 ANAO recommendations and three JCPAA recommendations. Of those recommendations, five ANAO were fully implemented and six ANAO and one JCPAA were substantially implemented. There was one JCPAA recommendation which was partly implemented, one ANAO recommendation which was no longer relevant and one JCPAA recommendation which

was not implemented as an alternative strategy was adopted. The summary is on page 15 in table 1. Overall, in the time since the original audit, CSA has made a large number of strides to improve its client service and its collection. The CUBA system, which was the CSA's IT system, was to facilitate the implementation of at least half of those recommendations that were outstanding. The report makes a number of recommendations relating to administration improvements in relation to client service. Thank you, Mr Chairman.

CHAIRMAN—Thank you very much. Ms Argall, in March 1999 we tabled report 367, *Review of Auditor-General's reports 1997-98*, and one of those was the review of the management of selected functions of the Child Support Agency, which was the subject of an ANAO report. We made three recommendations in that report. The executive minute that I have has accepted all three recommendations. Recommendation 2 was:

In order to ensure that the Child Support Agency's clients are able to understand their letters and forms, the Agency should take immediate action to simplify the language and style used in its publications and should employ an outside consultant to undertake the task.

The executive minute response I have is that the CSA 'has implemented and continues to implement this recommendation'. Can you tell me about that?

Ms Argall—We undertook a major review of all our letters several years ago. We did involve professional letter writers to review the content of the letters. We also reviewed the contents of the letters with representative groups of payers and payees so that we were testing with our clientele. We implemented those letters that we could implement prior to the introduction of our new system, and those that we were not able to implement until the introduction of our new system—which was on 5 March last calendar year—had to await that implementation process. They have all currently been implemented.

But review of correspondence, letters and all forms that the agency publishes is a continuous process. You are never finished; you continue to review on an ongoing basis. For example, today we have yet another letters project, post the implementation of CUBA, which will again review all our letters and go through a similar process to the processes we have undertaken previously with a view to continuously simplifying and making more meaningful the correspondence that we send to our clients. We continue to do that with all our publications as well.

CHAIRMAN—Mr Meert, does the Audit Office have any comments on that?

Mr Meert—I would have to review the current activities to comment on that.

CHAIRMAN—What did you find in your report in respect of this?

Mr Morris—That was consistent with what we found. We had found that they had undertaken a lot of processes to improve correspondence but that they were awaiting CUBA to finish the process, along the lines of recommendations from the consultants and focus groups that they had. The reason we said it was substantially implemented was that it was awaiting CUBA. Our audit went up to CUBA and did not include the introduction of CUBA.

CHAIRMAN—Recommendation No. 3 says:

The Child Support Agency should commission an expert consultant to undertake comprehensive and regular client surveys in order to determine the level of client awareness of the Charter and complaints service.

The CSA response was that CSA has implemented this recommendation. Tell us about that, Ms Argall.

Ms Argall—We believe we have implemented the intent of the recommendation.

CHAIRMAN—Is that somewhat different from implementing the recommendation?

Ms Argall—I think so. In fact, we have not conducted surveys of the awareness of clients with our charter and complaints service. What we have done is continue—and continue to develop—our quite extensive client satisfaction surveys to ensure that the objects or the intentions of the complaints service and the client service charter that we have in the agency are being delivered in terms of the clients' perception of the CSA.

Let me be a little clearer in relation to that. We try to put ourselves in the shoes of our clients. If you ask a client the question, 'Are you aware of the Child Support Agency's client service charter?' I think they will inevitably say, 'What's that? We don't understand what you're talking about.' That is because it does not necessarily have any meaning for them. If you like, it is jargon that we use to encapsulate the principles that we intend to use in our dealings with our clients. When we undertook research with clients to develop our latest charter, the feedback received was that they wanted simplification of what our intentions were. So the charter is a very simple document which describes what our objectives are and what we intend to do—that we intend to be objective and unbiased, that we intend to be prompt and that we intend to be accurate, respectful, sensitive to your needs and professional. We will respect your privacy, we will keep your information confidential and we will give you access to your private information. That is what we are trying to achieve through a client service charter. Rather than ask clients the specific question, 'Are you aware of the charter?' we asked them, 'How do you think the agency is performing in relation to those objectives?

CHAIRMAN—In paragraph 4.1.1, the ANAO concluded:

... that CSA more widely promoted the charter since the previous ANAO audit and systematically evaluate its impact on client service. The CSA preferred to measure performance in meeting charter commitments rather than implement JCPAA recommendation No. 3 and measure client awareness of the charter.

It seems to me that the statement in the executive minute is not right, and that CSA has not implemented the recommendation. My understanding is that that portion of the recommendation that dealt with testing clients' awareness of the complaints service has not been done either.

Ms Argall—It is for the same reason, Mr Chairman. It is about testing with our clients and seeking information from our clients. We do have client satisfaction research. We have two pieces: we have a major client satisfaction piece of research, as well as a professional survey that we undertake with our clients on a regular basis. It is about whether we have actually done what we aspire to do through our charter and our complaint service rather than just testing a notion about awareness per se with something that is not meaningful to our clients. It is about the need to simplify correspondence and about making correspondence meaningful to clients. It is not necessarily about assuming clients know what we know at the agency.

CHAIRMAN—Can I tell you about this recommendation, because I was involved in it. That recommendation was not made from audit's viewpoint; it was from our viewpoint as individual members and senators of parliament—whoever was here on that particular day and helped draft the report. Clients were not aware of the disputes' procedure and we were attempting to get you to agree to make them aware of it to take some pressure off us so that they knew they had an alternative route before they came to see us. It appears to me that you have told us one thing in an executive minute and, in fact, you have implemented something else and you do not seem to understand the difference.

Ms Argall—I do very clearly understand the difference.

CHAIRMAN—You are only concerned from your viewpoint, not from our viewpoint or the client's viewpoint.

Ms Argall—No, I think I am very clearly concerned for the viewpoint of the clients and that is why, in considering the recommendation of the committee, we actually considered how best to achieve what the committee was seeking to do.

CHAIRMAN—Recommendation 4 says that, to ensure equitable outcomes are delivered, CSA should take prompt action to ensure that the settling of levels of employer withholding of arrears reflects the annual income of the client. Your comment was that this recommendation has been implemented.

Ms Argall—Yes. A lot of the actions that we took were to implement that. We reviewed our guidelines and advice to staff in relation to employer withholding of arrears. It is clear from ANAO's latest follow-up review that we have not done enough in that area and we still need to do more. We are continuing to take action to implement that recommendation.

CHAIRMAN—What is the ANAO's view and what was found?

