



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Review of Auditor-General's reports, second quarter 2003-04

MONDAY, 24 MAY 2004

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Monday, 24 May 2004

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

Senators and members in attendance: Ms Grierson, Mr Peter King, Senator Murray, Ms Plibersek and Senator Watson

Terms of reference for the inquiry:

Review of Auditor-General's reports, second quarter 2003-04.

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Committee met at 10.53 a.m.

MARSDEN-SMEDLEY, Ms Christine, National Manager, Planning and International Branch, Australian Customs Service

NAYLOR, Mr Peter, National Manager, Information Management Branch, Australian Customs Service

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SYMON, Mr Craig Bruce, General Manager, Corporate, Department of Employment and Workplace Relations

MOORHOUSE, Mr John, First Assistant Secretary, Corporate Governance Division, Department of Immigration and Multicultural and Indigenous Affairs

VARDOS, Mr Peter, First Assistant Secretary, Citizenship and Multicultural Affairs Division, Department of Immigration and Multicultural and Indigenous Affairs

ACTING CHAIR (Ms Plibersek)—I open today's public hearing, which is the fourth in a series of hearings to examine reports tabled by the Auditor-General in the financial year 2003-04. This morning we are taking evidence on Audit Report No. 11 *Annual performance reporting*. We will be running today's session using a roundtable format. I ask participants to observe strictly a number of procedural rules. Firstly, only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me and the committee will decide if it wishes to pursue the matter. It will not be possible for participants directly to respond to each other. Secondly, given the length of the program, statements and comments by witnesses should be relevant and succinct.

Thirdly, I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Finally, I refer any members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of this committee statement are available from secretariat staff.

Lastly, because there are more of you than we can fit around the table, I will ask everyone to take the oath or affirmation and if people sitting in the back rows do wish to make a statement or to answer a question that is relevant in their field I will ask you to come to the microphone to say your name for the benefit of Hansard and to make your comments then. Those of you who have your signs, can you make sure that Hansard can see them? Because we are such a large group today, I think it would be very useful if you do also identify yourself at the beginning of any comments that you make.

We have appointed Senator Watson as our vice-chair for today. I welcome representatives from the Australian National Audit Office, the Australian Customs Service, the Department of Communications, Information Technology and the Arts, the Department of Education, Science and Training, the Department of Employment and Workplace Relations, the Department of Immigration and Multicultural and Indigenous Affairs to today's hearing. Do any of the representatives of the organisations present wish to make a brief opening statement on Audit Report No. 11 2003-2004 *Annual Performance Reporting* before we proceed to questions?

Ms Holthuyzen—We just want to make a brief opening statement that we have accepted the recommendations of the Auditor-General's report. In our department in particular we implemented new outcome and output structures which included revised performance indicators in our 2003-04 portfolio budget statements. These partly also recognised the recommendations of the report to pick up and align our programs and strategies better with the recommendations

of the report, and we will be reporting against those outcome and output structures in our 2003-04 annual report.

ACTING CHAIR—Any of the other agencies?

Mr Moorhouse—DIMIA found the audit process, the report and the *Better practice guide* to be very useful in clarifying and articulating better practice and providing a standard to which we can aspire and also providing specific comments to guide our improvement process. Since the audit we have reviewed our approach to the annual report and in our last year's annual report made explicit reference under each output to the analysis of performance. We have also undertaken a thorough review of our performance indicators and this has resulted in significant changes. We propose, given the dynamic nature of our departmental activities, that this review be an ongoing process. We are also engaged in a significant project to transfer all of our data sources into two major data warehouses in order to ensure a high-quality assurance of reporting.

ACTING CHAIR—Do the ANAO wish to make any opening comments?

Mr Lack—Report No. 11 *Annual Performance Reporting* is the ANAO's response to JCPAA report 388, *Review of the accrual budget documentation*. The ANAO has also produced a *Better practice guide* for annual performance reporting. The ANAO believes that the audit and its two recommendations and the *Better practice guide* have been well received.

ACTING CHAIR—Have the agencies been using the *Better practice guide*? Two have said that you have made the changes, and I believe all of the agencies accepted the recommendations of the report, with one qualification from one agency. Have you been using this *Better practice guide*? How is it? Is it good? Is it helping you?

Ms Marsden-Smedley—We have not actually changed our outcomes and outputs, unlike some of the other agencies. It is a massive task for us to do. We have been making endeavours to do that. We could not do it in the time frame. Our performance indicators are quite detailed and I think the audit found that they were quite good. So to change everything we would need to go through a whole big system change, which we have not been able to do, but we have been looking at our framework. We have tried to make it so that the performance measures are more about performance measures and less about workload indicators and activity indicators. That is an ongoing process. We found the *Better practice guide* to be very helpful in that regard. It was useful to see other people's processes and we have been able to plagiarise some of those processes. None of it is a perfect fit, but it has been much better and we think it is very useful.

ACTING CHAIR—Can you give a specific example of the sort of thing you will be looking to change?

