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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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**JOINT STATUTORY COMMITTEE OF
PUBLIC ACCOUNTS AND AUDIT**

Friday, 23 June 2006

Members: Mr Anthony Smith (*Chair*), Ms Grierson (*Deputy Chair*), Senators Mark Bishop, Hogg, Humphries, Murray, Nash and Watson and Mrs Bronwyn Bishop, Mr Broadbent, Dr Emerson, Dr Jensen, Miss Jackie Kelly, Ms King, Mr Laming and Mr Tanner

Members in attendance: Senators Hogg, Nash and Watson and Mrs Bronwyn Bishop, Mr Broadbent and Mr Anthony Smith

Terms of reference for the inquiry:

To inquire into and report on:

Review of Auditor-General's reports Nos 7 to 34 (2005-06)

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Committee met at 10.42 am

CHAIR (Mr Anthony Smith)—I declare open today’s public hearing, which examines four reports tabled by the Auditor-General in the 2005-06 financial year. First up, we will be taking evidence on Audit report No. 31 2005-06: *Roads to recovery*. Later, we will be looking at Audit report No. 17 of 2005-06: *Administration of the superannuation lost members register*; Audit report No. 23 of 2005-06: *IT security management*; and Audit report No. 29 2005-06: *Integrity of Electronic Customer Records*.

As always, I ask participants at today hearing to remember that only members of the committee can put questions to witnesses if the 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 comments to the committee. Given the short time available today, statements and comments by witnesses should be relevant and succinct.

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.

[10.44 am]

ANDERSON, Mr David, Director, Transport Policy, Australian Local Government Association

BERESFORD-WYLIE, Mr Adrian, Chief Executive, Australian Local Government Association

BOYD, Mr Brian, Executive Director, Australian National Audit Office

CHAPMAN, Mr Steve, Deputy Auditor-General, Australian National Audit Office

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

ROWE, Ms Nicola, Audit Manager, Australian National Audit Office

ATKINSON, Mr Simon, Acting General Manager, AusLink Systems and Local Road Investment, Department of Transport and Regional Services

RIGGS, Ms Leslie, Executive Director, AusLink, Department of Transport and Regional Services

CHAIR—I welcome representatives of the Australian National Audit Office, the Department of Transport and Regional Services and the Australian Local Government Association. I invite DOTARS to make an opening statement, then we will hear from the Local Government Association.

Senator WATSON—I direct this question to DOTARS. What have you learnt from this audit report and your experience with this particular program? It is an interesting program in that it enables us to establish work trials, so I am interested in your experience and what you have learnt from this program, together with the audit report.

CHAIR—We will hear your opening statement, with that in mind. The Local Government Association can make an opening statement, then we can move to questions. But keep that question in mind.

Ms Riggs—Thank you. This is an efficiency audit of the previous Roads to Recovery program, which funded almost 15,000 projects over a 4½ year period involving several thousand individual payments to some 720 councils. The audit did not find that the program was not effective in its outcomes on the ground. The ANAO has quoted some positive comments by councils about the outcomes they had achieved from the program and has suggested that a formal cost benefit study be undertaken. It is otherwise largely silent on the issue of effectiveness.

The audit also makes no finding that the administration of the program was not efficient. It does note, however, that the program, totalling some \$1.2 billion over that period, was run by

three full-time staff for much of its life. There is no evidence from this audit of a misuse of funds under the terms of the Roads to Recovery Act by councils or the department or any suggestion of fraudulent behaviour. The department has implemented or will implement all but one of the ANAO's recommendations, noting that the changes to the expenditure maintenance requirements were already planned as part of a program of continuous improvement which has operated throughout the life of the program.

Recommendations which propose improved documentation or operational procedures have been implemented. It is planned to implement recommendation No. 1 later in 2007. That recommended a benefit cost study of Roads to Recovery projects and this cannot be done until there are sufficient projects completed under the new program. We will also make the first assessment of aggregate local government spending on roads in late 2007, using data from the expenditure maintenance sections of the annual reports, which will be available by then in substantial numbers.

Recommendation No. 10(e), which covers the reallocation of unspent funds from Western Australia's special projects element of the program, will be addressed when circumstances it deals with arise. Recommendations 7(a) and 7(b), which relate to the wind-up of the program, will be implemented at that time.

The department supports the implementation of recommendation No. 9(d), with qualifications. The ANAO recommended that funds for the special WA projects be held as appropriate in separate bank accounts to achieve transparency of accounting. However, the department considers that R to R funds can be clearly identified within a bank account without the need for councils to create separate bank accounts. The previous program sought to implement the following three government policy objectives: funds would be paid directly to councils; project priorities were to reflect the choices of those councils; and the administrative processes were to be simple, with appropriate audit and accountability arrangements in place. On the latter point, the government chose to place the obligation to meet the program's funding conditions on councils, including annual reporting and funding acquittal processes. The new program commenced in July 2005, with enhanced administrative arrangements. These reflect the same government policy objectives as before but have been modified to reflect the ANAO's recommendations and as a result of the department's own continuous improvement program.

CHAIR—I invite the Local Government Association to make an opening statement.

Mr Beresford-Wylie—The Australian Local Government Association welcomes this opportunity to participate in the roundtable discussion on the Audit Office's report. Local government is responsible for maintaining around 680,000 kilometres—which is more than 80 per cent—of Australian roads, and approximately 400,000 kilometres of that road network is unsealed. The value of the infrastructure is around \$75 billion. Local government is also responsible for around 29,000 timber bridges, approximately 14,000 of which are on heavy vehicle routes. Local government expenditure in 2002-03 on local roads was around \$3.8 billion, of which \$2.9 billion was own-source revenue. That is not sufficient, however, to maintain this important national asset.

The Roads to Recovery program has been an extraordinarily valuable initiative of the Australian government in helping bridge a deficit in local roads expenditure estimated to be

\$640 million in 2003-04. It has provided \$300 million per annum directly to councils to spend on roads. The program has been highly successful in meeting its core objectives of addressing the backlog of maintenance in the local roads network and improving the general state of this important national asset. Some 15,000 projects were undertaken in the period 2001-05 and an analysis by DOTARS indicates that the funds were spent on improving road safety, achieving better asset management and improving heavy vehicle access, amongst other things.

The Roads to Recovery program is also important for local government because it represents a new program delivery mechanism in terms of providing funding direct to individual local governing bodies. It represents a model that we would like to see expanded to other areas. For this reason we value the exercise undertaken by the Audit Office, which we see as important in identifying opportunities to improve the operation of the program and to maintain its integrity. The ALGA has engaged with its constituency to draw attention to the findings of the audit report and to encourage a close relationship with DOTARS to ensure local governing bodies meet the accountability requirements of the program. As a final note, I must add that we are extremely pleased that the Australian government gave us a vote of confidence in the program by providing an additional \$307.5 million in program funding in the 2006 budget. Thank you.

Senator NASH—One of the main things that seems to have come out is the use of the funds by the local council in ensuring that funds that have been allocated are spent on the roads. Can you give us your opinion on that? Do you think it is being done to the degree that it should have been done or is there room for improvement?

Ms Riggs—I think that both the department's own observation of the program and the audit suggest that the funds are spent on roads. I think that we did learn over the first four-year period that as a department we needed to have monitoring arrangements in place to make sure that councils understood the relatively light touch, but nonetheless necessary conditions, placed on that funding. Those are the sorts of recommendations either that we developed for ourselves and have implemented or that the ANAO has formally raised in this report and we have either implemented them or are implementing them. For example, there is issue of making sure that the program of works each year is kept up to date. Councils can change their priorities—that is perfectly legitimate—but they need to keep us up to date with how those priorities change.

I think that the judgment has been that this is a program that is effective, that councils do gain benefit from it and that the land transport infrastructure in Australia benefits from it. The government's judgment clearly is that it has been effective. They have continued it. If I turn to some of the particular instances that the ANAO talks about, we have examined each of those and we conclude in every case that, while the expenditure was not necessarily timely under the first program, all the expenditure has been made and made on roads under the control of the councils concerned.

Senator NASH—What are the monitoring arrangements that you mentioned? What are the DOTARS monitoring arrangements to keep an eye on those councils to ensure that they are appropriately spending those funds on roads?

Ms Riggs—There are a number of them, I guess. For starters, when a quarterly report arrives which includes a claim for payment we check that the projects against which the council is claiming funds are those which are on their current work register. So we check for currency. We

are implementing a new IT system at the moment and that is one of the things that it will be easier to do once that system is in place, because the system will do that cross-check for us.

We have a program of site inspections and visits to local councils by officers of the department. It does not cover every council at all but it is a risk-based and randomly based—a share of each of those—visitation program. We are just implementing now a series of independent audits of councils. Again, these are randomly selected, although there is a risk-based element in the future, I suspect, to come into that program. And, as required by the funding conditions, we rely on councils to sign off every year that they have spent the money according to the work schedules and appropriately as required under the act.

Senator NASH—Just on that, the ANAO on the subject of the certification that gets signed off obviously have some concerns that this is being signed off without the necessary diligence being undertaken. What is your view on that?

Ms Riggs—We acknowledge that the ANAO certainly found evidence, at least in some cases, where there appears not to have been what we might call due diligence on the part of the signatory to those reports. We are approaching this on a couple of fronts. We will be more assiduous ourselves in checking annual reports to make sure that they do not contain obvious errors and, where they do, we will go back to those councils.

The second thing that we are doing in conjunction with the Local Government Association is trying to do some educative work with councils and their officers. In about two weeks time, for example, we will be running a session at the Australian Local Government Association's annual roads congress, which is attended by elected officials rather than council officers, and we will be talking to them at that session in a workshop format about the things they should be conscious of as elected representatives in being accountable for the work of their paid employees. That is precisely one of the things we will be talking about: do you ask the right questions so that your CEO is properly authorised to sign off statements such as the one that relates to the annual report?

Senator NASH—How many staff have you got to do those monitoring arrangements? Obviously that is a key to keeping an eye on those councils and what they are doing.

Ms Riggs—This is a program that is run in a team of five.

Senator NASH—In your view, is that enough? I am sure you would prefer to have more staff, but is that an appropriate number of staff to allocate to this process of monitoring to make sure that we get the right outcomes?

Ms Riggs—I think it is about right. I guess I would be even more comfortable once the system is in place and we can automate some of the routine checks. But I remind you again of the principles that underpin this. As far as possible this is a program in the council's control and the obligations are on them to do the right thing. On a risk basis at least I think we have to give some credence to the notion that most Australians try to do the right thing. So I am pretty comfortable with the level of resourcing.

Senator NASH—Obviously the program is to allocate funds over and above what councils are already spending to improve our local roads. What is your view on the potential cost shifting aspect of this, that councils that are not maintaining what they currently would be spending anyway are using the federal funding instead of their funding when, in essence, it should be on top of any funding? Do you see that happening a lot and is that a concern?

Mr Beresford-Wylie—It would be a concern, and it is a concern if it has happened. The report has focused on some particular incidents where individual councils have failed to maintain their own expenditure on local roads. In some cases I think that might have been limited to perhaps one of a few years. There seem to have been some particular case studies in there and I guess we think of the City of Sydney, perhaps, where there were some unusual circumstances which might have resulted in that council spending up big in the lead-up to the Roads to Recovery program because of the Sydney Olympics and then not being able to sustain that expenditure. Of course we are very concerned about cost shifting in general terms. It is one of the key principles that the Australian Local Government Association is looking at. For that reason, we are very pleased with the signing of an intergovernmental agreement on 12 April which is specifically aimed at addressing that cost shifting.

I think we come with a commitment to making sure that cost shifting does not occur between any of the levels of government. We have reiterated to our constituency the idea that this is additional new funding. It is supposed to be on top of the funding that they currently spend. I think we see from the Audit Office report that there is some blurring around the edges in terms of the understanding of some councils about what might constitute their own spending. In some cases the Audit Office, in its discussions with councils, looked at the amount of money being spent by the individual council which included funds that had been provided, I think, by state governments to deal with local roads. That was mixed up in some of the funding figures provided by the councils. Some councils thought that was okay and others differentiated that and thought: 'No, it is not really our own-source revenue. It is provided by a different level of government and we cannot really control that flow of funding.'