Mr Morris—Our view is that CSA had attempted to rectify the problem but the steps that they had taken had in fact not done that. They had not actually done the research to find out that they had not been effective. We did some statistical analysis that found that a lot of the estimation of how much should be paid each fortnight was based on the size of the debt rather than on the capacity to pay. That was partly because there were some problems with hyperlinking on the IT site. It was hyperlinked to old policy guidelines. Also, there was a lack of clarity in some aspects of the new procedural instructions so that in some instances the capacity to pay would come out to zero when you took into account the criteria. Still, the CSA had to do something, so then they were unsure and may have reverted to the old method. The result was no improvement over time.

Ms KING—On page 22 of your report you say:

> The Employer Withholding of Arrear (EWA) rates applied to debtors under garnishee arrangements do not appear to fully reflect debtor capacity to pay. In February 2002, the average EWA deduction for debtors with income of less than $20 000 was actually higher than for debtors with incomes of more than $20 000.

Ms Argall, you said that you were continuing to look at that recommendation. What actions are you taking?

Ms Argall—Since this current ANAO review we have reviewed our guidance to staff again. The previous review had given guidance to staff to make judgments, during their conversations with clients, which took into consideration their capacity to pay their arrears of child support. One of the judgments that they were supposed to be making was 'in accordance with income earning capacity'. However, that proved to be insufficient, so the guideline we have reviewed and that has already been implemented subsequent to ANAO's most recent review includes a ready reckoner as part of the guidance for staff so that they not only exercise judgment—because you cannot just use a black and white rule—but also have a ready reckoner of appropriate levels of arrears that should be looked at given the current income level of the particular client. They have to balance those issues. We will be reporting now on a regular basis on how well we are going in relation to meeting the concerns that were raised in the recent report.

Ms KING—You are confident that, if ANAO looked today, their comment in relation to February 2002 would not apply?

Ms Argall—There is some early evidence of reporting since 1 July 2002 that we have made some headway in this area. We need to make more ground in this area. I do not want to categorically say that we have achieved the objective because it is something that you have to continuously work with. It is clear that our people need more training and development and better understanding of some of these issues. It is not an easy process for them to engage in—continuously pursuing arrears—and we are seeking to not only supplement them with additional guidelines but also undertake some training effort in relation to debt collection more generally to enhance the overall collection of child support.

CHAIRMAN—Does ANAO consider that the strategy CSA has adopted to meet the requirements of our recommendation are appropriate?

Mr Morris—We have not seen what they have done subsequent to the audit. I can imagine that for those clients who are already in EWAs—who are already on existing arrangements—it would be problematic whether you would change them. I would have thought that new arrangements could be fairly readily brought into the new guidelines that have clearer criteria for capacity to pay decisions for allocating debt repayments.

Ms PLIBERSEK—I wanted to go back to what you were saying earlier, Ms Argall, about measuring awareness of the complaints process. Can you tell us a little more about what proportion of your clients respond to the surveys that you are talking about, and can you tell us also what steps you take to make people aware of the complaints process? If I understand you correctly, you are saying that you do not say to a client during a survey, 'Do you know that we have a complaints process?' What are the questions you ask? 'Have you been satisfied? If not, what do you do?'

Ms Bird—We have a number of ways that we make clients aware that a complaints process exists. When clients first contact the Child Support Agency and register with us, we provide them with an information kit, which includes a pamphlet specifically about the complaints process. It also includes our charter. Roughly every 12 to 15 months we issue clients with a new assessment notice. They receive either a booklet or pamphlet with that assessment notice, which that also tells them about the complaints process.

Ms PLIBERSEK—They get that virtually annually?

Ms Bird—They get that every 12 to 15 months. We have a web site and the CSA web site advises clients of our complaints process and our charter. It has the contact numbers for the clients to contact us if they wish to make a complaint. We also have listings in phone directories across Australia, which have a separate listing for complaints. If a client looks up 'Child Support Agency' in the telephone book, they will see three or four different numbers. One of those numbers is specifically for the CSA complaints service. So we have taken a lot of action in the last few years to make clients aware of the complaints process on an ongoing basis, not just as a one-off. We have also been monitoring the number of complaints that come to the Child Support Agency or go to external agencies. One of the ways we consider that the awareness of our complaints service is improving is if the proportion of complaints that come directly to the Child Support Agency compared with external agencies—such as the Ombudsman, members of parliament or senators—is increasing. And that is, in fact, the case. I am sorry; I do not have here the sample size and response rates in relation to the surveys that we conduct. However, the sorts of questions that we do ask clients are: 'Were our actions timely? Were they accurate? Were our staff polite? Were they treated with respect?'

Ms Argall—And there are many of them.

Ms PLIBERSEK—Many questions or many surveys?

CHAIRMAN—Many complaints; we know.

Ms Argall—There are many complaints to our agency as well. This is an area, you will appreciate, that no matter how well we deliver a child support service there will continue to be those parents who are unhappy with the service. Our research suggests that as many as 15 per cent of the overall case load may well be a group of clients that we will fail to satisfy regardless of what we do. That is because they have other issues. It is not just an issue around child support. There are issues around separation, usually derived from the relationship between the parents, or the lack of a relationship between the parents after separation.

Ms PLIBERSEK—What proportion of separated parents use the Child Support Agency for their financial relationship?

Ms Argall—We believe, based on some modelling by the Australian Bureau of Statistics, that around 90 per cent of all eligible separated parents currently choose to use the Child Support Agency to assess their child support. That is really quite a significant market share. I think it is an interesting number in itself because it tends to suggest that the majority of parents do see the child support scheme as being the honest broker in determining an appropriate amount of child support that should be paid to parents after separation. I think that is built on by the fact that, of that 90 per cent of parents who use the Child Support Agency—and we have put a lot of effort into building the self-reliance and capability of separated parents—50 per cent of all parents registered with the agency have an annual assessment of child support and then they make the financial transfers directly between the two parents. So we are not involved in the collection of child support for 50 per cent of those parents registered with us. Another thing that comes from those numbers is that, of the remaining 50 per cent of parents registered with us, as that number decreases as a proportion of the overall population, those parents whom we are assisting with their child support collection will become increasingly more difficult to manage.

Ms PLIBERSEK—They are the ones who cannot agree.

Ms Argall—We think there will be a hard core of around 15 per cent who will be definitely unable to agree, but within the majority there is a general willingness to pay which is reflected in the overall collection rates for the agency. But some of them need assistance with the actual payment or some may think it is easier to have third party intervention.

Ms PLIBERSEK—I have a question on a completely different topic. I suppose one of the most enduring problems that our offices deal with are non-custodial parents who hide assets, sometimes by structuring their finances in such a way that their assessable income is very low and sometimes by moving assets offshore and having offshore bank accounts. How are you going about making it easier to collect money from people who are not poor but have hidden assets? What do you think government needs to do to make it easier to get money out of them?