Ms Marsden-Smedley—In terms of the shared outcome, which we did agree with but we do find challenging, we have recognised the whole-of-government outcomes that the government is seeking—in particular, say, for Customs where we are looking at security, looking at economic prosperity and looking at another one as well—the three issues for Customs that could neatly fall as part of a package with other agencies. So we have identified those up front now whereas before we just assumed that people knew that that is what we would be on about from reading through our outcome. We have then talked about the government priorities and then talked about

the results that we think the government expects from Customs and then gone into what services, what outputs, what products and services we actually do. So we have changed the way we do it to tell the story in a better way. So, while we have not changed the words too much, the framework is actually going to help us put together better performance measures, and we have undertaken to talk with other agencies such as DIMIA and AFFA and AFP. We have had some preliminary discussions, but we have not had a chance to actually nut any of that out yet. Specifically, the Grains Research Development Council was one of the areas that we looked at really closely and found was helpful, and the AMSA examples were also quite helpful to us.

ACTING CHAIR—You mean the sorts of examples that are used in the *Better practice guide*?

Ms Marsden-Smedley—Yes.

ACTING CHAIR—Have DIMIA changed much because of the *Better practice guide*? What have you specifically changed in your reporting? What is different?

Mr Moorhouse—The review, the discussion and the *Better practice guide* have formed one of the inputs in our review of our performance indicators. We have done a thorough review of the performance indicators which are reflected in our current PBS. For example, 215 have remained the same, 97 we have amended and we have deleted 85 and replaced those with another 91. The criteria that we used for that review were drawn from this whole process plus some other inputs in terms of best practice. Yes, they have been very helpful.

ACTING CHAIR—So partly the individual feedback that you have got from the ANAO throughout the process?

Mr Moorhouse—That is correct.

ACTING CHAIR—Can you give us an example of some of the indicators that you have replaced?

Mr Moorhouse—Perhaps I could just ask my colleague to give you a specific example.

Mr Vardos—The ANAO's intervention was actually catalytic because we had been thinking about these issues for quite some time. A lot of what we do is very hard to actually measure. To give an example, output 2.4 is styled 'Appreciation of cultural diversity'. I defy anybody to actually put a measurement framework around that. We have been grappling with the issues for quite some time. At the exit interview the ANAO sympathised with my predicament but could not actually offer any specific measures we could take to fix it. Rather than trying to fiddle around with what was there, I basically turned it on its head. We are going to get rid of 'Appreciation of cultural diversity', which is an aspirational statement going well beyond what DIMIA can do to achieve, and we are going to title it 'Promoting the benefits of cultural diversity'. Then we can break it down into a number of suboutputs of what we do to strive for that goal. So, although it was not a specific recommendation and did not feed through the guide, the discussion and the process actually helped me develop my thinking in this area.

ACTING CHAIR—Does the ANAO want to comment on that change of approach? Does that fit in?

Ms Thurley—Each agency got a very detailed discussion paper at the end of the audit, so they have actually had our findings for some time. Also we have exit interviews where we talk these things over, where we agree that it is very hard, and that helps people to think about whether they are using the right statement or phrase to begin with as their starting point because that can often influence performance information. But certainly the discussions have been very positive with agencies since the audit.

ACTING CHAIR—Does that not raise the problem that you go back to an output model, a list of things that you have done to promote the benefits of cultural diversity?

Ms Thurley—But it is a service that they provide and, provided that the department says this is what we achieved and did not just describe the activities they undertook, it would address the issue. It still comes down to how people report.

ACTING CHAIR—It is still very difficult to measure, isn't it? It is difficult to measure the success of it. It is not hard to measure the practice.

Mr Vardos—And the sort of survey you would have to conduct would be of such proportions you would effectively be conducting something the size of the census.

Ms GRIERSON—A national survey whether the public of Australia—

Mr Vardos—How are they responding, yes. We have broken it down or will be breaking it down into four or six suboutputs. They are things that we are going to do. But then the onus is on us to measure the success or otherwise of those things that we are now saying that we are going to do—to strive for promotion of the benefits of cultural diversity. It is an iterative process. I do not think this is going to be the end of it. It is as difficult as saying how do you measure the value of publicly funded art galleries and museums. It is that nature of activity. In some of the other areas—for example, the provision of settlement services—we are doing client satisfaction surveys to actually find, from the people that walk into migrant resource centres or other such things, what benefit they are deriving from that activity which we have funded through a grant process. So we are looking at it. We have taken the comments to heart because I want to be able to actually demonstrate through a measurement framework that we are achieving the government objectives.

Ms GRIERSON—You would be able to just set some objective measures for that role of diversity, for that achievement, and they may be things like whether television advertisements represent any cross-section of society in Australia. There would be objective targets you could set that are not about your performance but about the outcomes from your performance—the impact. Do you do that?

Mr Vardos—If I can give you an example, one of the programs that I run is the Living in Harmony initiative, which is the government's antiracism campaign. It has three elements. One is a partnership with a range of business operations to promote the harmony message, including

the AFL: for example, their umpires now wear orange, which is the colour of Harmony Day. So small initiatives.

Ms GRIERSON—You do not claim credit for all that, do you?

