The Parliament of the Commonwealth of Australia

Report 412

Audit reports reviewed during the 41st Parliament

Joint Committee of Public Accounts and Audit

August 2008
Canberra

The Parliament of the Commonwealth of Australia

Contents

THE REPORT

Foreword

The Joint Committee of Public Accounts and Audit, as prescribed by the *Public Accounts and Audit Committee Act 1951*, examines all of the reports of the Auditor-General tabled in the Parliament. The Committee periodically selects several of those reports for further detailed scrutiny at public hearings.

The Committee will typically select audits for public review where the Australian National Audit Office (ANAO) has been particularly critical, where the agency concerned has a history of poor performance, where there is a high financial risk or safety risk to the community, or where the Committee is the obvious candidate to conduct a parliamentary review.

This omnibus report summarises reviews of 25 Auditor-General's reports prior to the 2007 federal election. While the reports cover a highly diverse range of government programs, a number of key themes are clear. Shortcomings identified in several of the audits point to a need for a greater focus on sound project management, contract management and risk management in the public sector, and better compliance with the accountability, record-keeping and reporting standards expected by the Parliament.

The Committee in this Parliament will be guided by these principles in its reviews of audit reports. In addition, the Committee will institute regular meetings with the Auditor-General, the Secretary of the Department of Prime Minister and Cabinet and the Australian Public Service Commissioner to discuss means of promoting better practice across the public sector. The Committee has also given its support to accountability initiatives such as the pending Major Projects Report, which will see the ANAO report to the Parliament on the status of high-value Defence projects while they are still in train, rather than solely through longer-term performance audits.

This report is presented on behalf of the Committee in the previous Parliament, which undertook all of the public hearings. Unfortunately, factors including changes to Committee personnel and priority given to policy inquiries led to a

longer delay than would normally be the case in tabling a number of the reviews included in this omnibus report.

I flag that the Committee in this Parliament considers its scrutiny of the reports of the Auditor-General to be core business, and will manage its work program so as to prevent a recurrence of the delay in tabling reviews of audit reports.

Through adhering to this process in a timely and effective manner the Committee, on behalf of the Parliament, can hold the executive and the performance of its agencies in spending taxpayers' money to account, and can help ensure that the recommendations of the Auditor-General are being properly implemented.

Sharon Grierson MP
Committee Chair

Membership of the Committee

41st Parliament

Chair	Mr Phil Barresi MP (from 6/2/07)	
	Hon Tony Smith MP (from 9/2/06 until 6/2/07)	
	Mr Bob Baldwin MP (until 7/2/06)	
Deputy Chair	Ms Sharon Grierson MP	Senator Mark Bishop (from 11/5/06)
Members	Hon Bronwyn Bishop MP	Senator Grant Chapman (from 23/3/07)
	Mr Russell Broadbent MP	Senator John Hogg
	Dr Craig Emerson MP	Senator Gary Humphries
	Ms Jackie Kelly MP	Senator Claire Moore (until 11/5/06)
	Dr Dennis Jensen MP (from 29/5/06)	Senator Andrew Murray
	Ms Catherine King MP	Senator Fiona Nash (until 23/3/07)
	Mr Andrew Laming MP	Senator John Watson
	Mr Lindsay Tanner MP	
	Mr Ken Ticehurst MP (until 29/5/06)	

Membership of the Sectional Committee

As at the end of the 41st Parliament

Chair   Mr Phil Barresi MP

Deputy Chair   Ms Sharon Grierson MP

Members   The Hon Bronwyn Bishop MP   Senator John Hogg

               Mr Russell Broadbent MP   Senator John Watson

               Dr Craig Emerson MP

               Ms Jackie Kelly MP

               Ms Catherine King MP

               Mr Andrew Laming MP

               Mr Lindsay Tanner MP

Membership of the Committee

42nd Parliament as at 22 August 2008

Chair	Ms Sharon Grierson MP	
Deputy Chair	Mr Petro Georgiou MP	
Members	Hon Bob Baldwin MP	Senator Mark Bishop
	Hon Arch Bevis MP	Senator Sue Boyce
	Mr David Bradbury MP	Senator David Bushby
	Mr Mark Butler MP	Senator John Hogg
	Ms Catherine King MP	Senator Kate Lundy
	Mr Scott Morrison MP	
	Mr Shayne Neumann MP	
	Mr Stuart Robert MP	