Ms Argall—There is no simple answer to this, so let me begin. Say either one of the parents believes that the income earning capacity of the parent is not the same as their taxable income. I am assuming, for example, that there is a child support assessment that is not commensurate with the capacity of one of the parents to pay—and it is mainly the paying parent in the case that you raise. In those circumstances, the payee can apply for a change of assessment and seek to have a determination of child support which is not based on the standard formula but is more reflective of the paying parent's capacity to pay child support.

We also have a legislative power that was part of the legislative reform package that was introduced in July 1999 called registrar initiated change of assessment. So we are also doing reviews of those parents who appear to have a greater capacity than is reflected in their child support assessment and we are initiating a change of assessment to more accurately reflect the parent's capacity to pay. That particular process has been highly successful, although it is really quite small in the overall scheme of things. It is producing increases in assessments of about $2 million a year—just to give you an order of magnitude.

Ms PLIBERSEK—That is the registrar initiated change of assessment?

Ms Argall—That is the registrar initiated change of assessment. Collecting child support is another aspect of that and that can be where the assessment may be appropriate or is not appropriate. In those circumstances, those cases, if there is a continuous debt, will actually go to our debt management services stream for intensive case management where we will use all of the databases available to us. We have access to most of the Australian Taxation Office's databases so that we can exhaustively check the assets available. Where we do find assets we can use that in taking a matter to court and seeking the enforcement of a child support liability.

Ms PLIBERSEK—But if someone has been intentionally hiding assets, then they have hidden them from the tax office as well. Do you have any power to pursue people who have put money in overseas bank accounts, for example?

Ms Argall—This is where the registrar initiated change of assessment is an extraordinarily beneficial power—because they are the sorts of cases. As well as doing our own segmentation of caseload, we will take referrals from payees who believe that income is being concealed and hidden. They take an enormous amount of resources to manage. It is not a short-term or a necessarily totally successful process but we are able these days to target more of our resources

on some of those very complex cases. We are not as successful as I would like to be but we are continuing—

Ms PLIBERSEK—I still do not understand what you can actually do if someone has a bank account in the Cayman Islands, their former spouse remembers that they used to have a bank account in the Cayman Islands, suddenly all of the assets in the joint bank account have shifted somewhere, you cannot find them in Australia and the chances are that they are in the Cayman Islands. You do not know the bank that they are with or the bank account number. You do not have enough information to actually go to the Cayman Islands—even if you could—and say, 'We want to get some money out of this account.' What can you do? I am not trying to attack you or anything like that; I am just very curious about how you get these people.

Ms Argall—I will give you the short answer and Ms Bird will add to this. We are currently undertaking some quite extensive evaluations of apparently hidden income cases that we are individually case managing. We explore all of the information where information from a payee and/or other sources indicates that there are assets which seem to have disappeared. For example, in one case that I am aware of someone brought into Australia $100,000 of income which has apparently disappeared, and so the apparent capacity is zero. By accessing the database, we can actually track some of the information, include it in affidavits that we build and then take those cases to a court, enabling a judge to look at the overall circumstances of a particular client and then make a judgment about whether in fact this person has a capacity to pay that is not currently reflected and whether there should be an enforcement summons in relation to that debt.

Ms PLIBERSEK—Can I clarify something that you have said. If the judge does not actually have to see the bank statement from the Cayman Islands, can the judge say, 'Your last employer told us that they gave you a severance cheque for $200,000. That was in September and this is March and you're saying you've got no capacity to pay. We don't know where the money is and we don't care; we want part of it'?

Ms Argall—Our judicial system would enable the respondent in that case to actually make the case of explaining exactly where those assets might have gone. The judge would have to take into consideration—

Ms PLIBERSEK—'I lost it on horses. I bet the money and it's all gone.'

Ms Argall—Yes, and I have heard that one before.

Ms PLIBERSEK—And then what?

Ms Argall—In a recent case that was exactly the reason given for an apparent reduction in financial capacity. In those circumstances we are reliant on our judicial system to actually make a determination based on their reasonable view of the bona fides of the people appearing before them. There is nothing really much more I can say.

Ms Bird—When we do take cases to court, the court can look behind the apparent ownership of assets. So if it appears that someone has alienated their assets in terms of transferring them to a new spouse or perhaps transferring them to a corporate entity, then the court can look behind that and the court can still order that the child support be paid. The court does not have to have

100 per cent proof that the person has assets overseas to make a particular order that the person has to pay that amount of child support. At the end of the day, if the court decides that a person has to pay the particular amount of child support that we are trying to enforce and the person does not do that, the person is then in contempt of court. The other court processes can kick in in terms of dealing with their contempt of court.

Another avenue that is available to us—and its appropriateness depends a lot on the parent's circumstances—is that we can take action to have a person declared bankrupt. If a person is a company director, then bankruptcy does have serious implications—

Ms PLIBERSEK—If they are a New South Wales barrister it makes no difference because they go bankrupt every two years to clear their tax debt, anyway.

Ms Bird—As I said, bankruptcy is an appropriate course of action in some cases. It is not in all cases, but in those cases where it will impact on the person's credibility, then bankruptcy is an appropriate course of action for us to take.

The other tool that is available to us is an administrative tool: we can prevent a person from leaving Australia if they have not satisfied their child support debt. Using your offshore money example, if the person does seek to travel overseas regularly in terms of their business, we do have the administrative ability to prevent them from leaving Australia to do that.

Ms PLIBERSEK—Can I ask one last question on this issue. When you take a matter to court, the paying parent—the noncustodial parent—would have their own legal representation that they pay for. Does the parent who should be in receipt of child support have to pay for their own legal representation?

Ms Argall—It really depends. In an enforcement situation it would be the Child Support Agency that takes the matter to court. If it is a determination around child support, which does not happen very often, and one parent is taking their child support assessment to court to seek to have it varied, then both parents would normally have representation during that process. A judge may award costs against one parent.

Ms KING—I want to look at the relationship between CSA and Centrelink. What are the data matching and information sharing arrangements between CSA and Centrelink at the moment?

Ms Argall—The legislation says that Centrelink can share information with CSA if that information is necessary in order for us to fulfil our functions. So we do receive a lot of information from Centrelink around the employment status of the parents, for example. If a paying parent has become unemployed, then we would receive information from Centrelink in relation to that. With respect to addresses and bank account details, we certainly do a match around some of those issues. Some of the core data around a child support case is relevant to both CSA and Centrelink in that, after we collect child support, and even when we make an assessment on child support, we actually send electronic files to Centrelink so they can make the necessary adjustments to the family tax benefit.

Ms KING—Let me clarify this. Who makes a decision that it is relevant and how does it work? Do you contact Centrelink and say, 'Is this person on a benefit?' What happens?