Mr Vardos—I am not suggesting that relationships between the players and the umpires are improving; however, it is a demonstrable initiative. We have an annual grants program. We measure the volume of participation, the number of registered events across the country, which has been growing. We measure the number of hits in the media, whether it is print, radio or television, and whether that is growing over time. So we can judge impact by measuring the level of awareness in the community, and that is the path we are going down in that particular area.

ACTING CHAIR—Do other departments want to make any comments about how they have changed their performance indicators as a result of this process?

Ms Holthuyzen—As I said before, we have changed our outcomes and our outputs and that flows through to some of the performance indicators. In relation to the outcomes, it was again coming back to this sort of shared contribution idea. Previously we had lots of things which sort of talked about facilitating successful, competitive communications markets. What we have tried to do again is convert it into what is the department's role in contributing to that outcome, because at the end of the day, like many other people in policy areas, we are part of the story of putting in place regulatory environments or government programs to spend money which actually help to contribute to the outcome but we are not the only part of getting a successful, competitive outcome. So we have deliberately changed the outcomes to that. Also in the outputs, which again before were pretty generic, we have now moved to identify more specifically the outputs in the telecoms market, the broadcasting market, the ICT market and the postal market. So what we are doing becomes a bit more specific.

In the indicators, we have a bit of a combination. Like everybody, it is quite difficult: we have a combination of what are qualitative and quantitative indicators. To the extent that we have got quantitative information, such as have the prices of telecommunications services gone down and have more people had access to television services, we also try to do an analysis of what we might have done to how we contributed to a regulatory environment that might have delivered better outcomes. Like everyone else, we all keep on learning and trying to do better as we go along, but a lot of this stuff is quite difficult to get the balance right.

Ms Smith—Like others, we are making iterative changes. We made changes to our annual report last year where we invested in describing the contribution that the Commonwealth is making, because our outcomes in schooling, and in VET in particular, and in science are shared with the states. We have not made major changes to our outcomes-outputs framework, but we have put more time and effort into identifying for the parliament the effectiveness indicators. So we have put international benchmarks or trends for reading and writing—all of the results that the states are achieving with us—but we do identify our own effort in our strategic priorities which are really intermediate outcomes. That is one thing we have done. The other thing we have done is that this year in the PBS we have really concentrated on identifying where we are putting our effort, the performance of the department, because that was another area where the audit demonstrated for us that we could do better in. So we have got examples in the PBS on

page 87 of the things that we particularly put our effort into so as to distinguish the Australian government's effort from that of the states' effort.

ACTING CHAIR—One of the things that the Audit Office found was that the reports were talking a lot about targets when they were met but not talking about them so much when they were not met. Of course, it is probably of little surprise that one client, the minister, wants to be able to go out and talk about the good news, but there is also the danger that the media will focus on the one target you did not meet, not the 99 that you did meet. Clearly there is a very important public interest in knowing and it is a good way for you to apply discipline to your own operations. What do you think about this balance between spruiking the good news and keeping the bad news under wraps and balancing that with the necessity of reporting fully and frankly? What do you think the pressures are to emphasise the good news in contrast to speaking up about the targets that you have not been able to meet?

Mr Symon—We do report on those areas where we have not met targets and our annual report 2002-03 includes some targets that were not quite met. Obviously the department wants to be seen in the best possible light, but we are keen for it to be a transparent process.

ACTING CHAIR—What do you think would encourage you to report more on the targets that you did not meet? Do you think that you do it enough?

Mr Symon—Yes, I believe so.

ACTING CHAIR—What about Communications?

Ms Holthuyzen—We are obviously currently looking at our annual report coming up, and that is one of the issues that we have been investigating—to make sure that we are reporting the things that we might not have done as well. I think in the past we have tried to be relatively transparent about it as well, but I think consciously this time around we have started to have a look at it. I think part of the answer to part of your question is that, if you have not met the targets, sometimes it is good to be able to explain why you have not met it—if there is a valid reason for some slippage in some program or some area. But certainly it is something that we take quite seriously and we have been specifically looking at in our processes for our current annual report.

Mr Moorhouse—I am quite relaxed about their requirement; it is obviously a sensible thing to do. What we have sought to do in our most recent annual report, as I said previously, is to have an explicit reference under each output or subcomponent that talks about the analysis of performance. There are of course, in the very dynamic environment in which we operate, a lot of reasons why certain outputs or indicators will not be met. For example, in the area of international travel we have had the impacts of SARS and avian flu. We have also had the impact of the security environment on certain visa processes which can slow things down with the additional processing requirements and costs. So, from our perspective, it is useful for us in that analysis of performance to not only comment on the positive achievements that we have had but also be able to provide an explanation of the environment and any reasons why numbers have been down.

Mr Vardos—Citizenship is an interesting area. The target that we set in the PBS is really an indication of our ability to meet that level of business, but whether people actually apply for citizenship is entirely up to them. So that is where an explanation is always valuable, because we can say we are gearing up to take 85,000 or 90,000 applications but, if turns out to be 70,000, it does not mean the government has not met its target but that for one reason or another, or many, people have chosen not to apply to a level that we thought they would.