CHAIR—I can see that point and I was going to ask the Audit Office to perhaps comment on that. That also raises another issue, doesn't it, about the state governments potentially withdrawing funding as well. I might just ask if the Audit Office could comment on that generally.

Mr Boyd—Our focus was on money sourced from councils. Clearly for the first program the guidance from the department was not very clear in terms of exactly how councils should calculate this in terms of making their own certifications. So we certainly found variable practice across councils as to what they proposed to include. I think from our perspective, though, on what councils may have provided to us, we do our own assessment. We form our own independent view. We would go through that to ensure that our data is consistent. So, even though a council may have provided us with data that included state government contributions, we were at pains to make sure that we did not include such things which are outside their control.

There are other debates about things such as developer contributions to the extent that councils can control those. Our focus initially was: 'What as a council had you done to satisfy yourself before providing a certification?' The next step was: 'Have you maintained your own spending

on roads?' So, in terms of the concerns of the local government association, we were at pains. Obviously, if the state government have reduced their funding, that is not something that is within the control of the council so it is not something which would feature in our analysis. We are also quite conscious of things such as the Sydney Olympics. That does not change the fact that, with some of the councils we looked at, they were quite up front with us and they said: 'Look, we're in trouble. We set out to reduce our spending on roads, so of course we wouldn't maintain them.' But the problem we have is that they have certified that they have maintained.

Senator NASH—Do you believe that the majority of councils are trying to deal with this in such a way that they recognise that that funding is over and above? They are committed to maintaining their current funding recognising that that is extra funding?

Mr Beresford-Wylie—Definitely.

Mr BROADBENT—It seems pretty clear from this audit report that DOTARS just has not performed at all well in regard to the reporting procedure as to whether a project has gone ahead or has not gone ahead. You said that you had five people on that reporting list. Of those five, how many are actually on the road looking? Are there two or three?

Ms Riggs—I actually do not accept that DOTARS has not done well in relation to this program. I do not believe that that is what the audit report says. What I described was a team of five that was responsible for this program. Not one of them is on the road necessarily on an ongoing basis. We undertake a sample over the course of a year of about five per cent of councils. That is something we have implemented in the last couple of years, in part because we could see ourselves that there were some councils that were having more difficulty than others, if I can put it in those terms, in meeting the requirements of the funding conditions. I have to say that in our judgment that is still, for that inspection visit, at about the right level.

Mr BROADBENT—So each staff member has 140 councils to deal with. Do you just do a five per cent check on all of the councils? Is that what you are saying?

Ms Riggs—We look at every formal return that comes from a council. In terms of visits to councils, we visit about five per cent of them each year.

Mr BROADBENT—It seems that the form that they sign off on is totally irrelevant—they just sign it and send it back.

Ms Riggs—I do not concede that there is evidence of that being the case for the vast majority of councils. I accept that the ANAO identified some cases where you might wish to interpret their conclusion in those ways. In cases where we have any reason to believe that there might be a lack of understanding on the part of the signatory, officers will take that up with the council. As I say, with the cooperation—indeed, at the invitation—of the local government association, we are about to at least take the first steps in seeking to discuss some of the issues for elected representatives around their accountability for this program into the future.

Mr BROADBENT—I think that was very nicely put. I still go for the position that they just sign a bit of paper and send it back. It is probably a cultural thing with the councils not being too worried about sending it back. I think there probably is a need for further reporting back to

DOTARS as to what they have done with the money. It is suggested that you sent the money out a little early. I am not suggesting you sent the money out early; I just suggest you sent the money out. Do DOTARS check whether the interest received on the money that is sent out is spent on roads or you just send it out and the interest can go anywhere they like?

Ms Riggs—The conditions of funding for the first four-year Roads to Recovery program were silent on the issue of interest, and therefore DOTARS made no check. For the AusLink Roads to Recovery program and the supplementary AusLink Roads to Recovery program, which received funding in the most recent budget, the conditions of funding require that any interest earned on the funds be spent on roads. From now on, it is in fact something we will both be asking councils to certify and, on the basis of our random sampling, including independent audit random sampling, we will be checking that that is the case. However, we have taken one other step: we now have in place a requirement that councils spend any money they claim from us and we pay to them under this program within six months of receipt. Where they cannot prove that they have so spent it, we do not make another payment until they confirm that they have spent the previous funds, so there is a delay. So there will be much less opportunity for councils to earn interest from the funding under this program.

Mr BROADBENT—In regard to the expenditure of money on roads, have you decided that it is fine for them to do a calculation of their interest payment in a bunch of money in an account—you do not require them to put it into a separate account like many government departments do?

Ms Riggs—We do not require a separate account. We think that for a program that has as a policy underpinning council choice of program, council choice of priorities, including changing priorities, it should recognise that, while this money must be transparently accountable, it is often used in conjunction with own source roads funding on projects. For example, you might say, ‘This five kilometres is R to R money and that five kilometres is the council’s own money.’ We do not think it is very efficient for us to require separate bank accounts for a council in terms of what this program is. It means more time and expense. We believe their accountability is sufficient.

Mr BROADBENT—When there are only five people in the area in DOTARS—therefore an average of 140 councils each—is there any form of buddy relationship with a group of councils in this DOTARS area where they might be able to ask the question: how are you going?

Ms Riggs—I think that the officers that staff the section that is responsible for this program behave professionally in terms of their relationship with councils and, yes, where we believe it is necessary, we make contact with councils and ask questions of them. I believe that many councils ring. I think the phones ring often in this team, and the staff are very responsive. Is there any form of buddying up? Not in a formal sense, no.

Mr BROADBENT—So there is no one person who would look after this group of councils and another person who would look after that group of councils so that they would be talking to the same person all the time?

Ms Riggs—It is a small team and we need to be as flexible as we can about it. Some council officials get to know one of the staff and would attempt to ring that person perhaps more often. That would be their first point of contact. But the team works in such a way that anyone in the

team could in fact handle the query from a council or undertake appropriate follow-up were that necessary.

Mr BROADBENT—If the goal of the whole \$1.2 billion up to that date and the further money that has been expended was to increase road spending over and above, and there is a direct relationship between the program being introduced and up to two-thirds of local government councils dropping their expenditure, does that represent cash strapped councils out there? If the goal for your department was to increase their funding, wasn't this registering anywhere that this was happening on such a grand scale?

Ms Riggs—I note that this is a sample. I am conscious that the ANAO made every attempt to make it a representative sample, and I am sure it is representative on the basis of inputs—

CHAIR—It is a pretty big sample, though, isn't it?

Ms Riggs—It is less than 20 per cent of the councils. There is no evidence either for or against the notion of whether or not this is a representative set of outcomes. But that notwithstanding, there is also no evidence available to this department about the extent of underexpenditure, whether it is \$1 or a much larger sum, in terms of the maintenance of effort. That notwithstanding, we have tightened up on the maintenance-of-effort requirement. We have made it clear that it is a life-of-program maintenance of effort rather than a year-on-year maintenance of effort. In part, that is to address the issue that Mr Beresford-Wylie raised about a council maybe having a unique set of circumstances in the year—for example, Sydney City Council. So we have an averaging process in place. We will be vetting it more carefully in future in large part because of the findings of this report.

Mr BROADBENT—It was very hard for me to concentrate then, Ms Riggs. The lady behind you just put a Soccerroos scarf on around her neck.

Ms Riggs—I love passionate Australian support.

Mr BROADBENT—It is quite a day. Thank you.

Senator HOGG—I have a question for the Local Government Association. Has the ANAO audit caused local governments to look more closely at performance audits as opposed to financial audits in areas such as this such that there is some oversight that the acquittal is taking place on the grants that they have been given for the works that they were allocated for? We had this discussion prior to you coming in. Most of them would have concentrated on financial audits, and they are easy—money in, money out. But now there is a shift and a need to shift in terms of the way the Commonwealth perceives things.

Mr Beresford-Wylie—I cannot make a comment on whether there has been a shift. What I can say is that all of the conclusions of the Audit Office have been drawn to the attention of councils. We will in fact report back on this hearing reiterating the need to focus on specific performance achievement rather than just a straight financial acquittal. As Ms Riggs said, there are 700 local governing bodies and a dramatic range of capacity. But there is an obligation on those councils to meet the requirements of the accountability regime.

Senator HOGG—I accept that, but will it also mean that there is a shift from just straight financial audits to looking at performance audits done by auditors that they engage themselves?

Mr Beresford-Wylie—I cannot answer that question.

Senator HOGG—It is something you might take on board.

Mr Beresford-Wylie—Indeed.

Mr Boyd—We did actually see some evidence of councils doing that sort of activity in our work. Page 114 of the Roads to Recovery audit report has a case study relating to Gunnedah, and this is one of those instances where the department's officers have been out and inspected similar roads to those we had inspected for our work. Other than finding that some signs were not up, they did not detect some of the issues we had detected. If you go to the bottom of that case study, what it says is this:

Gunnedah Shire Council has also advised ANAO of steps it was proposing to take to address this and other reporting and accountability issues identified by the ANAO performance audit. This included engaging Council's auditors to undertake a review and taking steps to tighten up its internal systems to ensure such an occurrence is not repeated ...

We did see some of that in our work. Councils were taking on board the lessons and improving their own controls, including bringing their auditors in. So certainly we have seen some of that in our work.

Senator HOGG—I thought I would raise it as a general issue. If it is not happening everywhere, it might be something that can be raised. A question to DOTARS in respect of the independent audit that you advised us of: who is undertaking the independent audit and can you give us some idea of the extent of the program of the independent audit?

Mr Atkinson—The preliminary audits that we have had undertaken in this financial year were undertaken by Ernst and Young, and we have yet to award a contract for the program of audits going forward, which will just be on the new program. But they will be commencing in the next two months, I imagine.

Senator HOGG—In which case, can you give us some idea of the extent of the audits undertaken by Ernst and Young in the previous financial year: how many, where they were—I do not want chapter and verse; I want a summary, if I can—and the cost of those audits. Also, you have a request for tender out, I presume, at this stage?

Ms Riggs—We as a department have a panel arrangement under the government procurement guidelines. We have a panel of accountants and so we have approached a number of members of that panel to offer us a quotation on undertaking the audit work for us over the next 12 months, and we do not have responses to that yet.

Senator HOGG—But do you have some idea of the program that you want them to undertake in the next 12 months? You can take this on notice. If you have, can you give us some idea of the extent of that program?

Ms Riggs—It will of course depend a little on the costings we get back from the firms on the panel. So, if I could take it on notice, I think that would be more accurate.

Senator HOGG—Yes, I am quite happy with that. I think it helps us to get an idea of the extent of the program. Also, can you give us an appreciation of the work program that your own staff that are associated with this program have in terms of just plain desk work, doing monthly checking or six-monthly checking of reports, how many field visits and how you determine the field visits? I think that would be helpful as well, so please take that on notice. I do not expect an answer here today.

Ms Riggs—Thank you.

CHAIR—I wanted to ask a general question at this point of the Local Government Association. We have obviously had a focus on DOTARS, which is right—that is where the audit is and that is where the program is—but one of the issues we were discussing earlier is that this program came about for a number of reasons, one of which was a frustration that federal government funds going to state governments did not make it to their end targets in so many ways, and therefore we had this model of directly funding councils. What has been learnt through the Audit Office report by DOTARS but also by the committee is quite important, because this is very much a funding model that may be extended into other portfolios. Other government departments may deliver programs directly through councils. With what you have seen from the audit report, are you satisfied that councils across Australia are going to be in a position to administer additional programs from other sources and that they have also learnt something from this process as well?

Mr Beresford-Wylie—I am confident that they have learnt something from this process. The report is a very useful indicator of the danger areas for individual councils and of the things that they need to focus on to meet the accountability requirements. We do not take the Roads to Recovery Program for granted. We understand that it comes with obligations and that individual councils need to meet their accountability requirements.