Sectional Committee Secretariat

As at the end of the 41st Parliament

Committee Secretary Mr Russell Chafer

Research Officer Ms Katie Ellis

Administrative Officer Miss Emily Shum

42nd Parliament

Committee Secretary Mr Russell Chafer

Research Officers Mr Shane Armstrong

Dr Kris Veenstra

Administrative Officer Miss Naomi Swann

Mr Angus Hogg

List of recommendations

2   Audit Report No. 50, 2004-05, Drought Assistance

Recommendation 1 (p.17)

The Committee recommends that the Department of Agriculture, Fisheries and Forestry and Centrelink provide the Committee with a progress report detailing responses to the ANAO's Recommendation 2 concerning the promotion of drought assistance measures.

Recommendation 2 (p.23)

The Committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) provides it with details of the Family Relationships Services Program evaluation.

Recommendation 3 (p.25)

The Committee recommends that FaHCSIA provide a copy of the evaluation report in relation to drought funding to the Committee.

3   Job Network Services

Recommendation 4 (p.35)

The Committee recommends that the Department of Education, Employment and Workplace Relations (DEEWR) provide a breakdown of estimates and actual expenditure on service fees and outcome fees for the Job Network programme in its annual reports.

Recommendation 5 (p.39)

> The Committee recommends that DEEWR provide an evaluation in its annual report of progress against the transition objectives identified for the extension of Third Employment Services contract.

Recommendation 6 (p.55)

> The Committee recommends that DEEWR undertake a comprehensive review of the existing Employment Services Contract prior to its expiry in 2009 and that the results of this review inform future renegotiations or extensions of the contract.

Recommendation 7 (p.55)

> The Committee recommends that DEEWR regularly assess the effectiveness of its risk management, monitoring, and penalty regimes in ensuring the highest standard of service from Job Network providers.

6 Consultancies and contracts

Recommendation 8 (p.117)

> The Committee recommends that all agencies include in their proforma contract and tendering documentation, advice pertaining to the Australian Government's accountability framework.

Recommendation 9 (p.118)

> The Committee recommends that all departments, that have not yet done so, incorporate into their procurement process documentation:
>
> - details of the four tests for the inclusion of confidential clauses in contracts, as detailed in Finance's Guidance on Confidentiality of Contractors' Commercial Information; and
>
> - advice highlighting the importance of procurement officers seeking specific reasons for the use of confidential clauses, and for these reasons to be clearly documented.

Recommendation 10 (p.120)

> The Committee recommends that the Department of Finance and Deregulation be given authority to monitor agencies' compliance with Finance's *Guidance on Confidentiality of Contractors' Commercial Information* in relation to the Senate Order.

Recommendation 11 (p.126)

The Committee recommends that, in an effort to minimise inefficient use of legal services, PM&C, Finance, and any other relevant bodies, implement monitoring systems to ensure that legal advices obtained by agencies, with implications broader than that specific agency's circumstances, are appropriately distributed to other relevant government agencies.

Recommendation 12 (p.126)

The Committee recommends that PM&C and Finance establish a repository of legal advices obtained by government agencies, for use by all government bodies where practicable.

7   Audit Report No. 17, 2005-06, Administration of the Superannuation Lost Members Register

Recommendation 13 (p.140)

The Committee recommends that the ATO evaluate and report in its Annual Report on the effectiveness of the Letters Project in reuniting lost members with their superannuation and reducing the number of inactive members in the Lost Members Register.

Recommendation 14 (p.141)

The Committee recommends that the ATO reassess full implementation of the recommendations arising from this audit that require system redevelopment work within the context of broader superannuation system changes.

8   Information Technology

Recommendation 15 (p.153)

The Committee recommends that the AGIMO Chief Information Officer Committee and Forum formally disseminate the ANAO's recommendations from Audit Report 23, 2005-06 to appropriate agencies, including seeking updates on progress and implementation.

Recommendation 16 (p.161)

The Committee recommends that all Commonwealth agencies, as a matter of urgency, review their compliance with the *Australian Government Protective Security Manual* and the *Australian Government Information and Communications Technology Security Manual.*

Recommendation 17 (p.162)

The Committee recommends that AGIMO provide greater assistance to Chief Executives of departments and agencies to ensure that they have the required knowledge to be fully compliant with PSM and ACSI 33 requirements.

Recommendation 18 (p.165)

The Committee recommends that DSD formally remind all agencies of their responsibility to comply with ISIDRAS reporting as required by the Protective Security Manual.