ACTING CHAIR—Do you speculate about what the reasons may be, though? That is the question, isn't it? Do you say, 'It is because we did not advertise it very well'?

Ms GRIERSON—If 100 per cent of people are eligible to apply, do you set a benchmark?

Mr Vardos—We make our prediction based on trends, what has been happening over the past couple of years and what we think will happen next year. Our measurement is the percentage of people who are eligible to take up Australian citizenship that do compared, for example, with Canada and the United States—the proportion of their eligible non-citizens are applying for citizenship.

Ms GRIERSON—Those benchmarks are there?

Mr Vardos—I think in the most recent annual report we do in fact benchmark ourselves against the Americans in take-up rate of citizenship. The point I am trying to make is that we can set a numerical target but it is not a failure of government activity when it is demand driven. There are a whole range of reasons why people choose or choose not to apply for citizenship.

ACTING CHAIR—But it is useful to report on those things?

Mr Vardos—Yes. That is why the explanatory notes for us are important so that people do not think that we have failed to meet our target because the department has not done its job or whatever.

Ms Marsden-Smedley—I would like to say the same kind of thing. We do not set targets in some areas but we do record the amounts in terms of drugs and things like that. To set a target is virtually an impossible thing to do, but we do measure trends. Our latest PBS has some changes in our effectiveness measures which basically go along those lines. We look at drug trends. For revenue, for example, we set an amount that we expect to collect, but it is based on assumptions that, based on the current economic climate and trends going forward, we would collect that. Where we do not collect it we do put it in our annual report. I am not sure that we have been fully descriptive in a direct way with the performance measurement of why those shortfalls are there. There is narrative in the body of the annual report, but it is not always connected with the showing of the effectiveness measures. Pretty well we meet most of the targets that we set, and I guess that is up to agencies to set their targets. They can set what they want really, with agreement from their minister and from the Department of Finance and Administration as well. To a large extent you do have some control over the target setting. We will try to have a bit more discussion, directly linked, and through the PBS as well, where you need to have kind of three documents open at any one time to really see what your target setting is all about.

ACTING CHAIR—And you are planning to fix that?

Ms Marsden-Smedley—Yes. We are in our annual reporting process at the moment. So it is an iterative process where you try to improve each year as you go forward.

ACTING CHAIR—Education?

Ms Smith—We have an example in our last year's annual report where we have reported that we have not met a target and given some reasons. This was in relation to assistance for skills development and transitions to work. That was a shared target for career counselling. We gave some indication of why it happened, but we could do more of that in our annual reports in the future.

Senator MURRAY—I want to ask the panel whether you think there is still a lack of candour in your annual reports, despite this change. It seems to me that legislation commonly expects you to do things which you have neither the money nor the people to do. Yet, as an assiduous reader of annual reports, I do not recall ever seeing any department ever say, 'We should be doing this but we do not have the money or the people to do it.' That lack of candour is a problem. Let me give you an example. The immigration people are supposed to stop illegal immigrants coming to this country: 4,000 people come in by boat and we spend a lot of money and reduce it to 500; 80,000 come in by air and, if you spend the same amount of money that you have spent stopping them come in by sea, would you have reduced the 80,000 equivalently? I have never seen that remark or analysis made. I do not see SWOT analyses done in annual reports which say: 'These are the things we should be doing as a result of our act and we are not doing these sets of things because they are out of date, we do not prioritise them, we have not got the money and we have not got the people.' That is really the purpose of these sort of inquiries that we conduct. We want to know what the holes are, what is missing: 'We have got this, we have got this, we are all moving forward; now still what is missing?' I think it is a lack of candour in those areas. So let us have your responses.

Mr Moorhouse—I do not believe that there is a lack of candour in our reporting. I think there are sometimes restrictions on our reporting in terms of the matters that have been raised in this report. I will not go into detail but will focus on answering your question. The report itself identifies some of the things we can do better in our reporting. So I think there are challenges there in terms of data, in terms of linking of data and in terms of going into detail that I do not think really reflect lack of candour; they just represent the challenges of what we are seeking to do. The example that you gave was a very useful example, but I think we are able to deal with that through our funding arrangements. In the department, we have had in the past a purchasing agreement with the Department of Finance and Administration which provided us with funding for different types of activities. That has meant that, in a sense, we were able to adjust our business according to our perception of the demand.

You mentioned the idea of unauthorised arrivals by air or people travelling unlawfully by air. We have been able to increase our level of activity in the anticipation that that level of activity will be funded if, indeed, we achieve the goals that we are setting for ourselves. Our funding arrangements have changed, but there is still under those amended funding arrangements a capacity for us to set what we believe to be a reasonable level of business and then to be funded for that level of business.

Senator MURRAY—Let me ask you a direct question. Have you ever written in any of your reports, ‘We do not have the money or the people to do this job which the legislation requires us to do’?

Mr Moorhouse—I do not believe that we have, but at the same time I do not believe that it has been a particular issue for us because of the funding arrangements we have had in this portfolio.