We have talked about the vast range of capacities that lie with individual councils. Indeed, they are enormous. Those councils range from Brisbane's, which is an enormous council with nearly a million people and an organisation that is the size of the government of Tasmania, to very tiny councils in Western Australia dealing with enormous areas and with populations of around 150, of which a sizeable number are council members, council staff and their families. So we are obviously aware of the capacity issue. We are seeking to try to address that capacity issue in discussions with the Australian government and, of course, in discussions with the state governments.

Local government is a creature of the states, and to that extent a number of local government associations have commissioned reports into the sustainability of councils. Those reports have come out recently in South Australia and New South Wales and we have work going on in Queensland which is aimed at trying to ensure that there is a stronger capacity within individual councils to meet their requirements in terms of delivering services. Improving the capacity of those councils obviously helps to improve their ability to deliver in the future on the sorts of expectations that we might have under programs which are modelled on Roads to Recovery.

CHAIR—Going specifically back to Roads to Recovery, obviously there are the councils which were the subject of this report. Through your association have learnings been conveyed to all the other councils about the requirements and what has come out in the report?

Mr Beresford-Wylie—The answer is, yes, they have. We have written to individual councils to alert them to the findings of the Audit Office report. As Ms Riggs has said, we have organised for her via a session at our rural roads congress, which takes place in the second week of July and will bring 500 delegates together in Alice Springs, a wonderful place—and we look forward to anybody who may wish to attend coming along—to take the opportunity to reinforce the messages that have come out in the Audit Office report. We go back, on a regular basis, to our state local government associations, highlighting the sorts of findings in this report and we will be going back again to highlight the discussions with this committee, particularly the things that have been drawn out that councils will need to focus on. So we are very aware of the importance of the program and we are also very aware of the importance of councils doing their bit to maintain the integrity of both this individual program and the approach.

Mrs BRONWYN BISHOP—You will see some different roads out there when you go out there for your conference.

CHAIR—At Alice Springs?

Mrs BRONWYN BISHOP—Yes.

Mr Beresford-Wylie—That is true.

Senator WATSON—A very good audit is not necessarily that which always comes from the Australian National Audit Office or from the DOTARS internal systems. It may be just asking the local community if they are satisfied that they have got value for money. In terms of one or two programs that I have been associated with in Tasmania, there has been a resounding yes from the local community that this would have never happened otherwise, it was overdue, there was a major problem and so this was a good program. Firstly, given the problems local government has with bridges, because of the heavier weight of vehicles, the greater frequency of heavy vehicles and the density of traffic, do you think that in future the program should be split into two parts, one being roads and the second being bridges? Some councils seem to have an inordinate number of bridges that they have responsibility for. While Roads to Recovery is a good program, do you think it does need refining into a number of parts—such as, for example, bridges and roads—or do you think the discretion should be entirely up to local government?

Ms Riggs—Perhaps I can answer in the following terms from the department. I think the construct of the program into the future is a matter for government policy, so I will not respond directly on that, but I do think I should note that under the act now covering the AusLink Roads to Recovery program, a bridge is included in the definition of a road for the purposes of a construction project, including under this program. So it is up to councils to use this funding on bridge improvements if that is where their priorities for it lie. I suppose I would say that some rural councils which are not significant recipients of dollars under this program because of the way the formula works might find significant bridge works beyond the reach of this program because bridge works tend to be at the expensive end of road construction, road maintenance or road upgrading costs.

Senator WATSON—Would Mr Beresford-Wylie like to comment on that, particularly in the light of the adequacy of the formula to cover the sorts of issues that I have raised?

Mr Beresford-Wylie—I have a couple of comments. First of all, of course, we support the program as it currently stands to the extent that it gives councils the opportunity to identify the priorities within their areas. As Ms Riggs said, bridges were considered part of the definition of roads. We understand from the sample undertaken by the Audit Office that around 700 bridges were replaced or repaired, which suggests by extrapolation that perhaps 5,000 to 6,000 bridges had work done on them as part of the 15,000 projects. That is a substantial number of projects addressed at bridges. Clearly there is a future burden, and the future is coming quickly, on local government in terms of the dramatic growth in our freight task over the next 20 years and the fact that these local bridges are used for freight. As we have said, a substantial proportion of local bridges, perhaps 14,000 out of 29,000, are used for freight.

The formula was really drawn from the allocation of funding under the identified roads grants. That was, I think, an objective formula which tried to identify roads needs as identified by individual grants commissions in states. Those grant commissions do take account also of bridges when they try to work out the individual roads needs of councils. So in a sense in mirroring that distribution the government is also drawing on the expertise of the individual local government grants commissions in their states. We would obviously welcome an additional targeted funding program looking at bridges, particularly in councils which have a limited distribution of funds under the model because of their small size and where they have a particular bridge which might need addressing because of its freight focus. At present, those are the comments I would make on the existing program and the model.

Mrs BRONWYN BISHOP—Do all councils accrual account?

Mr Beresford-Wylie—Yes.

Mrs BRONWYN BISHOP—And do they do it for the value of their bridges? They have not provided for their maintenance.

Mr Beresford-Wylie—Interestingly enough, one of the things that we are focusing on currently is the idea of councils accurately accounting for their infrastructure and trying to build their capacity to manage assets. That is a focus of the Australian Local Government Association and local government around Australia because it is an area that has been lacking. One of the findings of the two reports I mentioned, the New South Wales report and the South Australian report, is that individual councils have not made the appropriate provisions for their infrastructure. Often that has been driven by the fact that they have run, if you like, a capital deficit by converting their funds into operating budget to meet the requirements of their individual communities because those communities have demanded increasing services. In some cases that reflects cost shifting from state governments.

Mrs BRONWYN BISHOP—State governments get the same and they call them hollow logs.

Senator WATSON—I am concerned about this formula in that one size does not necessarily fit all, given the great differences in councils in a lot of regions in terms of area and their ability to raise rates. Is there a mechanism to pick up special needs outside the formula for some

councils? If we just rely on a formula approach, I can see some special needs being missed out because of lack of coverage under the formula. Is there a methodology to pick up other special needs that fall outside the formula?

Mr Beresford-Wylie—Yes, there is. As I said, the formulas that are relied on are derived from those which have been developed by local government grants commissions in the states, and they do try to give an assessment of the relative road needs of councils. So they are attempting to take account of a variety of different things, but in at least two states—I think Western Australia and South Australia—there was an attempt made to create a special fund. It is a proportion of funding provided under the financial assistance grants—in fact, under their Roads to Recovery program—which has been set aside to be specifically used to address some strategic requirements. I think the Western Australian fund is particularly aimed at bridges and Aboriginal communities and there is funding set aside also through the South Australian local government association to identify and target strategic priorities within individual councils.

Ms Riggs—I would certainly confirm, from the department's perspective, the same advice that Mr Beresford-Wylie has given. The formula of the state grants commissions has a needs based element in it and that is how the money granted to the group of councils in each state is divided. He has made note of the special projects component in both the Western Australian and South Australian arrangements. Finally, I would mention the government's strategic regional program, also within the AusLink bailiwick, under which councils are eligible, or have been most recently eligible, to apply for funding for significant projects that they think are worthy candidates under the terms of that program.

Senator WATSON—My final question is that the chair earlier indicated that the success of this program could well see extension into other areas. What are other areas that you see would benefit from this sort of program of direct financial assistance from the Commonwealth into local government and the establishment of strong audit trails in the process? What are other areas?

Mr Beresford-Wylie—There are a whole variety of services now delivered by local government. We have talked about infrastructure and specifically about roads, an important component of infrastructure, but there is an enormous amount of infrastructure that is owned by councils outside of roads which could benefit from a targeted program. There are the areas specifically that councils deliver in terms of human services. They deliver a variety of aged care services and health services. These are areas where there is an opportunity to have a partnership with the Australian government to achieve an outcome for the benefit of local communities.

At the moment, the Australian Local Government Association has some work under way which we have commissioned from PricewaterhouseCoopers to look at the financing of local government. This is consistent with the studies that have been undertaken in states by state local government associations looking at their own financing. Part of the work that PricewaterhouseCoopers is doing is looking at is the opportunities that might exist for us to put a case to the Australian government for funding in specific areas. That work is expected to be completed around the end of this year, and it will give us a better handle on and more specific idea of the sorts of areas that we have needs in and that the Australian government might find we share a mutual approach towards in solving the problem of national interest.

Senator WATSON—Have you looked at the issue, for example, of a cost sharing arrangement with Centrelink, particularly for the more remote areas?

Mr Beresford-Wylie—It is certainly something we will look at, yes.

Senator WATSON—Thank you.

Mrs BRONWYN BISHOP—I will begin by following up on the questions that Senator Watson was asking. One of the big complaints we hear generally from people is that there is duplication between Commonwealth and state. I think a very firm principle that must be adhered to is that, if local government wishes to enter into areas of service delivery, it must occur only where the state agrees to relinquish its service delivery function so we do not triplicate. The possibility of wasting resources and money is enormous because it is quite electorally appealing for a councillor who wants to be elected to think, 'I can give out this service.' Basically it is roads, rates and rubbish—the three Rs, if you like, which many councils eschew—and 'Roads' is the biggest one and the most important one to people from council delivery. In that sense—and I apologise for being late to the meeting—I would like recap the sources of money. You have your FAGs grants—

Mr Beresford-Wylie—Yes.

Mrs BRONWYN BISHOP—of which one part is for roads specifically.

Mr Beresford-Wylie—There is an identified roads component.

Mrs BRONWYN BISHOP—There is then Roads to Recovery and AusLink Roads to Recovery?

Mr Beresford-Wylie—AusLink Roads to Recovery has superseded the original Roads to Recovery program.

Mrs BRONWYN BISHOP—Can you, or perhaps DOTARS, give me a definition or distinction?

Ms Riggs—The original Roads to Recovery program ran from 2000 until the middle of 2005. The AusLink Roads to Recovery program covers the four-year period from July 2005 until June 2009. In addition, as I am sure you are aware, the government provided supplementary funding for the AusLink Roads to Recovery program in the most recent budget.

Mrs BRONWYN BISHOP—In the AusLink program, are all the roads still covered?

Ms Riggs—AusLink is a very embracing policy supported by a number of funding programs, Senator, which cover both the national network and—

Mrs BRONWYN BISHOP—I am a lower house member.

Ms Riggs—Forgive me, Mrs Bishop.

Mrs BRONWYN BISHOP—It is all right. It confuses Hansard.

Ms Riggs—I spend more time perhaps in Senate estimates committees than before this committee. The AusLink act, Mrs Bishop, covers the six categories of funding for the national land transport network, the former national highway plus the former Roads of National Importance arrangements.

Mrs BRONWYN BISHOP—But for local government purposes?

Ms Riggs—For local government, there is the Strategic Regional Program, the Roads to Recovery program and, to the extent that it does go to local councils—and certainly a large share of it does—the Black Spot Program.

Mrs BRONWYN BISHOP—I am particularly interested in the regime that was in place from 2000 to 2005 and the one that is now in place from 2005 until 2009 in terms of accountability. I will come specifically to one council in particular shortly, but you stated in a letter that was written to one council: ‘The new Roads to Recovery program to begin on 1 July 2005 would also have expenditure maintenance requirements. Any breach of these requirements will render your council noncomplying and this could impact on your funding under the program.’ Was that a new requirement?

Ms Riggs—It is a varied requirement. The requirement for expenditure maintenance in the AusLink Roads to Recovery program is expressed in different terms to the requirement in the initial Roads to Recovery program.

Mrs BRONWYN BISHOP—Is it tougher?

Ms Riggs—Senator, it recognises—I mean Mrs Bishop, I will get it right—

Mrs BRONWYN BISHOP—Don’t fuss. I have been introduced as Senator the Hon. Bronwyn Bishop, the member for Mackellar, so do not get embarrassed.