Recommendation 19 (p.171)

The Committee recommends Centrelink's prompt examination of options to address the risk posed by inactive records within Centrelink's major production systems.

11 Audit Report No. 31, 2005-2006, Roads to Recovery

Recommendation 20 (p.231)

The Committee recommends that the Department of Infrastructure, Transport, Regional Development and Local Government assess whether the staffing and resources, including the new IT systems, of teams supporting R2R and future such programs are adequate to perform their monitoring and information functions.

13 Audit Report No. 34, 2005-2006, Advance Passenger Processing

Recommendation 21 (p.266)

The Committee recommends that the Department of Immigration and Citizenship (DIAC) ensure that its staff, including senior managers, receive appropriate training in their obligations and responsibilities under the FMA Act and regulations.

14   Audit Report No. 49, 2005-2006, Job Placement and Matching Services

Recommendation 22 (p.280)

The Committee recommends that DEEWR establish a process which determines the adequacy of complaints handling by JPOs. A reporting system should be established to ensure that complaints are handled in an appropriate and timely manner by JPOs and that this information is communicated to DEEWR for assessment purposes.

Recommendation 23 (p.284)

The Committee recommends that DEEWR expressly informs job seekers of the 'unsubscribe' facility within the Department's SMS job-matching facility to comply more fully with the *Spam Act 2003*.

Recommendation 24 (p.285)

The Committee recommends that DEEWR implements Recommendation 2 (b) and (c) of the ANAO's report.

Recommendation 25 (p.286)

The Committee recommends that DEWR's review of the JobSearch website consider the appropriateness of ongoing government ownership and also that the results of the review be reported to the Committee.

15   Audit Report No. 47, 2005-06, Funding for Communities and Community Organisations

Recommendation 26 (p.298)

The Committee recommends that FaHCSIA seek stronger assurances from successful grant applicants that they possess adequate insurance policies or currency certificates on approval of their grant application.

Recommendation 27 (p.306)

That FaHCSIA lodge a progress report with the Committee, by the end of February 2009, advising of progress in responding to the Auditor-General's recommendations.

16 Audit Report No. 41, 2005-06, Administration of Primary Care Funding Agreements

Recommendation 28 (p.312)

The Committee recommends that as far as possible, Health attempt to have as many contracts signed as possible prior to a project beginning and funding being dispersed. Where contracts are not signed beforehand, the Committee recommends that elements which are easily defined be entered into an interim contractual measure.

17 Audit Report No. 43, 2005-2006, Assuring Centrelink Payments – The Role of the Random Sample Survey Programme

Recommendation 29 (p.330)

The Committee recommends that a copy of the revised RSS questionnaire, implementing the ANAO's recommendation 7 be provided to the Committee.

Recommendation 30 (p.336)

That Centrelink advise the Committee of progress in implementing the receipting process for calls to call centres in relation to customers reporting their circumstances. In addition, the Committee would like to be kept informed of whether the receipting mechanism makes a difference in the rates for payment correctness.

18 Audit Report No. 12, 2006-07, Management of Family Tax Benefit Overpayments

Recommendation 31 (p.351)

The Committee recommends that FaHCSIA provide the Committee with a written update in December 2009 in relation to the strategies being used in responding to the issue of non-lodgement.

Recommendation 32 (p.354)

The Committee recommends that the role of Centrelink's Financial Services Officers be extended to include advice to groups of customers who may find the provision of information helpful in their calculations about FTB entitlements.

Recommendation 33 (p.356)

The Committee recommends that the FAO implement a program of intensive assistance to the non-lodger population potentially based on the Government's large debtor measure and provide a report to the Committee on measures adopted to strengthen assistance.

19 Audit Report No. 24, 2006-2007, Customs' Cargo Management Re-engineering Project

Recommendation 34 (p.374)

The Committee recommends that Customs provide a written report in the form of a submission to the Committee on the status of the implementation of the ANAO's recommendations and the recommendations of the review conducted by Booz Allen Hamilton within 6 months of the tabling date of this report.

20 Audit Report No. 37, 2006-2007, Administration of the Health Requirement of the *Migration Act 1958*

Recommendation 35 (p.387)

The Committee recommends that DIAC institute clear guidelines for review of the Health Risk Matrix outside of the provision for annual review to take into account events and developments which may act as prompts for review outside of the annual review period.