Ms Marsden-Smedley—I would not say that we have been quite so explicit as that, but certainly I can recall some wording in our last year’s annual report that basically says that we are constrained by resources so we can not do all the things that we should perhaps do under legislation. Using an immigration example, first port boarding of vessels, there is an expectation that we would view passports or other clearance documents of every single vessel that arrives in Australia. But we are up front about saying that we do not do that and that we cannot do it because of the limitations of the people that we have out there in the geographic reaches. It is a resource issue as well; it is not just the money. It is getting people to live in Port Hedland and Dampier and other places where you need to have them to actually go and do some of those things. I just use that as one example. It is a fairly contentious one I guess. We do not say we do not do it because we have not got enough money; we just say we have resource constraints.

Mr McDonald—Certainly within our department we look at our planning processes in trying to align those internally with our resourcing for whatever needs to be delivered during that year. In our annual report we report against those requirements, either legislative or business priorities, within the organisation. I cannot recall where we have ever said that we have been limited along the lines that you have just articulated. However, we do have planning processes to try and overcome some of those issues around limited resourcing.

Ms Holthuyzen—I would say something similar to my colleague. In a sense, we have a range of priorities and during our planning processes we plan what we are going to do for the forthcoming year.

Senator MURRAY—Those planning processes remain internal, don’t they?

Ms Holthuyzen—Yes, that is true.

Senator MURRAY—So is that where the candour occurs? Is that where you are forthright and say you do not have enough money and so on; you do not put it in your report?

Ms Holthuyzen—I think the answer is that you work out what the processes are going forward, you broadly know what your budget is going forward and you do set your priorities. So, in a sense, if there is any trading off, that is done within those priorities. Part of the point I was going to make with our portfolio, which I think is somewhat different to Customs and Immigration, because we are fundamentally a policy and program department, is that we do not quite have in many instances the same sorts of targets in, say, catching criminals, drug things or stuff like that. Because we are looking at getting better industries, competitive communications industries or on the arts side better cultural outcomes, to a certain extent that planning process enables us to target our funds where we will get the most benefit from them—recognising that everyone would always like more funds to go forward to their programs.

Mr Symon—We have been in the fortunate position, with some tight financial management and lower overhead costs, where we have been actually able to absorb new things we have been asked to do within the department. But I know that the secretary's view is that, in the hypothetical situation—I repeat hypothetical—that you present, and that is real resource constraints, we have to meet our commitments in terms of outcomes and outputs. He would have to, in that hypothetical situation, go to the minister and ask, 'What is it that you do not want us to do if we are to take this new program on?'

Senator MURRAY—And I think that is what parliament wants to know. Nobody on this side of the table or on that side of the table are mugs. We want to know what you cannot do, and that is really the point of my question. Just to conclude my round of questioning—and I will give you an example—I want to ask if any of you use cost-benefit analysis effectively and report on it in your annual reports in order to generate the funding and resources to achieve what your legislation may require. The example I will give you is the ATO. I think the ATO has developed this very effectively, so now they go along to Peter Costello and they say, 'If you give me \$300 and such-and-such million we will give you so much revenue, because by doing this compliance we know what the revenue consequences are.' They can directly say to the government what the return will be. I think it could be very difficult in some of your areas to do that, but to me that is an effective way of getting money out of a government that is always short of money, whoever the government is. Do you in your departments use in your reporting mechanisms as many of those cost-benefit measurements as are practical or possible? Is it something that is meaningful for you?

Mr Symon—Cost-benefit analyses are important to us, but it is not something that we report on. But, yes, it is important to us.

Senator MURRAY—Whereas the Taxation Office does; it does report on it.

Ms Holthuyzen—We do not report on it either, but the answer is that we do use that sort of mechanism. A good example of a cost-benefit analysis for our side might be in how we put some of our programs together to deliver better services to regional Australia. We actually think about what is the most efficient way to deliver those sorts of programs. But again it is not something we report on.

Mr McDonald—We do not do that at Education, but it is something we can consider further. We do internally a lot of that cost-benefit analysis on the way the organisation operates and what we have got to do—the cost benefit in doing it, whether we do it or not do it—but I agree that we do not do reporting.

Senator MURRAY—If you spend so much money on early childhood, you expect to be able to measure against that cost the benefit later in terms of the development of those children.

Mr McDonald—Yes.

Mr Moorhouse—We do not use cost-benefit analyses in the way that you have described, although in some respects the funding arrangements that we have had in the past allow us to make strategic decisions internally about investment into certain types of activities with the

knowledge that we can achieve results that justify that level of investment. But, no, in the sense that you have asked, we do not do that.

Ms Marsden-Smedley—I do not think it is a level of detail that we do either. But I guess it does flow from the ANAO's report where it talks about the cost efficiency and the effectiveness of the resources that you are using. We would really have to go down to another level of detail in the annual report to provide that. At the moment, we use the PBS as our reporting mechanism, and underlying that there is a whole bunch of data that supports the build-up, but the output price is really that measure of cost effectiveness or the efficiency. So we do in a generic sense, but I get the sense that you are talking about a more specific kind of approach.