Ms Argall—We have an information exchange protocol with Centrelink which we use for efficiency purposes, and it has the principles in it that I just outlined. But that is really about having single points of contact. A lot of the information is exchanged electronically now so we do not have to go on an individual basis, but if there is some information that we need about a particular client that is not part of the ongoing electronic data exchange we will have a single point of contact, at a site level, in CSA who will contact a single point of contact in Centrelink to receive the information that is necessary.

Ms KING—If there was a case where you were able to get arrears, would you automatically contact Centrelink to let them know that those arrears for that client had come in? What would happen?

Ms Argall—That is part of the ongoing electronic exchange of information. Once those arrears are actually collected, they then become a detail on a disbursement file, which is an electronic file that is regularly transferred to Centrelink.

Ms KING—Are you aware that, under the current family tax benefit system, in many cases when that happens it means that that person's income for the year varies from their estimate and that many of those people then incur a family tax benefit debt?

Ms Argall—This is where I think the new arrangement announced by the government will actually assist parents. But even before that—

Ms KING—I am sorry—how will it assist parents?

Ms Argall—It is about enabling them to make choices about how they—

Ms KING—So they have to overestimate their income, basically, or assume that they are going to get the arrears back?

Ms Argall—Let me start at the beginning. A child support payee can elect one of two methods on which their family tax benefit will be calculated. One is the entitlement method and one is the disbursement method. If they choose the entitlement method of disbursement, they are saying, 'I am regularly in receipt of my assessed child support and therefore you should calculate my family tax benefit on the basis of what I am entitled to receive.' So no overpayment would occur in those circumstances. If they elect the disbursement method, their family tax benefit is calculated on the basis of what they actually receive. Therefore, if their child support payments are lumpy that will have an impact on their family tax benefit. Under the previous arrangements, of a reconciliation on an annual basis, they might well have ended up in a debt situation in relation to the family tax benefit.

Ms Bird—One of the things we encourage our staff to do if they have had success in collecting a large amount of arrears for a client is that, when they are telling that client to expect to receive this money, they suggest to the client that if they are in receipt on more than the minimum rate of family tax benefit they talk to Centrelink and discuss the effects of that additional payment of child support on their family tax benefit. So at that point the client can contact Centrelink and now, under the More Choice for Families measures, Centrelink can start making an adjustment for the rest of the year immediately the person receives that payment.

Ms KING—Is it automatic that that will happen? Do you always tell your child support clients that there is a possibility that they may get a family tax benefit debt when you collect arrears?

Ms Bird—No, we would not, because we would not always contact a client when we collect arrears. You would appreciate that if a person is, say, entitled to child support from August in a particular year they might not receive their first payment until perhaps October or November, but there might not be a large amount of arrears involved. What we do focus on are those cases where we have collected a large amount of arrears. In addition to that, each time we send a client a child support assessment notice, which is roughly every 12 to 15 months, the document that accompanies that assessment notice says something along the lines of: 'A change to your child support assessment may impact on your entitlement to family tax benefit. We suggest you discuss this with Centrelink.' So our assessment notices have that information for the client, and the handbook we provide to clients also gives clients a bit of a heads-up that if something changes with their child support it might affect their FTB and they should discuss it with Centrelink.

Ms KING—With what you have just said, given that you are focusing generally on larger arrears and that your assessment notices come out every 12 months, there is the potential for a number of people, even though they may only be receiving a small amount of arrears, to incur a family tax benefit debt that they do not know about.

Ms Bird—If they are on the disbursement method and they receive the amount of arrears very late in the financial year, then that is likely to give rise to an overpayment.

Ms KING—Currently, most are on the disbursement method because the choices around that have not been particularly well advertised, I would have to say.

Ms Bird—My understanding is that in excess of 70 per cent of people receiving child support are on the entitlement method, not the disbursement method.

Ms KING—Okay, thank you. Given that you are not talking about it with people who are not getting large arrears, what sort of arrangements can people make to have those arrears maybe flattened out better? How can they manage that better?

CHAIRMAN—Early. That is what we recommend.

Ms KING—Sorry, I did not need you to answer the question, Bob. I would have asked it of you, had I needed you to. What arrangements can you make?

Ms Bird—The legislation requires the Child Support Agency, when we have collected child support from a paying parent, to disburse that to the carer parent. We are not able to, having collected child support, hold on to that money into the future. We are required, once we have collected it, to disburse it to the parent.

CHAIRMAN—I come back to complaints again. Could you tell me what percentage of complaints lead to a changed outcome for a complainant?

Ms Bird—The upheld rate is between 17 per cent and 20 per cent, depending on the area of our business. 'Upheld complaint' does not necessarily mean that the amount of child support will alter. An upheld complaint includes, for example, when a client might contact us and say, 'I've received a letter and nobody's been able to tell me what it means.' Our complaints officer would fully explain everything that the client needed to know around their child support and would make sure that the client understood what they did and did not have to do. That would be considered to be an upheld complaint. I gave you the wrong figures. About 20 per cent are upheld and between 17 per cent and 20 per cent are partially upheld.

CHAIRMAN—What percentage of complaints identify systemic issues?

Ms Bird—I do not have a precise percentage, but there are not a large number of complaints that do identify systemic issues.

CHAIRMAN—There are not?

Ms Bird—There are not.

CHAIRMAN—When you get them, do you ever change the system?

Ms Bird—Yes.

Ms Argall—Yes, indeed, and that is how we use complaints. I probably should explain our complaints system. It is a three-step complaints system in CSA. The first level of complaint is to the case officer who made the original decision. If you are not happy, we say, 'Go back to the person who made the decision. If you are not happy with them, speak to their team leader.' This is on the basis that you will get your complaint resolved by the person who has actually dealt with your issue or by their team leader in the first instance. If you remain unhappy, you then have the choice of taking it to an independent complaints officer. At all three levels of complaints in CSA, at the team level and at the national level, we are attempting to identify systemic issues.

The team leader will pick up issues within the team and use the team management process to learn from any issues that relate to that particular team. We classify our complaints at a national level and, through the process of classification and evaluation, we are picking up on systemic issues. We write case studies in relation to those issues and they are fed back through each team across Australia to ensure that we have picked up the learnings from that. In addition to that, we are now taking all of the inputs that we have from a myriad of sources, whether it is client satisfaction research, professionalism research, complaints service—whether it is complaints to our complaints service, to members and senators or to ANAO. We are using all of those sources of data—even some of our internal training processes, our quality review processes, that pick up systemic issues—and we are sifting through all of these levels of knowledge about the quality of the service we are providing. We try to identify the broader systemic issues and then they are fed back into our ongoing training processes in the organisation.

CHAIRMAN—Do complaints ever result in an apology and/or compensation?