Ms Riggs—In our view, it is a requirement that addresses some of the concerns that are raised by this audit in a better way. Is it tougher? There is a judgment to be made about that. In our view, it is more pragmatic and realistic for councils.

Mrs BRONWYN BISHOP—Let us be specific. Now, if they keep the money for three months and get the interest, they have to spend the interest on the roads. Was that the same under the previous program?

Ms Riggs—No. The specific requirement to spend any interest earned on this money on roads is new in the AusLink program.

Mrs BRONWYN BISHOP—When you say that local government must not pull back on its own expenditure, do you class in the term ‘own expenditure’ the road specific part of the FAGs grants?

Ms Riggs—Yes, we do.

Mrs BRONWYN BISHOP—They also have their own budget from their rate revenue. Is that audited in as well?

Ms Riggs—We would regard any expenditure from that source as being own-source expenditure, yes.

Mrs BRONWYN BISHOP—Perhaps I can ask Audit that. When you are auditing for the purposes of this program, you will only be checking that the road-specific part of FAGs and the Roads to Recovery money have been spent, not how much money has been spent out of their own rate resources? They can spend none if they want?

Mr Boyd—We audit against the rules as set, as well as assess whether we think those rules are appropriate.

Mrs BRONWYN BISHOP—Of course you will, but that is not what I am asking.

Mr Boyd—What I am getting to is that own-source funds as currently defined—this is in the notes for the administration of the new AusLink program—are the funds available to the LGA other than funds provided by the Commonwealth or a state or territory government. So we would have expected at the outset that that would probably have included the identified local roads component of the FAGs, given that—

Mrs BRONWYN BISHOP—In other words, it means that local governments are able to use their own rate money to spend on anything they like—other than roads, if they wish? They do not have to spend a cent on roads if they do not want to—because they have all this other funding for roads?

Mr Beresford-Wylie—The amount of funding provided by Roads to Recovery is about \$300 million a year, plus there is something from strategic regional funding and something from black spot funding. So it would be in the vicinity of \$400 million a year. Local governments spend somewhere around \$3.8 billion a year on roads simply because of the sheer scale of the requirement. So it is 10 times the amount of money that is provided by the Australian government. The vast majority of that money obviously comes from their rates. Rates, fees and charges raise about 72 per cent of the councils' funding, which is probably around \$14 billion of the \$20 billion available to councils.

Mrs BRONWYN BISHOP—And \$3.8 billion on roads?

Mr Beresford-Wylie—That is right.

CHAIR—Ms Riggs, did you want to add to that?

Ms Riggs—Mrs Bishop, I have made an incorrect statement and I need to correct my evidence. The FAGs money is not counted as own-source expenditure—and that is what Mr Boyd was nicely trying to say without obviously and publicly correcting me.

Mrs BRONWYN BISHOP—Thank you. That is fine. How much do state governments provide? How much does New South Wales, for instance, provide to local government for roads?

Mr Beresford-Wylie—For local roads?

Mrs BRONWYN BISHOP—Yes.

Mr Beresford-Wylie—Nothing.

Mrs BRONWYN BISHOP—I thought that might be the case.

Mr Beresford-Wylie—The New South Wales government provides some money to councils in New South Wales to spend on roads which the New South Wales government has asked the council to look after, in a sense on a contract basis. They are a state government responsibility but—

Mrs BRONWYN BISHOP—They become a subbie to do the work?

Mr Beresford-Wylie—Correct.

CHAIR—That would be a state government road that runs through a shire?

Mr Beresford-Wylie—That is right. It makes better sense for the local government crew to look after that road.

Mrs BRONWYN BISHOP—But they are only the contracted workers.

Mr Beresford-Wylie—That is correct.

Mrs BRONWYN BISHOP—They could employ a private firm if they wanted to.

Mr Beresford-Wylie—If they wished to they could.

Mrs BRONWYN BISHOP—So there is no grant money from New South Wales, but how about the other states?

Mr Anderson—Yes, there is in some circumstances. I cannot tell you the figures off the top of my head.

Mrs BRONWYN BISHOP—Would you be able to let us have them?

Mr Anderson—Yes, we can get them.

Mrs BRONWYN BISHOP—That would be lovely.

CHAIR—By state?

Mrs BRONWYN BISHOP—Yes, by state.

Mr Anderson—Yes.

CHAIR—That would be good.

Mrs BRONWYN BISHOP—You said there are 700 council entities.

Mr Beresford-Wylie—There are around 703 local governing bodies. They are not all councils.

Mrs BRONWYN BISHOP—You have only dealt with 93 in this audit. Is that right?

Mr Boyd—We looked at 93 in detail as well as a further desk audit of 59. For the 93, we examined all the records available and physically went on site and inspected some or all of their road projects.

CHAIR—As in ‘Show me the road or the bridge’?

Mr Boyd—Precisely. A further 59 were subjected solely to a desk audit.

Mrs BRONWYN BISHOP—But the others must have put in their report?

Mr Boyd—Correct.

Mrs BRONWYN BISHOP—Do you have the report on all of them? Can I have that?

Mr Boyd—The Audit Office does not. We examine based on our sample.

Mrs BRONWYN BISHOP—In that case, DOTARS must have it. Can I have a copy of the record of the reports that every council has put in over this period?

Ms Riggs—That is a very large pile of paper.

Mrs BRONWYN BISHOP—It is only 700.

Ms Riggs—It is 700 times five.

Mrs BRONWYN BISHOP—What I specifically want to know is: how many councils did not comply?

Ms Riggs—Did not comply by not providing a report?

Mrs BRONWYN BISHOP—By not spending the money. I admit that I am particularly interested in my home state, but I am interested in the whole picture.

Mr BROADBENT—Perhaps if I could be of some assistance.

Mrs BRONWYN BISHOP—Yes.

Mr BROADBENT—It is a matter of timing: it is not whether they have spent the money; it is a matter of when they spent the money.

Mrs BRONWYN BISHOP—Not necessarily. Some of them have not spent it at all.

Mr BROADBENT—They have projects that they may have a reason for not spending that money on. It is a pretty difficult ask to say that they did not spend the money.

Mrs BRONWYN BISHOP—Not really.

Mr Boyd—Certainly we are aware that, at the time we finished our work, in our sample there were councils that had been paid money and had not spent that money on road works at all, let alone on the ones they had nominated to spend it on.

Mrs BRONWYN BISHOP—That is right. Do you think between the two of you that you could nut out a list for me?

Ms Riggs—Senator—

Mrs BRONWYN BISHOP—Oh!

Ms Riggs—I am sorry.

Mrs BRONWYN BISHOP—Forget it.

Ms Riggs—I give up!

Mrs BRONWYN BISHOP—Feel free—go right ahead.

Ms Riggs—Mrs Bishop, of moneys that were paid to councils under the initial Roads to Recovery program—that is, up to the end of June 2005—there are some eight councils where not all of that money has yet been expended. Is that what you are interested in?

CHAIR—At any point in time that number might have been much higher—

Ms Riggs—It has been diminishing.

CHAIR—But now there are eight cases or eight councils?

Ms Riggs—Eight councils.

CHAIR—Might that be a number of projects within a council?

Ms Riggs—Yes.

CHAIR—It could be one or five?

Mrs BRONWYN BISHOP—What you are telling me is that, out of the 703 entities, only eight of them have not spent all of the money. I find that amazing.

Ms Riggs—From the program that ended in June 2005, there are only eight councils out of the 700 that have not yet demonstrated to our satisfaction that they are able to declare that they have spent all that money.

CHAIR—Just on that, because it goes to back to where we started, is that—

Mrs BRONWYN BISHOP—Self-certification?

CHAIR—based on the certification at page 192, or is that based on a report?

Ms Riggs—That is based on the councils' own certification to us.

CHAIR—This report I have here, these statements? Are the eight based on those not being filled out?

Ms Riggs—The councils that still have projects being funded out of money that they have already been paid, which they all were before the end of the program, still have to make more report to us than just that annual statement. They are still telling us about those projects on, I think, a quarterly basis.

Mrs BRONWYN BISHOP—Isn't the quarterly report an AusLink invention?

Mr Atkinson—The reporting requirements for the previous program have continued. The councils that have had funds after July 2005 are required to submit an annual report for the expenditure on those remaining funds. We have been in constant communication with councils to ensure that they do use their funds effectively. The report you mentioned, on page 192, will be the annual report that they will have to submit for this year in relation to the funds that they have spent this year.

Senator NASH—Can I just clarify the chair's point. Is your determination of the eight out of the 702 not having complied based on the signing of that certificate?

Mr Atkinson—No.

CHAIR—Where do you get the eight from?

Mr Atkinson—At the end of June 2005 there were a number of councils that still had not expended all of the money under the previous program.

Mrs BRONWYN BISHOP—Eight, you just told me.

Mr Atkinson—No, there are eight as at today.

CHAIR—Yes, as of now.

Mr Atkinson—Since then we have been in communication with all of the councils that had carryover funds and have been tracking where they are up to. As of this week, there are only eight that have not spent at all.

CHAIR—Following on from what Senator Nash and I have been asking, how do you define the eight? There is evidence in this report and from the Audit Office that councils had in fact signed certificates and reported they had done certain things when they had not. So it might be more than eight. Depending on how you define it, the eight you have may be the eight that have been up front and honest with you.

Ms Riggs—In addition to the statement on page 192 that a suitably senior employee of the council has to sign off, the council also has to provide us with a statement by the auditor, an audited statement in relation to these funds. So each year the council has to have its financial dealings audited.

Mrs BRONWYN BISHOP—If their auditor is any good he would not let them sign such a statement. So how good is the audit statement?

Ms Riggs—I think that the two are not necessarily handled together in some councils. That has been our experience in the past. Mrs Bishop, you and I might think they should have done them together, but they have not necessarily brought that together with the report from their auditor. In the past there was a requirement for the auditor to sign the lower part of the form that appears on page 191. That was part of the original program.

CHAIR—Without dwelling on this too much—we are going to tie ourselves in knots—my point is that some of the councils that signed all of that off had not in fact spent the funds. That is right, isn't it?

Mr Boyd—That is correct.

Mrs BRONWYN BISHOP—Despite this being signed too.

Mr Boyd—That is correct.

CHAIR—So I am interested in the eight. Were some or all of the eight per chance the subject of the audit?

Mrs BRONWYN BISHOP—Who are they?

CHAIR—Do you have a list?

Mr Atkinson—Yes, we have a list.

Mrs BRONWYN BISHOP—Can you read them out?

Mr Atkinson—Yes. Nambucca Council.

CHAIR—Do you want to go by state first?

Mr Atkinson—In New South Wales there is Nambucca.

CHAIR—This is on page 187. Nambucca was not one of the audited ones. Is that right?

Mr Boyd—That is correct.

Mr Atkinson—In Queensland, Cloncurry.

CHAIR—So Cloncurry was not audited either.

Mr Atkinson—No. And Iama and Maryborough.

Mr Boyd—Not audited.

Mr Atkinson—Adelaide Hills.

Mr Boyd—Not audited.

Mr Atkinson—Salisbury.

Mr Boyd—Yes.

Mr Atkinson—Walungurru.

CHAIR—Where is that?

Mr Atkinson—In the Northern Territory.

Mr Boyd—Not audited.

Mr Atkinson—Yugul Mangi.

Mr Boyd—I do not think that was audited.

Senator HOGG—Where is that?

Mr Atkinson—In the Northern Territory.

Mrs BRONWYN BISHOP—Of the ones that were audited, how many did not comply?

Mr Boyd—One of the difficulties we had, as we mentioned, was that sign-offs may have been provided but there were inconsistencies between the quarterly reports and the sign-offs. Therefore, the full data was not necessarily available to us when we finished our work because the annual reports for 2004-05 were not available at that stage. Looking at table 4.3 on page 151, it is difficult for me to say of the 93 how many had not. We know some that had provided the

data had not spent all the money. The question is how many others that had not provided the data and the required reports to the department had also not spent their money.