Senator MURRAY—I am talking about what return you get. The difficulty with what we have been discussing—it is why trend analysis was discussed earlier—is that it tends to be a parcel of time whereas any businessperson or any bureaucrat knows that investment now will give you a return many years later, particularly in education. That is a very easy example. I just do not see enough of that in the reporting we get back—enough ratio analysis, enough cost-benefit analysis, enough assessment of returns. Measurement is exactly that. Measurement is not just against what you spend. That lies behind the thinking that I put in my questions.

ACTING CHAIR—Do the ANAO want to make any comment about whether that cost-benefit analysis approach that Senator Murray has described is something that you would support more of in performance reporting or in annual reports?

Mr Lack—I think that some judgment needs to be applied as to how often you might do such a thing, but certainly if the agency, in its planning, was trying to demonstrate the value of some initiatives that were either a ministerial priority or a priority internally there may obviously be some benefits in working out the benefit cost of putting such a process forward. The only other thought I have had is that, in the process of doing the audit itself, one thing that we did find was that agencies had done quite a number of evaluations of program effectiveness over a period of time. That information did not appear to be making its way into annual reports. So there was a body of information around. It might not have been cost-benefit analysis strictly, but there was a body of work on evaluation that perhaps could have been made better use of.

ACTING CHAIR—In the Grains Research and Development Corporation annual report, that is one of the things that is apparent in the example that you use from them. They have got a number of surveys and other indications through there about the effectiveness of their programs. Is that the sort of thing you are talking about? It is on page 36.

Mr Lack—Probably at another level to that. An evaluation would give you some insights as to whether a program had actually achieved its results. In going through that process, you would probably learn about what perhaps in the future you could use as performance measures.

Senator WATSON—I make a comment first. I am surprised at the agencies' responses to Senator Murray's questions on cost benefit. In fact, I would have expected a reply of more comprehensive reporting encompassing cost-benefit aspects, but none of the witnesses really did that. I was a little bit surprised because cost benefit I would have thought was just one part of an overall evaluation. No agency is really an agency into itself. The Auditor-General reports on agencies frequently, providing descriptive information, but particularly where agencies

contribute to a shared outcome the Auditor-General did indicate a need for improvement in relation to the specification of the agencies' influence and contribution to shared outcomes. So, where those agencies do participate in the shared outcome, I would be interested in how you contribute, particularly in providing not only descriptive information, which generally agencies do, but also performance analysis—in other words, the why.

ACTING CHAIR—Maybe we can start with ANAO. You have said, as Senator Watson says, that people should be doing more reporting against shared outcomes and Education have replied to you that they would need more practical advice on how to do that. What sort of practical advice could you give the agencies? Then we could go around the agencies and talk about whether you understand what is required of you and what you are doing to meet those requirements.

Mr Lack—The hub of what we are saying is that agencies in the reports that we looked at did a good job in describing where they were involved in a whole-of-government approach or an approach across jurisdictions so you could read what they were doing—the activities they were involved in. We are suggesting that, in terms of performance, you would also need a way of measuring the agencies' individual contribution to that broader outcome. We are not saying that that is an easy thing to do. It begins with clearly identifying roles and responsibilities—and that can be a challenge when it is across jurisdictions, we understand that—but, if you could articulate particular roles and responsibilities and you then knew what your future output perhaps was to that broader objective, you would then be in a position to articulate some performance measures around that. Obviously it is not an easy thing to do.

ACTING CHAIR—Maybe we should start with Education because you have responded that you do not get it. Is that the response?

Mr McDonald—We are trying to get it. It is difficult with the shared outcomes. We have tried, particularly in our last annual report, to provide some more tabular form of information—so graphical information—and some explanatory text and analysis around that to try and help articulate our contribution. We have also tried, at the start of each of those outcomes, to put what the Australian government's contribution to that is, to try and make that clear. We have also tried to use benchmarks to assist with that, be they international or other benchmarks we can draw upon. We tried to then move that over into the PBS this year in some of our listings of performance indicators that are specifically for Education and then whether there are qualitative or quantitative indicators around that that we can measure, coming into 2004-05. So that is what we have tried to do. We still think there are challenges around that because of the links with the community in some of our whole-of-government stuff around the COAG trial sites and the like and also with the state government contribution to our outcomes. So we have tried to do more of that. We think there is still more to be done and we think the *Better practice guide* will also help us in that. So, although we have articulated it as a challenge, we think it is something well worth trying to make clearer for people in the annual report.

Ms Smith—We have deliberately looked at what our departmental outputs are. That was part of the story that the ANAO told us in those shared outcomes. If we are thinking about the VET sector, we have identified the areas that we are on the record for putting our effort into improved collaboration between higher education institutions and implementing a VET priority places program. We have given much more detail this year in our PBS about that departmental effort.

ACTING CHAIR—Senator Watson, is that the sort of information you are looking for from the departments?

Senator WATSON—Yes. Mr McDonald touched on it a little bit in talking of shared responsibilities with the states. You are referring purely to your own department—

Ms Smith—I think it was a combination.

Senator WATSON—But I was really asking you about shared outcomes, because that is the difficult area, and that was why I asked the question.

ACTING CHAIR—How departments are measuring their own performance against shared outcomes?

Senator WATSON—Yes; how they have contributed to the shared outcome. I think that is the criticism of the Auditor-General.