Ms Argall—Absolutely.

CHAIRMAN—I am advised by ANAO that:

The CSA's collection performance is high, notably by international standards. However, the magnitude of arrears and timeliness of payments remains a problem for many CSA Collect payees, who were owed an average of over $2100 at 30 June 2001.

That seems like a lot to me. ANAO did note that that would allow three-quarters of CSA collect payers now having child support debts, and many of those with little capacity to pay, to have debt management that would become extremely challenging. Can you tell us what you are doing to try and manage debt at a very early stage before it starts to escalate and grow—before it gets fertilised and gets bigger?

Ms Argall—I would like to say upfront that about 68 per cent of debtors owe small debts—that is, less than $2,000. There is only a very small group of payers—

CHAIRMAN—Are you telling me that the average of $2,100 is wrong?

Ms Argall—No. At the time that report was done, that figure would have been correct.

CHAIRMAN—There must be some huge debts.

Ms Argall—There is a very small percentage of debts that are large—around five per cent of overall debts are over $10,000.

CHAIRMAN—Okay.

Ms Argall—Debt management is a concern to us and we do not rest on our laurels of being the best child support collection agency in the world. There are systemic issues as to why the Australian system is as efficient and effective as it is. The increase in the percentage of small debts has been largely as a consequence of a $260 minimum payment, which affects about a third of the case load. On 1 July 1999, a $260 minimum child support payment was introduced. Previously, there were significant numbers of nil assessments for child support.

In terms of early debt, we have segmented our organisation over the last several years into three major streams: a new client services stream, a collection support stream and a debt management services stream. Our new client services stream is focused on building the capability of parents to manage their child support arrangements with minimal intervention. I think that has been an exceptionally successful strategy, with some 60 to 70 per cent of those parents electing private collection arrangements, in comparison to the overall caseload figure, which is about 50 per cent.

In managing those new clients, we introduced arrangements for a first-time defaulter report, which is a trigger to actually contact a paying parent the first time they default on a child support payment, and that has been successful in trying to pick up on early defaulters. We also have a stream referral rule. If any new clients, after developing a relationship with their new client case managers, show behaviours which indicate they are going to be non-compliers with child support, we have a stream referral rule so that they will be referred for priority attention to our debt management services stream, where they will be individually case managed to try to get them back on track.

Ms KING—This question goes a bit beyond the report: have you recently upgraded your security at Child Support Agency offices?

Ms Argall—Not to any significant extent, just in terms of the normal arrangements. We are currently co-located with the Australian Taxation Office in many of our sites—not in all of our sites. There has been some upgrading of security in relation to ATO sites around Australia.

Ms KING—So it is in relation to the ATO sites that that has been done.

Ms Argall—Yes.

Ms KING—When was that decision taken to upgrade some of the security arrangements?

Ms Argall—I couldn't tell you. The Australian Taxation Office made those decisions.

CHAIRMAN—Does CSA have any final statement that they would like to make?

Ms Argall—No, Mr Chairman.

CHAIRMAN—ANAO?

Mr Meert—No, Mr Chairman.

CHAIRMAN—We will suspend the hearing until two o'clock.

Proceedings suspended from 12.32 p.m. to 1.58 p.m.

NEUMANN, Mr Claude, Inspector-General, Department of Defence

PEZZULLO, Mr Michael, Assistant Secretary, Estate Management, Department of Defence

ADNAMS, Mr Greg, Auditor, Australian National Audit Office

COCHRANE, Mr Warren John, Group Executive Director, Performance Audit, Australian National Audit Office

ROE, Mr Lindsay, Audit Manager, Performance Audit Services Group, Australian National Audit Office

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. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. The audit report being considered in this section is audit report No. 3: *Facilities management at HMAS Cerberus: Department of Defence*. I welcome representatives from the Australian National Audit Office and the Department of Defence to today's hearing. Does the representative from the Department of Defence or Mr Neumann have a brief opening statement?

Mr Pezzullo—No, we do not.

CHAIRMAN—I will not direct this to either of you. I will have some questions for Mr Neumann specifically and then I will seek his view. Could you tell me when the health centre was built?

Mr Pezzullo—The project was delivered in 1994-95. I would have to check the exact completion date, but it was a 1994-95 approved project.

CHAIRMAN—Can you give me a rough idea as to the size of the contract?

Mr Pezzullo—I would have to check that. It was in the vicinity of $65 million, but I would want to check any more precision than that.

CHAIRMAN—$55 million?

Mr Pezzullo—$65 million.

CHAIRMAN—Good grief. Was the facility designed by Defence or by a private architect and engineers?

Mr Pezzullo—The standard process, even pertaining in the mid-nineties—although it has been further commercialised since that point—was that Defence did not undertake its own

design and construction activity; it was all contracted out. Defence managed then and manages now the overall scope and, if you like, the strategic purpose of the facility being delivered, but the actual delivery—right through the design and construction phases to the hand-over to a regional office to manage the facility—is undertaken by private providers.

CHAIRMAN—Was that one contract? Was it a design and construct contract or were there one or more packages for the design, another for the construct and another for the project management?

Mr Pezzullo—The reference I made earlier to the $65 million, I should qualify, related to the entire *Cerberus* redevelopment. The health facility was an element of it. It would be a pretty big hospital otherwise for $65 million.

CHAIRMAN—You are telling me!

Mr Pezzullo—The redevelopment project would have been delivered by a single contractor employing various speciality contractors.

CHAIRMAN—But, design-wise, was that a private architect or was that a design and construct single package contract?

Mr Pezzullo—It was a design and construct single package contract, with various subcomponents delivered by different speciality contractors.

CHAIRMAN—Who was the contractor?

Mr Pezzullo—I would have to check that.

CHAIRMAN—Was there an independent project manager who supervised construction and reported to Defence, Navy or somebody?

Mr Pezzullo—Yes, there would have been. I would have to get you the details of who the project manager would have been, but they would supervise the design and construction team.

CHAIRMAN—Who it was is of no materiality to the instance we are discussing.

Mr Pezzullo—I should add that, above the project manager, who is a private concern, there would be public officials acting in what is called a 'project control capacity'.

CHAIRMAN—At the apex, was there a single person with overall responsibility?

Mr Pezzullo—Each of these projects, then and now, would have a project director who exerts that project control authority. Depending on the size of the contract, they would be colonel equivalents, half-colonel equivalents or civil service equivalents. They obviously then fit within a chain of command, reporting ultimately to the secretary of the department.

CHAIRMAN—When did you start replacing the copper pipes—when the water blew?

Mr Pezzullo—I would have to check the details of the—

CHAIRMAN—It was some time very recently, wasn't it?

Mr Pezzullo—Yes. The defect itself was identified in the late nineties, but the remediation has taken quite a while to work through.