Mrs BRONWYN BISHOP—So the answer is that we do not really know.

Mr Boyd—No, we do not really know because, as I say—

Mrs BRONWYN BISHOP—Neither does DOTARS really know.

Mr Boyd—We were not comfortable, given what we had found, relying upon the reports as sufficient evidence that the money had actually been spent. We needed to satisfy ourselves by going further than that. Given that the data was not there for all the councils, we cannot give you a number to say, ‘Out of our 93, it was this many.’ We are aware of some where the data was available that had not.

CHAIR—Going back to Ms Riggs’s point, there are additional reports all councils are providing to you. Would it be right to say they would have to be misleading you if it was more than the eight today?

Ms Riggs—Yes, I think that is the conclusion we would draw.

CHAIR—They are an arm of government.

Mr BROADBENT—Mr Chair, with all due respect to where this all seems to be going—and being the Russell Broadbent who rearranged local government in country Victoria and most of Melbourne—can I say this. There are two things that are happening here. One is that some of these councils are so small that they see the auditor once a year for a day and the administration is not as Warringah Council might be, Mrs Bishop.

Mrs BRONWYN BISHOP—We are about to talk about Warringah.

Mr BROADBENT—That would be good. The other thing that I would raise with you is this. I will couch it as a question. In a program like this, where someone is building a road, they might come across a soft spot and find that that road will cost a heck of a lot more than they thought it was going to cost because of the foundation needed. In turn, the road down the road, which they were also doing under the Roads to Recovery program, had a very firm base and it turned out they did not need a bridge but that they needed a pipe and that cost a lot less. In this process, they then come back to you and ask, ‘Can we spend the money that you’ve given us on this road that needs firmer foundations and take it off the road we’ve got over here?’ They would come back to you and ask that question, wouldn’t they?

Ms Riggs—They do not ask for permission to do that. They come back and advise us that they are changing the program.

CHAIR—They do not have to ask.

Mr BROADBENT—So it is not a request; they are allowed to do that.

Ms Riggs—Yes.

Mr BROADBENT—But it may look like over a period of time they have not expended the money on the program because they are still going through the process of what they are doing.

Ms Riggs—That could happen, yes.

Mr BROADBENT—When you say that these people have not expended the money, they may have begun the project but the reporting may present that they have not spent the money.

CHAIR—That would be absolutely correct for the current time, but as I understand it we are talking about up to 2005. They would have sorted out their pipes and their bridges.

Mr Boyd—I guess our concerns might have been more fundamental, before you even get to that point, in that there are councils that reported their actual expenditure on projects in one quarter and in the next quarter that their total spend had reduced. If you have spent cash, that is physically not possible. When we asked some councils to substantiate the costs they charged to particular projects in the program, the costs they had actually charged were somewhat lower than they had reported. In that sense the concern is more fundamental. I am sure they have spent the money, but they may not have spent it on the road projects they have nominated and to the extent they have reported they have spent it.

Mrs BRONWYN BISHOP—They could actually have spent it on something else.

Mr Boyd—Correct.

Mrs BRONWYN BISHOP—Can we go to Warringah? I want to go specifically to Warringah.

CHAIR—Yes, let us go to Warringah.

Mrs BRONWYN BISHOP—I am very interested in Warringah in particular. Warringah Council, as elected by the people, were sacked by the state government basically because they were rude to each other. On that basis, the whole of the New South Wales parliament would be sacked.

Mr BROADBENT—That never happens here!

Mrs BRONWYN BISHOP—That does not happen. The administrator, Mr Person, was appointed in July 2003. One thing he was appointed to do was make sure that things were done accurately, properly and better than they were done by the elected people. The audit report says at 2.77:

DOTARS did not contact Brisbane City Council, Sydney City Council or Launceston City Council in relation to their acknowledged failure to maintain their own expenditure on roads. In relation to Warringah Shire Council—

and I would point out it has not been a shire council for some considerable time. It does not have a shire president; it has a mayor. That has changed, so you might make a note—

no action was taken in relation to the 2001-02 or 2002-03 Annual Reports. In relation to the 2003-04 Annual Report, DOTARS wrote to Council in April 2005, as follows:

On 30 September 2004, you submitted—

that is, the administrator submitted—

your Council's Roads to Recovery Annual Report for 2003-04. In it, you indicated that your council had failed to comply with the expenditure maintenance requirements of the Program. This is a serious breach. The expenditure maintenance requirements exist to ensure that councils do not simply substitute Australian Government funding for their own.

The new Roads to Recovery Program to begin on 1 July 2005 will also have expenditure maintenance requirements. Any breach of these requirements will render your Council non complying and this could impact on your funding under that Program.

I have two questions. We are supposed to be having this higher standard with an administrator, who is supposed to be better than the elected people, who fails to comply and you tell him he is in serious breach. You tell him if he does it again that this will impact on the funding. Funding has just been made to Warringah Council—\$2 million, I think, for roads under this program and their FAGs component. What do you mean by 'could impact on your funding under that Program'?

Ms Riggs—At the end of the day, that will be a matter for the minister to decide—

Mrs BRONWYN BISHOP—That fills me with confidence, not.

Ms Riggs—and we have yet to test in relation to the AusLink Roads to Recovery program whether any council has complied or failed to comply because the annual reports for the first year of this program are not due until September of this year.

Mrs BRONWYN BISHOP—I have to apologise. You might have thought I was referring to the federal minister. I was not; I was referring to the state minister, Mr Kelly—

Ms Riggs—I am sure the federal minister will be very pleased.

Mrs BRONWYN BISHOP—who has given us the administrator for 2008.

Ms Riggs—In October 2006, this year, we will have the first annual reports from councils under the AusLink Roads to Recovery program.

Mrs BRONWYN BISHOP—So you write to them in 2004 and say: 'If you don't do it, you can be in serious trouble but we really won't know about it for another two years.'

Ms Riggs—That is the reference that is made in this paragraph. Some of you may know that I was not involved in the roads program at the time that this letter was written. I cannot explain it further but I can say that we will be scrupulous in checking the returns from councils.

CHAIR—To assist Mrs Bishop and the committee, because we have got to keep moving on, would you be able to provide on notice any subsequent correspondence material with Warringah that they may have provided to you?

Mrs BRONWYN BISHOP—I would also like to see the Warringah report. Can we ask for that?

Ms Riggs—Let me put together a package of material related to this issue—

CHAIR—And take that as a request.

Ms Riggs—for Warringah Council.

Mrs BRONWYN BISHOP—I would like to see it because you say earlier in this report—or the auditor does:

Warringah Council in New South Wales certified in 2000-01 that it had maintained ...

But in the succeeding reports and the two annual reports from 2001-02, 2003-04, it is stated it had not maintained expenditure. Do you have known for quite a long time that it had not maintained it.

CHAIR—If you could put together a package that would be useful.

Mrs BRONWYN BISHOP—It detailed its reasons for the shortfall, and I would like to see those reasons.

Ms Riggs—Yes.

Senator NASH—I will be very brief, and I apologise if signage was raised when I was out of the room. The ANAO reported that 45 per cent of Roads to Recovery projects inspected had not erected the signs as directed by DOTARS—I think signage requirements went out by DOTARS in July 2004. My question is to the Local Government Association: are the LGAs now complying with that signage requirement? What percentage of councils are doing it, to your knowledge—and perhaps even DOTARS might know that—and, if not, why not?

Mr Beresford-Wylie—I do not have information on the percentage of councils that may or may not be complying. It is a requirement of the program, and our expectation is that councils will meet that requirement. We have reinforced with them the need to meet the requirement for signage and, to the extent that individual councils may have difficulties—I know they may have discussed particular issues with the Department of Transport and Regional Services, and I think in the report there is mention made of some councils talking to DOTARS and seeking some sort of dispensation from the strict letter of the guidelines—we have reinforced with councils the need to meet the requirements of signage, and we would hope that they would do so.

Senator NASH—Ms Riggs, what would be the particular issues that meant that a council would not want to put a sign up? Given that it is a requirement, if they can build a huge road I am sure that they can put a sign up.

Ms Riggs—I understand that the requirements in the first Roads to Recovery program were fairly all-encompassing. The sorts of issues that councils raised with the department were things like: ‘You want me to put two signs on a cul-de-sac?’ or ‘This is really a very short piece of road.’ So there were really practical issues raised by councils. The way that the requirements for councils for signs have been varied into the AusLink takes account of some of those practical issues. For example, we now do not require signs on projects on which they have spent less than \$10,000, we only require one sign on a cul-de-sac and so on. We have tried again to address the sorts of issues that were clearly practical difficulties for councils. We have also revised the size of the sign.

Senator NASH—To what?

Ms Riggs—We have made provision to allow for a slightly smaller sign, quite frankly.

Senator NASH—Why?

Ms Riggs—Big signs are usually used when cars are travelling fast so that the people in the cars and trucks can read them. Smaller signs are acceptable where speed limits are lower, and the reality is that most of the work that is done by local councils under the Roads to Recovery program tends to be not on highly trafficked, very, very beautiful high-speed roads.

Senator NASH—Sorry to be pedantic about this, but how much have they been reduced?

Ms Riggs—The minimum size allowable is now 80 per cent of the previous minimum size.

Mrs BRONWYN BISHOP—How big is that?

Ms Riggs—I can show you with my arms the size they used to have to be.

Mrs BRONWYN BISHOP—It’s a bit hard for Hansard!

CHAIR—Let the record show that Ms Riggs stretched her arms as wide as she could.

Ms Riggs—I am happy to put in writing the specifications, if that would be helpful.

CHAIR—If you could provide that to us, that would be great.

Mr Boyd—The sign itself is 1,200 millimetres high by 900 millimetres wide, with the councils acknowledged on the bottom at 230 millimetres high by 900 millimetres wide. It is in the back of the notes on administration.

Senator NASH—I assume you do not have this with you, but can I ask the percentage of councils that are complying at the moment? Obviously, 45 per cent were not. Could we have the figures on how many councils are complying with the signage at this point?

Ms Riggs—We will have a look at our record in respect of the last year under the previous program, which ANAO was not able to take account of because of the timing of the fieldwork for the audit. We will not be able to provide you with the information for the first year of the

AusLink program based on reports from councils until October or November, because of when annual reports are due.

Mrs BRONWYN BISHOP—But we can have the most up-to-date information.

Ms Riggs—We will give you the most up-to-date.

Mrs BRONWYN BISHOP—It really does not matter to us whether it is the old program or the new program; it is the same money.

CHAIR—No, it does not matter—and by council.

Senator NASH—That would be great, thanks.

Senator HOGG—I have a follow-up question to Senator Nash's. Thank you for asking that question, Senator Nash. It is about the cost of a sign. How do they get the sign? Is it a standard sign, and who bears the cost of the signage itself?

Ms Riggs—The councils have to arrange the sign, but they are based on a standard design which we provide to them and insist on. They have to have them made themselves. From a question that I have been asked in a different committee in this place, my recollection is that the cost of a pair of signs, bearing in mind that most projects that require a sign at all require a pair, is in the order of \$350 to \$400 for the pair.

Senator HOGG—Can they meet that out of the funding?

Ms Riggs—They can take it out of the program funding. And signs can be reused because the sign is a standard one and you simply put on a separate piece of signage with the road name. So once the two years is up on that project you can simply move the pair of signs and replace only the smaller piece of the sign.

Senator HOGG—In terms of the economy of production, because obviously if you go to individual suppliers on each occasion for different councils it becomes fairly expensive, is there a central provider of these signs that the councils can access?

Ms Riggs—We do not require them to access a particular provider, but my understanding is that in many states there are a small number of providers that are known to be the specialist providers of these signs. They have a standard design and they just run them off the metal press.

Senator HOGG—So there is an economy of scale for the local councils. They are not being overcharged because they have to go to, say, a local person who does this as a one-off job.

Ms Riggs—My understanding is most of them go to a small pool of suppliers.

CHAIR—Thank you. That has been very useful evidence. If you could provide some of the material that has been asked for on notice at the earliest convenience that would be great.