ACTING CHAIR—Do the other departments want to comment on how you feel that you are meeting your reporting requirements in measuring up to or fulfilling your responsibilities in those areas of shared outcome?

Mr Symon—We have experience with shared outcomes, with COAG work we do up in Cape York and Shepparton. It is something that I am not an expert on, but we do have people in the room who may be able to help. But we do need to grapple with that particular one, where there are shared outcomes. Of course, with the changes that are forthcoming with AT SIS, that will be an area for us to be working on as well. Of course, it is very early days in that regard.

I would not want to give the impression that cost-benefit analysis is not done within the department, it is, but it would normally be done at the new policy proposal area where departments, together with the minister, would sit down and think, ‘Okay, what do we want to put forward as a new policy proposal?’ At that point cost-benefit analyses would be done so that the government can look at what is being put forward and the return on that new money that we would be asking for. But that is not a reporting answer, I understand that.

Ms Holthuyzen—This is what I commented on before as to how we have changed our outcomes and our outputs. Measuring how you contribute to shared outcomes is actually quite difficult. Working out what your contribution is versus what the marketplace was going to deliver or what private companies were going to deliver in services is actually quite difficult. As I said before, we changed our outcomes, but also our outputs, to more clearly identify the sectors, and we have a range of quantitative information—graphs and charts—to see if we can demonstrate what is actually happening out there in the marketplace and then we try to do a qualitative assessment of, for example, what changes in regulation or what particular programs the government has been delivering via the department that have actually contributed to those outcomes. Again, it is something we try to keep working on.

ACTING CHAIR—Is it difficult because you have not identified clearly enough in the first place what your responsibility for the shared outcome is?

Ms Holthuyzen—It is always hard to work out exactly what was the precise influence of what we did on the outcome. If you look at, say, telecommunications, one of the broad objectives is to get better priced telecommunication services or better access to telecommunication services in regional Australia. There is a whole regulatory environment which encourages competition for companies to go and deliver better services, and that is part of the system. How do you quite measure that precisely? Then there is a range of programs—that is, the government assists in providing programs to provide better access to broadband services and issues like that. So you can describe what you can do and you can create the environment and put in place the arrangements in an environment which facilitates all of that, but then to actually measure it and say that the department or the government was responsible for 10 per cent of that change in prices or 50 per cent of that change in prices is really hard. But it is really trying to assess and saying that there definitely was a contribution in trying to measure those as best as you can.

Mr Moorhouse—We appreciate the points that have been made by the ANAO and the positive suggestions they have made in identifying the influences of other stakeholders and looking at breaking down some of the things we are seeking to achieve to be more specific. My colleague gave an example earlier in relation to appreciation of cultural diversity—how we are seeking to specify our contribution more precisely and meet the objectives that have been identified. I just would reinforce the points that have been made that it is a very difficult area for us. When we are talking at the outcome level we are talking about broad societal aspirations and there are many variables. So I think the suggestions that have been made by ANAO are helpful.

ACTING CHAIR—Do you ever report against those more nebulous ideas at all? The whole discussion today is about moving away from those, but do you have any that you want to hang on to?

Mr Moorhouse—I do not know about nebulous, but if we talk about outcome 1, Contributing to Australia's society and its economic advancement through the lawful and orderly entry and stay of people, we have reported against the impact of immigration on Australia's economic development and so on. So we do try to provide reporting on the impact of our programs at a very broad level also.

ACTING CHAIR—Customs, did you want to talk about the shared outcomes?

Ms Marsden-Smedley—I think I did say at the outset that it is very challenging to do that, because again we do have those broader aspirational whole-of-government approaches where we do work with a number of different agencies, and I can identify at least 20 or 30 different agencies that we work with—that, is at the federal level—and we also do work at the state level with state police services in particular on drug matters. So, if other agencies or the ACC or whoever is responsible for measuring the drug impact on Australia, that is an opportunity to look at all of the outcomes of each of the agencies that are pulled together that do some of those things and put some performance measurement around it. We would have a role in contributing to that, but it would be impossible for us as a single agency to take that higher level view. We can talk about it and try to put some measures in place that might contribute towards it, but there would need to be, as you said before, recognition of what you are really trying to report on and somebody would have to take responsibility to pull it all together.

ACTING CHAIR—Did you want to add something, Mr Vardos?

Mr Vardos—There are two dimensions to this. One is where you have other agencies, whether it is local, state or territory governments, that you are working with. To give you an example, every time a local council funds a local ethnic fiesta of some sort, or a state government funds a mardi gras, that actually contributes to the promotion of cultural diversity, but it is not done in a coordinated way with specific targets. All of those levels are striving for the same objective but come at it from different perspectives. You could say at the end of the day that it is a shared outcome to promote cultural diversity and the benefits of multiculturalism, but they each go about it in an uncoordinated way.

ACTING CHAIR—And you are not going to report on them?

Mr Vardos—I can't; it is impossible.

Senator WATSON—Maybe the agencies are a tad modest in not wanting to overstate their influence on shared outcomes.