CHAIRMAN—I thought the defect was discovered in 1994 or 1995.

Mr Pezzullo—That was the start of the construction effort itself. It was in the late nineties. I would have to come back to you with the details as to when exactly the blue water problem in the copper piping emerged, but the remediation has been worked through since that time.

CHAIRMAN—Does ANAO have any information they can give me on this issue?

Mr Roe—Yes. You will see on page 40 that the blue water was observed about six months after the health centre was opened.

CHAIRMAN—I thought I remembered something like that.

Mr Roe—It is at paragraph 3.10.

CHAIRMAN—My question then very simply is this: how on earth could you have a simple identifiable problem exist for so long when you know there is only one thing that will turn water in copper pipes blue and that is the copper corroding to produce copper sulfate?

Mr Pezzullo—I must say that as a lay person who came to the project last year I would have come to the same assumption. It has been tested at length by various engineering consultants and it simply did not prove to be as simple as that. It is a fair assumption to start with; I would have to agree with you on that. It was tested by many different parties.

CHAIRMAN—I refer to recommendation No. 1. ANAO has recommended that for projects of significant value Defence consider appointing a probity adviser to go all the way through tender assessment, including final outcomes. You agreed on projects above $20 million. What I would really like to know is this: have you implemented that?

Mr Pezzullo—We have implemented it in two stages. We are on the verge of introducing a new suite of contracts which will have behind it a whole new through-life tender evaluation process which will have probity as one of the check mechanisms. That is due to come on line in the middle part of this year. However, that said, since the ANAO report came down last year and Defence agreed to it, we have been employing legal advisers on tender evaluation processes for all projects, whether $20 million or above, and indeed for all disposal activity and major refurbishment activities as well. So, whether it is a construction activity or a like activity, we have legal advisers who provide advice on probity and the steps that have been undertaken by our officers during the tender evaluation and negotiation process.

CHAIRMAN—Mr Neumann, are you happy with all of that?

Mr Neumann—My information is that the recommendations related to the ANAO report are all complete as at the beginning of February 2003. We have a follow-up process for the more high priority ones, for both our own and the ANAO's ones, because we have found that people have been marking things complete when they are not. But we have not got to that stage with this one yet.

CHAIRMAN—Mr Neumann, let us take that a little bit further. I was going to introduce that as a topic down the line but you have broached it so we will proceed with it. You might recall, from page 35 in whatever report, that evidently in 2001 we commented:

The Committee notes Defence's putting in place controls to ensure that recommendations made by the ANAO, Defence internal audit [IGD] and the JCPAA are routinely monitored. The Committee expects the implementation of follow-up mechanisms to systematically report on outstanding recommendations which have not been implemented.

Let me phrase this question in three parts. Firstly, do you, as the Defence inspectorate, have a mechanism to follow up whether ANAO recommendations, our recommendations or your recommendations are ever formally responded to? Secondly, if they are and the answer is accepted, do you ever check to see if they actually did what they said they were going to do? Thirdly, if there is an ongoing commitment as a result of the recommendation, is there any further follow-up to see that the implementation is in fact ongoing? Is that too complicated?

Mr Neumann—I might give my response and then just make sure we have covered all three of them. The answer is yes. The first thing that happens—

CHAIRMAN—I am asking this on behalf of ANAO, JCPAA and you.

Mr Neumann—The answer covers all three. The first thing is that internal audit recommendations are put on the database by my auditors. We run the audit recommendation management system database. The second issue is whether the ones from the ANAO go on it. My staff put those on; similarly with the ones from JCPAA. That said, there were some—I cannot remember in what category—that were cross-agency ones that I know we missed because I know that we responded late for you, Mr Chairman, on one of the follow-up minutes. I can recall at least one instance, if not two, of those. So while there is a system it is not perfect.

The second question was in relation to monitoring. The defence audit committee, as you know, regularly takes a snapshot of active recommendations and the recommendations that have been completed. It does that pretty much every six weeks—it does not always meet, but it meets about 10 times a year and just about every time we have one on it. The issue has actually been raised, when necessary, by the chair of the audit committee with the Secretary of the Department of Defence and also with the defence committee itself when required.

CHAIRMAN—Can I interrupt just to clarify that. Does that mean that, if the answer to a recommendation is 'agreed', the check includes the fact that implementation has occurred?

Mr Neumann—That is the third part of your question; I have not got that far yet.

CHAIRMAN—No, that is ongoing stuff; that was the second part.

Mr Neumann—The answer as to whether people then mark these things as 'complete' as at a particular date is that we now have a sample check of the high priority ones, which are basically the ANAO category A, the MAB category 1—which are similar—and the JCPAA. That sample check is to make sure that when people write that they have completed it they actually have done so.

CHAIRMAN—What happens if they say that they accept a recommendation and then nothing ever happens?

Mr Neumann—If they accept a recommendation and it is not marked 'complete', then it will be shown as overdue and we follow it up.

CHAIRMAN—If a recommendation has ongoing implications?

Mr Neumann—I cannot readily think of one that continues forever.

CHAIRMAN—Forever is a long time!

Mr Neumann—What we say is the recommendation would be marked 'complete' and the assumption would be that it would then continue, whatever processes are put in place. The question of follow-up then becomes one for the audit work programs, in which, over time, we go back and revisit areas. One of the things we would look for is if you said you were going to do X and you have not done X or you have done it in part, or you did X but then stopped doing X.

CHAIRMAN—The reason for this series of questions is that we made a recommendation several years ago about one particular agency which was accepted and it has recently come to my attention that it was not being implemented. I wrote to the minister and the response was that it 'has been accepted and implemented'. I have gone back to the minister and said, in two-syllable words, that it certainly has not. We had another instance today where there was a disagreement with an agency over what implementation means—whether it means the general overall intent or it means that you do what we said we wanted you to do. If you are saying that the audits are only on very major recommendations, then I have to say to you—

Mr Neumann—No, it concerns the sample that we are taking. We started off this process in the last year or so for similar reasons to yours, Mr Chairman. I was a bit concerned—and I think the chairman of the audit committee finally put it on the table, because he was also concerned—that people were marking things 'complete' simply because the due date was coming up, not because they had actually completed them. My view is the same as yours and I am sure it is the same as that of the independent chair of the defence audit committee, which is that 'complete' means it is actually finished in terms of this: if the recommendation is to put in a secure perimeter, the action is complete when the secure perimeter is in place, not when it is handed over to another group to do, so in that case we said you had better raise another audit recommendation, not one flowing from the audit because the audit, in the hypothetical case, said to put a secure perimeter in. So when you do the paperwork to ask for the secure perimeter, your part of the action is complete but the perimeter is not there and therefore the overall intent of the audit recommendation is not complete, even though it goes to another group, so we have raised an audit recommendation against another group to actually finish it off.