Mrs BRONWYN BISHOP—I just want to confirm my understanding that with the changed arrangements of the GST going to the states and specific purpose grants there are no specific purpose grants for states for roads anymore. Is that right?

Ms Riggs—We would still regard the AusLink investment program for major projects as being in some ways an SPP. It is funded through the annual appropriations structure now, rather than through a special appropriation. But the AusLink act itself would be regarded as an SPP arrangement for the purposes of—

Mrs BRONWYN BISHOP—How much would that be? Does anyone remember the amount?

Ms Riggs—If I exclude the funding made available on a one-off basis in the budget, because my brain is not doing a quick piece of arithmetic, the investment program over the first five years of the AusLink program is some \$7.3 billion, and to that the government has just added close to \$1.8 billion. That adds up to \$9.1 billion over a five-year period.

CHAIR—If you could just provide a funding breakdown, rather than us going through it now, that would be useful. We have three other audit reports we have to get on to. That will all be neatly there in a budget paper.

Ms Riggs—Certainly.

Mrs BRONWYN BISHOP—I just have this important question: that means that a good swag of that money will go to the New South Wales government and they give not one cent of it to local government?

Ms Riggs—It goes for defined projects approved under the terms of the legislation, such as all the work on the Hume Highway or the Pacific Highway.

CHAIR—It is principally non-local-government roads, though, isn't it?

Ms Riggs—It is the major highway system.

Mrs BRONWYN BISHOP—So it is road specific?

Ms Riggs—Absolutely. And project specific, in fact.

CHAIR—Like the Deer Park Bypass in Melbourne, for instance.

Ms Riggs—Like the Deer Park Bypass.

Mrs BRONWYN BISHOP—But it is not for state maintained roads, arterial roads?

Ms Riggs—No. It is for the defined national land transport network.

Mrs BRONWYN BISHOP—Okay. Thank you.

CHAIR—Thank you very much for your evidence today

Proceedings suspended from 12.13 pm to 12.49 pm

FRY, Mr Graham, General Manager, Information and Knowledge Services, Attorney-General's Department

STUDDERT, Mr Martin Charles, Executive Director, Protective Security Coordination Centre, Attorney-General's Department

WILLIAMS, Ms Kelly, Assistant Secretary, Protective Security Coordination Centre, Attorney-General's Department

CHAPMAN, Mr Steve, Deputy Auditor-General, Australian National Audit Office

HOLBERT, Ms Fran, Executive Director, Australian National Audit Office

McFARLANE, Mr Michael, Audit Manager, Australian National Audit Office

MAZZONE, Mr Greg, Audit Manager, Australian National Audit Office

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

SLADIC, Mr Ben, Audit Manager, Australian National Audit Office

WHITE, Mr Peter, Executive Director, Australian National Audit Office

GRANGER, Ms Jennie, Second Commissioner of Taxation, Australian Taxation Office

RAVANELLO, Mr Robert, Assistant Commissioner, Program Leader, Change Program, Australian Taxation Office

VIVIAN, Ms Raelene, Deputy Commissioner of Taxation Superannuation, Australian Taxation Office

DAO, Mr Tuan, General Manager, Core Business IT Systems, Centrelink

McDONALD, Mr Bob, General Manager, Audit and Risk, Centrelink

O'CONNOR, Mr Anthony, Manager, Integrity of Electronic Customer Records Audit, Centrelink

WADESON, Mr John, Chief Information Officer, Centrelink

CAMPBELL, Mr Robert, Assistant Secretary, Information Security Group, Defence Signals Directorate

LALOR, Mr John Joseph, Branch Manager, Australian Government Information Management Office, Department of Finance and Administration

STEWART, Mr Brian, Acting Division Manager, Australian Government Information Management Office, Department of Finance and Administration

CHAIR—I reopen today's public hearing, which is examining four reports. We have already examined our first, but in this session this afternoon we are taking evidence on Audit report No. 17 2005-06: *Administration of the superannuation lost members register*, Audit report No. 23 2005-06: *IT security management* and Audit report No. 29 2005-06: *Integrity of electronic customer records*. I welcome representatives from the Australian National Audit Office, the Attorney-General's Department, the Australian Government Information Management Office, the Australian Taxation Office, Centrelink and the Defence Signals Directorate to this afternoon's hearing. I note that our witnesses from the Australian Taxation Office are required elsewhere this afternoon, and so we will commence proceedings with the report of relevance to them, which is Audit report No. 17: *Administration of the superannuation lost members register*.

For the benefit of committee members and all present, the Attorney-General's Department and Defence are here for the IT security report because of their responsibility for the government's IT framework, not because they are actually among the departments audited. Thank you for coming.

I ask participants to remember that only members of the committee can put questions to witnesses if the hearing is to constitute a formal proceeding of the parliament and therefore attract parliamentary privilege. If other participants wish to raise issues for discussion, please direct your comments to the committee. Secondly, given the short time available, statements and comments by witnesses should be relevant and succinct—as they always are—and I would remind witnesses that the hearings today are a legal proceeding of the parliament. The evidence given today will be recorded in *Hansard* and will attract parliamentary privilege.

Just before we kick off, I will add that the Australian Government Information Management Office are also here because of their overall responsibility, not because they were among the departments audited. I will put them in that category as well. Perhaps we might start with the ATO. Do you wish to make an opening statement on the Superannuation Lost Members Register?

Ms Granger—Thank you. We have no opening statement. We wrote to you and reported our progress on the recommendations.

CHAIR—Would you be able to take us through the progress you have made since the audit?

Ms Granger—Certainly. As it says in our recommendations, we feel that we have completed a number of them to at least the extent that we can ahead of the redesign of IT systems. You would be aware we have received funding for the redesign of the superannuation IT system. There was a government announcement about some changes to superannuation policy. A number of these recommendations go to improvements in the IT system. On those, we have indicated in our recommendations that we have minimised doing any work on legacy systems while we bring in those changes.

We have also made some other progress which you may be interested in—and Ms Vivian can give you more detail on those—in terms of writing to lost members to see if we can encourage

the reuniting of them with their funds. One caution in relation to that is that the definition of lost member includes inactive members. As you will hear from the results, a number of people are very well aware of their accounts but are simply choosing to not activate them at the moment. If the committee would be interested in that, Ms Vivian can give some more detail.

CHAIR—Please.

Ms Vivian—In terms of the mail-out?

CHAIR—Both. Start with the mail-out and then move particularly to the issue of inactive accounts.

Ms Vivian—I will start from there. The definition of a lost member, which requires a superannuation fund to report someone to be put on the register, is either that they have sent out a letter to them and it has been returned unclaimed or that the member has been inactive for two years. ‘Inactive’ effectively means someone has rolled, put some money into a super account and has not been contributing for some period of time.

CHAIR—But they have stopped work?

Ms Vivian—They may have stopped work. It could be a whole range of things. You could have someone that has received a large lump sum or some payment. They may be working somewhere else.

CHAIR—You would have as well a large number of people who might have been in the workforce and have gone out of the workforce.

Ms Vivian—That is right. There are some of those. They put the money into the account, it is sitting there and earning interest in a super fund and they are no longer contributing on a regular basis. That is what the law means by inactive member. In terms of the overall Lost Members Register—

CHAIR—Let me give you a personal example and breach privacy, but only my own. I have a superannuation fund from before I was elected to parliament. They write to me every year saying how they are going. When things were not going well, I got a letter saying that I would be pleased to know that the fund had grown by minus 0.7 per cent in the financial year—which was great news! I do not contribute anything to it, for obvious reasons, but they write to me twice a year and I am certainly well aware of what is in it. Would I be on the Lost Members Register? I have never been told I am on the Lost Members Register, but I do not add anything to my account.

Mrs BRONWYN BISHOP—I have got one too. They don’t even write anymore.

Ms Vivian—It does depend. Someone who is inactive can actually advise the fund, at those times when they are filling out forms going to the fund, that they are an inactive member and they are quite happy to be that. In that case they do not need to report you to the Lost Members Register.

Ms Granger—Ms Vivian has just missed an opportunity to advertise our very simple ways for you to check that. Would you like to do that, Ms Vivian?

Ms Vivian—Yes. There are many ways by which you can check. One is that you can come in over the internet. What you need are your tax file number, your date of birth and your name, and then it will go through and do a check, so that is very easy.

CHAIR—I will do that before we leave Canberra today.

Ms Vivian—That would be good and then you could write to your fund. We also have IVR services, plus you can call our contact centre or you can mail to us the details or you can also authorise your fund to come in and do a number of checks across their members. Since February last year we have been writing to about three million people; we are actually up to 1.7 million people and it will go into next year. It will be up to about three million people then. That represents 83 per cent of the people on the Lost Members Register. In terms of the Lost Members Register, you have got to remember that a lot of the information we get comes in without a tax file number. By looking at it and matching it against our identity systems, we can match up about 83 per cent of the accounts of the people on the Lost Members Register—and that is the level of the mail-out that we are doing at the moment.

CHAIR—If you are inactive but obviously you know all about it, what can you do with the register?

Ms Vivian—Ideally, what we would like people to do is contact their super fund and tell them that they are an inactive member so that the fund can remove them. That is one of the issues that we are having a look at. When I look at some of the results from the mail-out, I see clearly that the letter is going to the people and telling them that it is there, and for various reasons—and there might be a whole range of reasons—they are not consolidating or removing it. There are a number of people who get the letter and think, ‘I know the money’s there. I know I’m not contributing.’ So I think that one of the steps that we have got to look at is how we can get them to contact the fund and let them know that they are an inactive member so that the fund can take them off.

Mrs BRONWYN BISHOP—But they cannot take you off it. If you have paid the money and it is in a fund and if that fund that you are currently in is an ineligible one to come into, you cannot touch it so it sits there and gets eaten up by fees.

Ms Vivian—Certainly on that basis it does stay there, but you can contact your fund and tell them that you know that the money is there and you know the various reasons why it is staying there, so that they do not have to report you as lost.

CHAIR—Yes, you are not lost.

Ms Vivian—Yes, in that sense.

Mrs BRONWYN BISHOP—They stopped writing to me some years ago. They might have eaten it all up by now, I suppose.

Ms Granger—You may well be on the register.

CHAIR—We will both check.

Mrs BRONWYN BISHOP—I want to start with the IT security management question. I have to say at the outset that I am one of the people who are very concerned about the concept of a smartcard. I am not a supporter of it. I opposed the Australia card. I still feel fairly strongly about privacy. Two of these reports, *Integrity of electronic customer records* and *IT security management*, impact on that question.

The opening statement of the audit report on *IT security management* says:

Information technology (IT) security management is an essential part of agencies' protective security environments. The management of IT security is a key responsibility of Australian Government agencies, and is necessary to protect the confidentiality, integrity, and availability of information systems and the information they hold.

It says:

... [the] control framework [is] designed to minimise the risk of harm to acceptable levels.

CHAIR—I am sorry to interrupt, Mrs Bishop, but I know the tax office have another appointment to go to. Does anyone have any other questions on superannuation? I thank the tax office for the update they have given us. I know they have written to us recently. Senator Watson will ask his questions on superannuation and then we will allow the tax office, who have been with this committee a couple of times this week—and with your committee, Mrs Bishop—to go to their next appointment and then, Mrs Bishop, we can deal with your point in some depth.

Senator WATSON—According to the audit report, there were 5.4 million members accounts, worth approximately \$8.2 billion as at 30 June 2005. Have you got any more recent figures for us?

Ms Vivian—I would need to take that question on notice. I do not have the most recent figures here.

Senator WATSON—Some sort of trend analysis would help us, in terms of assessing the efficiency with which you are tending to overcome the problem of lost members, in terms of numbers and in terms of the collections. Could you help in terms of graphs of trends?

Ms Vivian—Yes, I probably could. I think there were some previous figures in the ANAO report.