ACTING CHAIR—Can I just ask the ANAO to comment on that. You heard all of the discussion about the difficulties. Do you want to make a further comment?

Mr Lack—The two things that arose over and above what we said earlier was that the external environment obviously plays a big part outside whatever agencies can actually do. I think the other thing that came up was that an agency at some point needs to put its hand up to be the lead agency and to actually pull together what is that broad outcome so that everyone else can then make their contributions within that.

ACTING CHAIR—And how many times have we said that?

Mr Lack—Quite a few.

Senator MURRAY—I want to ask you whether you think we expect too much from annual reports. I was greatly taken by and enthused by the *Intergenerational Report* taking a long-distance, evaluative view of where we should be going. I have wondered if, because of the parliamentary cycle being three years and the term of a government being three years, whether annual reports should be formally supplemented by a triennial report which would take that long-distance, generational view for each department, into which you could then plug lots of the thinking and the greater depth which some of you obviously do in your own planning processes and your own preparation for policy papers. It is not a formal part of government, and we are developing it in a number of areas, of which the *Intergenerational Report* was one, but that would enable fewer demands to be made for the annual report in the greater sense of being long term and evaluative for a triennial report. So if I could have your views on that, including from the ANAO, I would be interested.

Mr Moorhouse—I think you are correct, in the sense that when you imply that we expect too much from annual reports there is from our agency's perspective a potential conflict at times between the opportunity to promote what the department does and show the department in a good light and providing a balanced evaluation of how we are performing in meeting all of the accountability requirements. We as an agency have chosen, for example, to focus on the latter, to focus on analysis, to focus on providing a balanced picture rather than seeking to promote the

agency. So I think there is sometimes a degree of conflict in what is expected of annual reports in the rewards provided for all sorts of different things. We have taken a fairly low key approach but nevertheless focusing on analysis.

I would not be keen to move in the direction that you suggested where we are putting less emphasis on annual reports. I think the process that we are involved in at the moment is actually a very positive one. As I said in my introductory remarks, I think the guidance that has been provided by the ANAO through this process has been extremely helpful to us as an agency in terms of how we can improve our approach to annual reporting and how we can make it more informative to parliament in particular and to the public also. So I am keen for us to continue the process that we are engaged in at the present time to look at how we can use annual reporting to achieve the sorts of goals that we are identifying rather than sort of playing it down and looking at a three-year rolling program. If annual reports do serve the purpose that we are seeking to put forward, then I do not know that we would need a triennial report in the way you described it.

Senator MURRAY—I should explain what I mean and see if that colours some of the answers coming through. I think annual reports are insufficient and inadequate, as I think my earlier questioning indicated, and I am looking for far more evaluation of long-term returns and the statistical and analytical compendium that goes with that. And if you start that, of course, you have the danger of turning your present annual report into a much more weighty volume. So if we add more in, if much of that relates to a longer term perspective, my question is whether that needs to be in a different document or not.

Mr Moorhouse—I appreciate the point you are making. For example, some of the analyses that we have done in relation to things like the economic impact of immigration are not things that we can do every year. There are certain types of analyses that need to be done on a longer term time frame to be meaningful, and I do appreciate the point you are making. I am not sure what the appropriate cycle would be, but we do seek to address that through annual reporting.

Senator WATSON—Mr Moorehouse raises an interesting observation so I ask a question of the Auditor-General. Do you have any evidence of agencies providing an excessive emphasis on putting that particular agency in a good light, or any agency in a good light?

Mr Lack—I do not think we have evidence to that effect.

Senator WATSON—They are all very objective?

Mr Lack—I did not say they were objective; I said we had no evidence that they were more balanced in one way than the other.

Senator WATSON—That is reassuring then.

Mr Lack—Just going back to Senator Murray's previous question, the first port of call should perhaps be the annual report. If there is a view that there is not enough evaluation of long term trends and not enough evaluation on the benefits and the costs in the long run, my first thought would be that to the extent that agencies should be doing that in any case, they might not be doing it on an annual cycle. But to the extent they do it, that should actually be in the annual report and made available. I think your argument has merit; I am just not too sure about a

separate report. It is obviously an imperative that agencies do this type of work and hopefully it will be captured in their annual report and also in their planning.

ACTING CHAIR—I ask a follow-on question from the question Senator Watson just asked. Do you think that generally there is a culture of promoting agencies through their annual reports?

Mr Lack—I would not say it is a culture, but certainly it is an opportunity for agencies to do a number of things. One is to provide accountability back to their stakeholders, including the minister in parliament. It is also an opportunity to showcase their work in the previous year or so. Often in the introductions to annual reports secretaries take the opportunity to tell the positive things; hopefully they also capture where they can improve. I think that while the work that we have done in this audit does show that agencies tend to find it difficult to report against the performance measures, they do at least have descriptions of where things, either in the environment or other factors, have made it difficult to meet their particular objectives.

ACTING CHAIR—As there no further questions, on behalf of the committee I would like to thank all of the witnesses who have given evidence at the public hearing today. It has been very useful for us to hear from all of you. I declare this public hearing closed.

Resolved (on motion by **Senator Watson**):

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 11.59 a.m.