CHAIRMAN—I am sure it is frustrating to you when you make inspections and find that action needs to be taken, as I am sure it is frustrating to the ANAO to spend the money they spend on a performance audit, only to find that, instead of their report being viewed as adding value and getting on with implementing what people agree to, in fact nothing happens. I can guarantee to you that our committee gets frustrated with making the same sorts of recommendations over and over again and nothing happening.

Mr Neumann—But that said, I would emphasise very strongly to you that I know there are at least two instances where I have not responded in time to the audit minutes. So what I am saying is that we can have all these checks and balances but there will still be errors, and I know that I myself have made at least two. There is no perfect system but I think we are getting there.

CHAIRMAN—I did not mean to imply it was perfect.

Mr Neumann—No, but I want to make it absolutely clear. I can think of at least two—and I am sure you can too—where Defence has responded late and it has been basically my responsibility.

CHAIRMAN—But when we start finding one after another after another, we begin to think the system is breaking down, we are wasting our time here and we had better go and do something else.

Mr Neumann—Following up is not wasting your time—I will just say that.

Ms PLIBERSEK—The Inspector-General Division found that there was no efficient system in place to locate contract documentation and they recommended improved document handling and file management procedures. What have you done to improve those document handling procedures?

Mr Pezzullo—In responding, I might take my cue from the chair's exasperation to some extent. One of the recommendations found by the Inspector-General Division in February 2001 went precisely to that concern. As the line manager coming into the area in 2002, I found value in tracking my reform program against what was required of me in the audit process, because for me it gave it a force and a momentum that might not otherwise have been seen on the ground. One of the reforms that was put in place by my predecessor in late 2000 was in response to the Management Audit Branch's review which resulted in a recommendation of the type you have just described. Through 2002 I built on that and required all documents to be cross-referenced into the electronic database system known as DEMS, the Defence Estate Management System. We also initiated with our colleagues who are working up the paperless office system in Defence, the Defence Record Management System, the feasibility of examining whether we can go fully electronic, which by using IT enabled platforms allows you to more efficiently locate documents. I do not think that the end point of a completely paperless office will ever be achieved but we have gone down the process of having central physical files and then cross-references in the DEM system. So officers looking into DEMS can say, 'Okay, Fred Smith has that file and he's in Melbourne,' and—as ultimately the division would have all the documents online—when they found that that document was in Melbourne, they would not have to then say, 'Can you send me up a 100-page fax?' I would like to move to a system whereby the documents are not only referrable but accessible online.

Ms PLIBERSEK—How far along the line has that progressed?

Mr Pezzullo—The DEMS system—sorry for using jargon and acronyms—is fully functional in tracking works against invoices that the contractor provides against what has actually been agreed to be performed. The next stage in that process is enabling the reference system to open the document itself, so that everyone will be able to operate in a fully paperless way. I am not technically qualified enough to say that that will be achievable any time soon. That is part of a bigger Defence-wide project concerned with Defence record management keeping.

Ms PLIBERSEK—I have one more question, which is with regard to the blue water problem. How soon after the blue water was noticed were people warned not to drink it?

Mr Pezzullo—I would have to check the detail of the warnings, but I know that once the defect became apparent, those studies that I referred to earlier were immediately undertaken. Obviously, it is not just a defence base maintained and managed by civil contractors. There is a CO on base who takes his or her occupational health and safety responsibilities very seriously. They were certainly on the backs of the civilian staff who managed the maintenance contractors. I would have to come back to the committee with the precise detail as to when notices were posted, but I can assure you that it would not have been very long between the defect coming to the notice of the contractors and the base commander, who is a naval officer.

Ms PLIBERSEK—You mentioned earlier that a bit of commonsense would tell you that it was a process of oxidisation or something. You said that with the specialists that you had brought in, it became apparent that it was a more complex system, but the remedial action that was taken in the end was to replace the pipes, which is probably what you would have done in the first place, isn't it? You spend a lot of time talking to experts to do what would have been sensible to do in the first place.

Mr Pezzullo—I certainly would not dispute the commonsense logic of that proposition, but from a value-for-money perspective of the Commonwealth, it might well be that if there was some highly-localised, naturally-derived phenomena which would not require you to change all the piping, from a probity and indeed from an audit and value-for money point of view, the Commonwealth would have to have a demonstrated paper trail that said that they undertook reasonable investigation. The fact is that they were proven to be inconclusive, and people have said from a risk management point of view at the end, 'Damn it, we will just replace all the pipes.' When the tests were done I was rather amazed myself. The tests in some cases would produce one result and the same conditions tested separately would produce another result. It was baffling people who apparently do this all their lives.

Mr Neumann—The ANAO report at paragraph 3.10 says:

> Although blue water is a problem that occurs in many parts of the world, it is difficult to identify the cause and to take remedial action.

It then has a reference to the *Blue Green Water & Copper Corrosion, WSAA Water Quality Quick Guide July 2001* from the Water Services Association of Australia. It is obviously not that easy. In hindsight, it is easier than with foresight, but looking at the ANAO report I think that the answer to your question is pretty close to several years, if you take it from 1996. From

paragraph 3.10 to 3.15, the implication could even be as long as five years, but we will check that.

CHAIRMAN—The ANAO's recommendation No. 2 stated:

> ... that Defence use a suitable methodology for assessing contract tenders to ensure that technical and pricing factors are appropriately combined to achieve an objective decision and best value for money.

Defence's response was to agree with qualification. Did you accept that qualification? Essentially what they said was that a construction contract is relatively simple; it is not a complex decision to make regarding technical factors and price. Suitably qualified tenderers usually accept the lowest price. If you are evaluating what you want for the most modern strike aircraft, there are a different set of parameters that goes into that decision, including whole-of-life costing, which is something that we discussed with Defence from time to time.

Mr Cochrane—Complexity is certainly a factor, but in this case we can only learn by experience. We have been through a process here where we have had a series of allegations. We have had years of dispute, a full investigation by the inspector-general and then a subsequent investigation by the ANAO. In relation to those allegations, it may well have been easier to have had the methodology for the tender evaluation looking pretty good and sound in the first instance so that we did not have to go through so many layers of reviews to work out that it was okay. As our report points out, in the assessing of this tender it was quite difficult to come along subsequently and understand just how the tender evaluation group made its decisions. It would have been much better to have had a refined methodology that the tender group could follow easily and that we could audit easily.