Mr White—We might be able to help a little bit. We do not have any more recent figures, but on page 31 of the report we have set out some analysis we did, looking at the trends over the last five years. It looks like the number of members' accounts has been relatively constant over the last five years. But that is the latest information we have; we do not have any further information on that.

Senator WATSON—You have had some additional resources in the last 12 months to try and overcome the backlog, haven't you?

Ms Vivian—The additional funding we got was to do with the mail-out—to write to people to let them know that they had money on the Lost Members Register. The figure in the ANAO report says that at 30 June 2005 there were 5.4 million accounts. When we compare those 5.4 million accounts with our identity register we can match about 83 per cent of those to a tax file number, which we can then link in to give the most current address. That brings us out to about 4.5 million accounts. Those 4.5 million accounts relate to about 3.1 million people, because a proportion of the people on the Lost Members Register have more than one account. It is those 3.1 million people that we got the additional funding for writing to. We are now in the process of writing to them, to let them know that we have their money.

But, I reiterate, when I look at the results of that, it is quite clear that a number of people know that their money is in the super fund but they are not contributing any more to it. They know the money is sitting there, but they have not let the fund know that they are happy to be a permanent inactive member. That is why they are still on the register. I think one of the things we will be looking at over the next year or so is how we can reach more of those people, so that we can get the Lost Members Register down to the people who are truly lost, as opposed to the people who know that their money is sitting in an account but, for various reasons, cannot or do not want to move that money.

Senator WATSON—Wasn't there money available in the last Commonwealth budget to enable those sorts of moneys to be transferred to a rollover account and out of the register? I am just concerned that, since 2005, the figure is increasing in numbers and value, and I want to get these people into some sort of account other than this Lost Members Register.

Ms Vivian—I need to remind you the money is not with the tax office. All we have is a register of those people who are lost. Their money is still with their super fund. There are certainly provisions there so that when their money gets to below a certain level the funds need to roll it over into what they call an eligible rollover fund that has minimal fees. But that money is based on the amounts that are reported to us as part of the register, but we do not hold the money. We just hold the name of the person, where the fund is and the amount, and the funding that the government gave us was to write to those people to make sure that they know that their money is there.

Senator WATSON—So, in a sense, if people just ignore your letters, this figure is just going to continue to escalate.

Ms Vivian—That is possible, and that is what we are looking at: for those people who are not consolidating when they could, why are they not, and, for those people who know that their money is sitting in a fund and who get our letter and say, 'I know that's the money,' how can we encourage them to contact the fund so that we can get their name off the Lost Members Register? We are certainly having a look at what we can do there.

Senator WATSON—Someone is hardly a lost member if you have a tax file number, you have an address and they are in an active or rollover situation. What is the purpose of having the

register? Even if they are inactive, if everybody knows who they are, where they are and there is a tax file number, what is the point in having a Lost Members Register? I cannot see it.

Ms Granger—There are in fact some members who are lost as part of this. What Ms Vivian is describing to you is the way we work through the register by writing to people to see if we can work out to what extent that is the case. There are some very early results of that mail-out that do suggest there is some reuniting and moving of funds, but we do not really have clear figures around that. There is the ongoing issue about the design of this system so that it does catch up those who are inactive. That is true. People in both circumstances are on that register.

Senator WATSON—I am not worried about whether people's accounts are inactive or not. They can be inactive for a whole host of reasons. But, if you write to them and tell them their options and you have their tax file number, I cannot see any reason why they should continue to be on your list, because it does not mean anything to me.

Ms Vivian—Currently under the law, the funds report them as lost. So they have done what they are required under the legislation to do. At the moment, for them to be removed it would require the person to recontact the fund and say, 'I want to be a permanent inactive member,' so that the fund can then remove them. The super funds need to report them under the law on that basis, and it is that step of closing the loop that is not happening at the moment.

Senator WATSON—It needs to happen, though. Otherwise, people could come to all sorts of wrong conclusions by looking at trend graphs. If that is what happens, I can tell you that is just going to go up and up.

Mrs BRONWYN BISHOP—But does it matter?

Senator WATSON—What is the significance of preparing the statistics? It is useless.

Mrs BRONWYN BISHOP—But isn't it just a register whereby, if somebody has been out of the workforce for five years, raising kids or whatever, and they have just taken up a new job, they can make a decision: 'Oh, yeah—I must have some super money somewhere,' and they can ring up your register, find out where it is and say: 'I'm in this fund. Please pay my super into that fund'? Isn't that what it is for?

Ms Granger—It can be.

Senator HOGG—Is it easier to say that you are more or less like a clearing house in one sense?

Ms Granger—It is as Mrs Bishop described. You can go and check there to see if there is some. It is a reference point to be able to go to. The idea is that super funds report lost or potentially lost members because there has been no activity and no response to their letters. It is an easy reference point to come to and check and see if you have some.

Mrs BRONWYN BISHOP—People can check where it is.

Senator HOGG—But you are dealing with an accumulation, and you are now eating into that accumulation. Whilst there will be add-ons and take-offs over the years ahead, you are trying to get through a backlog that has not been addressed. Is that a fair assessment?

Ms Granger—We are trying to contact those on the register to see if they know they are there; that is right. I am cautious about the word ‘backlog’ because some of the results are saying—

Senator HOGG—I understand, but how long would most of these people have been on the register?

Ms Vivian—I do not know the answer to that question in that the Lost Members Register was only introduced a few years ago.

Senator HOGG—I understand that. That is why I want to get it on the *Hansard* record.

Ms Vivian—I was going to say that, therefore, when the first lot of reports would have come through, they would have been for a number of years. But we would not know for how long.

CHAIR—Going forward, you write after two years if someone has been inactive.

Ms Vivian—At the moment, the funds put someone onto the register if they have been inactive for two years and have received unclaimed—

CHAIR—That’s right, and then you write to them.

Ms Vivian—Yes. Then we write to the ones that come on.

CHAIR—So over time you might expect to see people in a category who say: ‘Look, I’m not lost. That is handy. I have got the letter,’ and they take action to get themselves off.

Senator WATSON—I think calling it a Lost Members Register is a misnomer. It is correct for some, but for a lot of people it is just that they have chosen to be inactive for some reason.

Senator HOGG—Maybe you could call it a lost and found member register, because you do find some on the register.

Ms Granger—We will look into that. Thank you.

Senator HOGG—I may have solved your problem!

CHAIR—I’m glad we’ve sorted that out! There being no further questions, I thank the Taxation Office for their evidence and for their update. We will move back to Mrs Bishop questioning on IT security management and then to other questions either on that or on the Centrelink issue.

Mrs BRONWYN BISHOP—I will go back to where I was earlier. In the opening statement of the audit report it says that it is the responsibility of all agencies to comply with requirements to protect the confidentiality, integrity and availability of information systems and the information they hold. The security control framework is designed to minimise the risk of harm to acceptable levels. What is an acceptable level, and is the acceptable level the same for all agencies? When I look at the agencies that were the subject of this review, I see they are the Bureau of Meteorology, the Department of Education, Science and Training, the Department of Transport and Regional Services and ComSuper. They are not what I would call the really critical ones which hold information that pertains to all our personal data, such as Centrelink, the Health Insurance Commission and all of the agencies which will be subject to information from the smartcard. What is considered to be a minimum level of risk for Centrelink, and what is it that Audit considers to be a suitable level of risk? Audit might only be able to tell me whether they consider that the suitable level of risk is the same for all agencies. I would like to take Centrelink's answer first and then come to Audit.

Mr Wadeson—The level of risk arises after we do our long and fairly detailed risk assessments. The level of risk that becomes acceptable could best be described as 'the lowest we can possibly achieve with the resources we have available, the technologies we have available and considering the demands on us for the delivery of services'. There is always a balance in all of this. I think that is as good as we can define it.

Mrs BRONWYN BISHOP—Do you put it in terms of numbers? Can you have a certain percentage of errors?

Mr Wadeson—No, I have never seen it expressed in broad terms like that, partly because of the safe percentage of errors, but errors can take many different forms of different severity. There are some real experts in the Audit Office on this, but I have not seen such a measure for an organisation like us.

Mrs BRONWYN BISHOP—We know from the Centrelink audit that you have lots of errors.

Mr Wadeson—It is an audit of data integrity.

Mrs BRONWYN BISHOP—And there were lots of errors.

Mr Wadeson—I think that demonstrates the point, in part. A data integrity error is quite different from, say, an error in a payment to a customer. Data integrity errors are very specific sorts of errors and the audit was on the data integrity side of things.

Mrs BRONWYN BISHOP—But the IT security is not. It is talking about all errors.

Mr Wadeson—That is what I mean. If you read the audit, you will see that the recommendations are more about putting these frameworks in place. There has not been an attempt by the audit—not as I read through it—to say that this is or is not acceptable. It is more saying, 'You have completed these detailed risk assessments and you have a security framework that supports what you are trying to do.'

Mrs BRONWYN BISHOP—I will ask Audit.

Mr Mazzone—From a risk perspective, we examined it from the point of view of confidentiality but also availability and integrity. The availability requirements or acceptable levels of risk may vary for each organisation, because availability also considers things like recoverability from an IT failure or outage. Some agencies might have some systems which do not need to be recovered for seven days. Other agencies, some of the critical central providers, may expect five nines to 24-7—the systems are virtually always up and available. So the levels of risk that are acceptable will vary depending on what the services support.

Mrs BRONWYN BISHOP—Has there been any evidence, at Centrelink for instance, of hacking into any of your databases?

Mr Wadeson—We have not yet had an example of anyone being able to hack into our databases.

Mrs BRONWYN BISHOP—Has the Audit Office, in any of the audits it has done, found any evidence of hacking into the databases of agencies?

Mr Mazzone—Certainly, investigating breaches of security as you have described was not part of the scope of the IT security management audit and we did not specifically look to identify whether there were incidents of breach.

Mrs BRONWYN BISHOP—So you did not look to find them?

Mr Mazzone—We did not look for that.

Mrs BRONWYN BISHOP—Let us take a database we know gets corrupted, hacked into, leaked from and so on—the one I am familiar with in New South Wales deals with licence details, car registrations and all that sort of thing. It is supposed to be discrete and looked after. If anybody really wants the information they can get it. Is there information which Centrelink maintains which could be of benefit to people if they could hack into it?

Mr Wadeson—Yes. Because we put a lot of effort into keeping people's current addresses, they are always of interest to people for various reasons. For that reason, we need to protect addresses very strongly. In about a week from now, we hope, people will be able to update their address online. I can assure you that it will not be an easy process. We have to build a lot of security around that particular transaction. That is what I mean: the level of security can depend on what you are trying to do and the risks involved.

Mrs BRONWYN BISHOP—I think we have come to learn that there is no such thing as infallibility, is there. If you can hack into NASA you can probably get into Centrelink if you want to.

Mr Wadeson—I would certainly agree with you that there is no such thing as infallibility.

Mrs BRONWYN BISHOP—When it comes to this smartcard concept, that information is really very valuable stuff. We have just heard from Audit that they are going to do an audit of hard data for Centrelink and the Auditor-General has announced this. I think that is on the public record, isn't it?

Ms Holbert—It has been approved. Centrelink is aware of the proof of identity audit. We have already contacted internal audit in Centrelink.

Mrs BRONWYN BISHOP—That is going to be a pretty important question of security, isn't it?

Mr Wadeson—I do have to say on the access card that there have been no decisions yet on who will hold that information and how it will be stored and protected. I think that Minister Hockey has been very clear in saying that he is appointing a lead adviser and getting a lot of advice. I am sure because of his experience with Centrelink and Medicare Australia that he is well aware of what the issues are that he faces with this. I think I can say on Centrelink's behalf that we actually are pretty proud of our reputation in protecting our electronic data. But it requires constant vigilance and a lot of care and attention. You are always balancing off the need for people to access that data.

Mrs BRONWYN BISHOP—There is this concept of readers. I think one way of getting into your database is that you do not hack in; you just pinch the reader.