Mr Pezzullo—I would like to add that the tender evaluation plans for major construction developments of this nature as well as the tender evaluation plans for ongoing comprehensive maintenance contracts would, I suggest to you, Chairman, be unrecognisable from the sort of documentation that would have been available from 1994-95 onwards. Whilst not as complicated as the documentation that is required for a joint strike fighter or a submarine project—because the level of technical complexity is nowhere near that—the tender evaluation plans that we have and the reports that we put to our delegates, I would contend, have a far more auditable quality about them. They expose the risk analysis and risk mitigation that we have undertaken and how we have weighted different considerations. As I indicated in my earlier remarks, not only do we apply that to major construction contracts but in the disposal program—which is also to do with how we then get rid of our facilities, and I am directly responsible for that too—I would contend that there is a pretty strong auditable trail these days that eight or nine years ago, as the auditors have found, would have been very hard to reconstruct.

Mr Cochrane—The only way we will be able to test that is through future auditing to make sure that the audit trails on the current contracts are sound.

CHAIRMAN—I thought you lived in Defence, Mr Cochrane.

Mr Cochrane—Certainly some of my auditors do. The report notes that we have done a series of reports from 1999-2000 through to 2001-02 on Defence estate project delivery, facilities operation and property management. It is fair to say that the system is getting better

and there is more strategy in the way that the now Infrastructure Division is approaching its contracting. We would not say that everything is perfect yet, but it has come a long way since 1994-95.

CHAIRMAN—I asked the ANAO about this recommendation; I am not sure I understand it. Perhaps you can explain it to me since you agree. Recommendation 3 says:

The ANAO recommends that Defence put in place a timetable for the implementation of appropriate performance monitoring devices for plant and equipment that service buildings and implement the devices at the earliest practical date.

Do you understand what that recommendation means?

Mr Pezzullo—Yes, I do.

CHAIRMAN—Can you explain it to me in English that I would understand?

Mr Pezzullo—As a historian, I am very happy to respond because I cannot respond to you as an engineer. A lot of engineers work for me. There are two subdisciplines within facilities maintenance and this is relevant to one of them. There is what is called fixed plant and equipment, which is the plant and equipment that helps you run a building, such as the power systems, the elevator systems and the airconditioning et cetera. General building maintenance and upgrades relate to the physical fabric of the building, such as broken windows that are replaced and the replacement of casings for lighting systems et cetera.

Fixed plant and equipment, if it is not regularly monitored, obviously creates a cost down the line in terms of major overhauls of your air conditioning system, your elevator systems and the fuel installations that are associated with your facilities. What the auditors found, and we agreed, was that there was a need to put in place a regime to be able to test the ongoing performance of those systems so that you were not simply doing a capital replacement when they broke but so that you were maintaining them within a performance boundary and doing minor repairs as you went along. We agreed with the recommendation because, frankly, it is an integral part of facilities maintenance. The way that we are accomplishing it is to introduce performance monitoring requirements for our comprehensive maintenance contractors. The technical solution is not in a sense for us to prescribe for them; it is really up to them to deliver a certain performance standard for the functioning of that building using whatever devices, methodologies and techniques that they deem to be appropriate. We monitor them by having KPIs over the top of them that they are required to comply with.

CHAIRMAN—If I said to you that previous inquiries into the Department of Defence have left this committee, I think it is fair to say, with little confidence that Defence even knows what its assets are, never mind having any ability to manage or maintain them across the entirety of the asset ownership of Defence, how would you respond?

Mr Pezzullo—I would respond first of all by excluding any remarks of mine as applying to equipment, weapons systems—that is managed in the DMO and I would not care to chance my arm in respect of an area for which I am not responsible. That is something I would ask you to direct to Mr Roche et al. In respect of the estate, I made reference earlier to the Vice Chair's question in relation to record keeping. I spoke about the Defence Estate Management System, which is a fully IT enabled system. I have seen my guys demonstrate it for me. I know how it

works. It allows me to capture fixtures and structures on the estate. I have seen them go down to room sizes. I have asked them to populate that database so that I can start counting the chairs and tables inside rooms. I would respond, Chair, by saying that whilst that system is not as mature as the technology probably allows, I suspect it is probably better than most public bureaucracies around the world, to the extent that we have embedded UK MOD officers trying to learn from us how we have pulled that together.

CHAIRMAN—'Embedded' is a word I have just learned how to use within the last week or so, I must say. Mr Neumann, do you have any response to that?

Mr Neumann—I think it is about management issues rather than simply systems issues. I think Mr Cochrane was right in saying that the changeover in management to Infrastructure Division from Defence Estate has made a whole lot of things different. The whole approach is different. I have forgotten what the financial auditors call it; I think they call it 'assets first found' or the Defence euphemism 'assets rediscovered'. We did have a problem with that, even with Defence Estate matters, but that was several years ago now and certainly predates the changes in the last two or three years. On the broader question about systems run by DMO, I think that is still an issue. There is no easy solution. Even for the Defence Estate ones, it took quite a lot of effort in terms of both human resources and funding. It also requires there to be people who want to actually do the recording.

CHAIRMAN—I recall only a couple of years ago that we talked to Defence about fraud. As I recall, it was a very difficult issue because Defence said, 'We basically hardly have any,' but we reckoned that we could not find out what it was that Defence thought they had that was not being stolen, which made life fairly difficult, not to put too fine a point on it.

Mr Neumann—We do find out because we have lots of investigators. It is probably not the best way to find out but we do find out. I recall that, and you probably recall my remarks at the time.

CHAIRMAN—No, I don't.

Mr Neumann—They were broadly along those lines—that the asset registers were supposed to be being improved.

CHAIRMAN—Thank you. Mr Cochrane, if I remember right, when we were discussing this audit report with you briefly before, you or Mr Roe said that during the construction phase—I did not realise it was a $65 million contract—there were over 1,000 defects logged; is that true?

Mr Pezzullo—I would have to check. It was a very large number. I would have to check whether it reached a thousand.

CHAIRMAN—Who would have been logging the defects?

Mr Pezzullo—After a project is formally handed over, there is a 12-month defect liability period. The public official who sits at the top of the tree that I described earlier is accountable for ensuring that the asset does not leave the DLP, the defect liability period, in 12 months without a claim against the contractor. So the project director working with the project manager is responsible for creating that log and then actioning that log.

CHAIRMAN—Were these significant items or were they flyspecks on a painted wall?

Mr Pezzullo—For that kind of number, some of them would have been quite insignificant and some of them were obviously quite significant. We have talked about a couple of those today.

CHAIRMAN—Do either you or Mr Neumann have any further comments to make on this issue?

Mr Pezzullo—No.

CHAIRMAN—Does the ANAO?

Mr Cochrane—I think we have covered it all.

CHAIRMAN—Is it the wish of the committee that the information package presented by the Child Support Agency be accepted as evidence to the inquiry into the Auditor-General's report and included in the committee's records? There being no objection, it is so ordered.

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

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

Committee adjourned at 2.37 p.m.