Mr Wadeson—There is security around readers or devices. A few years ago we were able to provide a good secure entry into our database. Our online services are running at over 250,000 transactions a week at the minute. We are seeing strong growth in that area. Again, a big part of the development of these online services is the development of the security frameworks they sit around. It is a very serious part of the business.

Mrs BRONWYN BISHOP—We all take a bit of a punt, don't we? Banks, for instance, take a big punt. They just pay for it because they do not want the customers to know the risk. You do not get into that game; at this stage you are fairly confident of your risk management.

Mr Wadeson—Once again, these are detailed risk assessments. As you said at the start, you can never be infallible. But I think we have a lot of advice and we have spent a lot of time and money to get where we are.

Mrs BRONWYN BISHOP—It is just that, at the end of the day, I am always mindful that the sort of person who would have loved to get access to this sort of list would have been Hitler. It would have been devastating.

CHAIR—What I want to do with respect to Audit report No. 29, *Integrity of electronic customer records*, was if you could, perhaps by way of a statement, bring us up to speed with the progress in implementing the recommendations. We understand that it was a long and involved audit. We also understand and commend you for what was pretty close involvement with the process all the way through over a number of months and the fact that as you were getting the results of the audit you were putting in place the effects of some of those recommendations. Could you bring us up to speed today on the progress you have made and how you are going on implementing those recommendations?

Mr Wadeson—I will start. I would like to thank the ANAO officers who participated in this audit for their professionalism and in particular for their technical expertise and the working

relationship that formed between the two agencies. The audit has given data integrity a higher profile in Centrelink. We think that has been a good outcome.

In terms of where we are up to, we have set up a team. Part of the process of the audit was that a whole lot of records were sent back to us. I would not begin to understand the technology of how you parcel up 23 million records and take them over there and they work on them in the way they did. So far our team has checked over 182,000 returned records. The report mentioned 8.2 million so-called DI errors. We are running now at about 3.1 million, so we have more than halved those.

There are two longer term issues that will take us some more time. One of the quite difficult recommendations, which we agree with, concerns what are called 'inactive' records. The press wrote it up as 'deceased' records. Of course, a lot of them are deceased records. They exist in our major production systems. The auditors were not recommending they be deleted, but they did suggest moving them to environments where they would be less involved in mainstream production. I will not say any more about that, as it is quite complicated IT. It is quite a difficult thing architecturally. We are looking at options and tools.

The main outcome has been that we now have a full-time data quality team and we are churning through quite a lot of these data quality runs to identify these sorts of errors. The main errors the audit identified were duplicate records, multiple records, archiving, proof of identity and the tax file number issue. Within those 182,000 records we have made quite a lot of progress.

We have set ourselves a target of getting through all the records that the ANAO sent to us by February. We usually find that we get through a large number of them fairly quickly but then we get ones where we have to go back to base documents. We may even have to call the customer to sort them out. But we are quite happy with the progress we are making.

Senator HOGG—Do you have an independent internal audit team looking at what your team is doing this area?

Mr Wadeson—I have the chief general auditor sitting right next to me.

Senator HOGG—That is great news.

Mr McDonald—Yes, we do. We work hand in hand with the Audit Office and Centrelink staff in progressing forward. We have an audit monitoring system where each recommendation from Audit Office reports are entered and we do physical follow-ups to ensure that those recommendations are in fact embedded and in place before we sign them off.

Senator HOGG—Do you have a number of performance indicators, achievement goals or milestones or something such as that that you tick off on?

Mr McDonald—Not in that sense for the audit report. The key issue is sufficient evidence to identify that the recommendation has in fact been put into place and that it is more than lip service. If they say they are going to check 180,000 records, we ensure that they have checked those 180,000 records before we sign the recommendation off.

Senator HOGG—Do you then go back to ANAO to give them feedback as to what you are doing, and how important and critical is that in making sure you get the level of integrity that they are expecting?

Mr McDonald—We are building a close relationship with the Audit Office in a number of areas. We have both planned and ad hoc meetings. The Audit Office is invited as a regular attendee to our audit and risk committee meetings.

Senator HOGG—Good.

Mr McDonald—The audit and risk committee requires a full and open disclosure of progress with the recommendations both from Audit Office and internal audit. So the discussions are there about what is happening and where we are going. We take those opportunities to discuss before we move forward.

Senator HOGG—This question is to the Audit Office: are you satisfied with the progress being made?

Mr Meert—To be fair, I do not think we have really evaluated where the progress is up to.

Senator HOGG—When will you make some sort of evaluation? Is there a follow-up program in place; if so, when?

Mr Meert—I can give you that within the broader framework of our planning. We are just about to come out with our audit strategy for the next year. I do not think we have got it logged in as a follow-up.

Ms Holbert—We do not have it logged in as a follow-up audit for the 2006-07 program but, given the audit only came out in February this year, it is the sort of audit we would be looking at in 2007-08 as to whether we should go back and do a formal follow-up.

Senator HOGG—Thank you.

CHAIR—Just before we have any further questions, I think it is a good point in time for the other agencies, if they want, to give us an update on how they see things. Perhaps we could start with the Attorney-General's department, DSD and DOFA.

Mrs BRONWYN BISHOP—Particularly DSD and how they feel about the IT security management report.

CHAIR—On the IT security management report, from a policy perspective, could you give the committee an update.

Mr Campbell—From our point of view, the documentation that this audit was based on is the PSM from A-G's and our own document that goes out. We update that document twice a year to reflect the changes occurring within the IT environment. That provides an interesting challenge for the department to keep it up to date. We are increasing our role with AGIMO in how we work with new initiatives et cetera. We are providing advice and assistance. I know Greg from

the Audit Office has done a number of presentations both with ourselves and other agencies on this audit to give agencies a much better awareness of what is required and how it works. We are doing computer vulnerability forums with four government agencies, allowing them to come along and do work with us. We are available at all times to provide advice to government agencies on what they do. We have also established—and this was established before but we are reviewing it again—the information registered assessor program where we register other people to do evaluations on our behalf. We are looking at that again to improve the outputs from that. There is also a website. We are collecting statistics from government in general on incidents and how they are occurring.

As you would be aware, we recently set in place an agreement with Microsoft which the Attorney announced recently to try to get early vulnerabilities so it can make more of those available to government departments. We are looking to expand that further. In general, it is about getting the advice out to government departments, allowing them to deal with the issues, but—on your question earlier, Mrs Bishop—it really is about government agencies evaluating their risks and threats and making appropriate decisions. The advice we put out is the minimum standard we are expecting government departments to meet, though there will be variation from that based upon the assessment of agencies, but that is the ongoing work that we need to keep moving forward.

Mrs BRONWYN BISHOP—Are you being consulted about the smartcard?

Mr Campbell—Yes. We are working very closely with AGIMO and other departments in relation to the security of that database.

Mrs BRONWYN BISHOP—Because if Centrelink contains, as we know, very valuable and vulnerable in a sense information, then the Health Insurance Commission does much more so.

Mr Campbell—Yes.

Mrs BRONWYN BISHOP—They record every time anyone goes to the doctor and uses Medicare. They record what that person has had wrong with them. It is very sensitive information.

Mr Campbell—Yes. That is the role of our vulnerability assessments and in going out where we can with departments and providing detailed advice to them on risk threats and how they can go forward. That is part of our program.

Mrs BRONWYN BISHOP—I must say that it stunned me when I realised that the legislation that set up Medicare had had such a provision. It is enough to make you pay your own bills really.

Mr Studdert—From the point of view of protective security coordination centre, there is not a lot to add to what has been said. I guess the framework for IT security begins with the protective security manual, which deals with a much broader range of protective security than just IT. Part C of it deals with information security and it refers to the ACSI document 33 which gives the more detailed specific requirement for IT security. That document was of course an important part of the ANAO audit because it set the baseline for it. There is a lot of training that

goes on. There is a policy committee—the protective security policy committee—that manages the overall policy associated with protective security across the Commonwealth and one aspect of that is IT. That is the framework, and we set that framework for the Commonwealth, and then it breaks down from there using the various mechanisms. The result is how IT security is applied at departments. That is all I really need to say, thanks.

Mr Stewart—The role of the Australian Government Information Management Office is about encouraging agencies in the effective and efficient implementation of ICT and coordinating the implementation of the government's recently announced e-government strategy. I guess, in that sense, our interest in security is in ensuring that the agencies involved in ICT have a good understanding of the frameworks and that we have security matters addressed properly when we are implementing e-government initiatives. Our role is really about providing, based on the frameworks that my colleagues have already spoken about, practical guidance and best practice examples and establishing frameworks where we think they are appropriate.

We have been involved in a couple of initiatives recently in consultation with my colleagues sitting to my right. We have been providing practical guidance on things like email protective markings to make certain that they can be used with portable devices with a degree of security. We have some guidelines currently in preparation on portable electronic devices. There is some guidance out already on BlackBerry devices, and we are looking to try and extend that to other devices. We are currently preparing some practical guidance on the security of new information technology. We have been promoting the results of Audit Office report No. 23 through a number of governance forums we have. We have a chief information officer committee, and a chief information officer forum for a wider range of agencies, and we have had presentations to those forums on the audit.

CHAIR—So that covers all departments?

Mr Stewart—The CIOC covers all departments of state plus major service delivery agencies. There are 27 members on the chief information officer committee, and the chief information officer forum picks up the others who are not formally on the committee. There are up to about a hundred of those, I think. It covers all agencies.

CHAIR—That is excellent.

Mr Stewart—We have tried to make sure there is a good awareness of the audit report out there. In terms of the smartcard issue, which has been mentioned a couple of times, our role is about setting a whole-of-government framework for smartcards. I expect the Special Minister of State, Mr Nairn, will release the initial components of that framework in the near future. An important part of that framework is security and privacy, and we have been getting quite significant input from DSD, A-G's and the Privacy Commissioner on the privacy and security elements of that framework. We are working quite closely with Human Services. They are involved in the development of that framework as well and they have indicated they will be using that framework as part of the access card implementation. Our role is very much about awareness raising, best practice and frameworks.

Mrs BRONWYN BISHOP—Can I ask you a question about your involvement in doing this work on the smartcard. Those of us who are interested have had a briefing. I have to say nobody

is presenting the no case. You are all tasked to provide backup and information as to how it will work, not where the problems are and why it should not happen. There is nobody putting the no case, and I am really very worried about that, because it is all an assumption. We know there is no such thing as an infallible system. We know someone will always get into it. What are the ramifications of it? The law may say presently that it is not to be used as a universal identity card and you cannot be made to hold it, but all it would take for that to change would be for a new government to pass a new law, and it would all be in place; it would all be done. Once you have assembled it and put it together, there is no way you can take it back. I want to know who is responsible for the no case.

Mr Stewart—I am not sure I can answer that question. Whether or not to implement a smartcard is a question for the government, I would think.

Mrs BRONWYN BISHOP—That is the problem. You all lock in behind, as you have to do. There should be, somewhere, somebody who is prepared to look at the interests of people who are very concerned about it, and nobody is doing that.

CHAIR—In that vein, we may well as a committee have a briefing on the smartcard at some point.

Mrs BRONWYN BISHOP—But we have to find someone for the no case.

CHAIR—I think you have found yourself.

Mrs BRONWYN BISHOP—Good. Give me some resources and I will do the job!

CHAIR—I thank all of the agencies for appearing.

Senator HOGG—And turning out in such numbers.

Mrs BRONWYN BISHOP—Yes, it is great.

CHAIR—And providing the information. Our appraisal of the audit reports obviously gave us the impression there is progress going on, and it was good for us to get an update on that. We have received two submissions related to today's hearings, from the Australian Local Government association and the Australian Taxation Office.

Senator HOGG—I move that we accept the submissions.

CHAIR—There being no objection, it is so resolved. I do not think we had any questions on notice, so there is no need for any follow-up in that regard. On behalf of the committee I thank all of you for your attendance at the public hearing today.

Mrs BRONWYN BISHOP—Thank you to Hansard too.

CHAIR—We thank Hansard very much for their additional time.

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

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

Committee adjourned at 1.35 pm