Recommendation 36 (p.390)

The Committee recommends that DIAC conclude clear protocols with each State and Territory to enable improved compliance of visa holders with health undertakings.

Recommendation 37 (p.390)

The Committee recommends that DIAC produce a clear set of guidelines for the monitoring of health undertakings to assist in the improvement of visa holder compliance with health undertakings.

Recommendation 38 (p.392)

The Committee recommends that DIAC and DoHA revise their training programs to include a focus on improving staff skills in performance monitoring and assessment to assist in greater departmental compliance with performance management requirements.

21 Audit Report No. 29, 2006-2007, Implementation of the *Sydney Airport Demand Management Act 1997*

Recommendation 39 (p.403)

The Committee recommends that a standard definition of aircraft movement be used for the purposes of administering and reporting on compliance with the SADM Act and that this definition directly relate to aircraft movement on runways.

Recommendation 40 (p.404)

The Committee recommends that the SADM Act be used as the sole guide for slot compliance procedures.

1

Introduction

Background to the review

1.1   The Joint Committee of Public Accounts and Audit (JCPAA) has a statutory duty to examine all reports of the Auditor-General that are presented to the Australian Parliament, and report the results of its deliberations to both Houses of Parliament. In selecting audit reports for review, the Committee considers:

- the significance of the program or issues raised in the audit reports;

- the significance of the audit findings;

- the response of the audited agencies, as detailed in the audit report; and

- the extent of any public interest in the audit report.

1.2   Over the period from November 2005 to August 2007, the Committee progressively considered all Auditor-General's reports from no. 43 2004-05 to no. 3 of 2007-08 inclusive. Of those audits, 25 were selected by the Committee for further detailed scrutiny at a series of public hearings.

1.3   Dates of the hearings are listed in each chapter of this report. Further details of the hearings, and submissions and exhibits received during the course of the reviews, are available through the Committee's website at *www.aph.gov.au/jpaa*.

1.4   The 25 audit reports reviewed by the JCPAA are listed below:

- Audit Report No. 45, 2004-05, *Management of Selected Defence System Program Offices*;

- Audit Report No. 50, 2004-05, *Drought Assistance*;

- Audit Report No. 51, 2004-05, *DEWR's Oversight of Job Network Services to Job Seekers*;

- Audit Report No. 58, 2004-05, *Helping Carers: the National Respite for Carers Program*;

- Audit Report No. 3, 2005-06, *Management of the M113 Armoured Personnel Carrier Upgrade Project*;

- Audit Report No. 6, 2005-06, *Implementation of Job Network Employment Services Contract 3*;

- Audit Report No. 11, 2005-06, *The Senate Order for Departmental and Agency Contacts (Calender Year 2004 Compliance)*;

- Audit Report No. 17, 2005-06, *Administration of the Superannuation Lost Members Register*;

- Audit Report No. 21, 2005-06, *Audit of Financial Statements of Australian Government Entities for the Period Ended 30 June 2005*;

- Audit Report No. 23, 2005-06, *IT Security Management*;

- Audit Report No. 27, 2005-06, *Reporting of Expenditure on Consultants*;

- Audit Report No. 28, 2005-06, *Management of Net Appropriation Agreements*;

- Audit Report No. 29, 2005-06, *Integrity of Electronic Customer Records*;

- Audit Report No. 31, 2005-06, *Roads to Recovery*;

- Audit Report No. 32, 2005-06, *Management of the Tender Process for the Detention Services Contract*;

- Audit Report No. 34, 2005-06, *Advance Passenger Processing*;

- Audit Report No. 41, 2005-06, *Administration of Primary Care Funding Agreements*;

- Audit Report No. 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random Sample Survey Programme*;

- Audit Report No. 45, 2005-06, *Internet Security in Australian Government Agencies*;

- Audit Report No. 47, 2005-06, *Funding for Communities and Community Organisations*;

- Audit Report No. 49, 2005-06, *Job Placement and Matching Services*;

- Audit Report No. 12, 2006-07, *Management of Family Tax Benefit Overpayments*;

- Audit Report No. 24, 2006-2007, *Customs' Cargo Management Re-engineering Project*;

- Audit Report No. 29, 2006-2007, *Implementation of the Sydney Airport Demand Management Act 1997*; and

- Audit Report No. 37, 2006-2007, *Administration of the Health Requirement of the Migration Act 1958*.

The Committee's report

1.5　This report draws attention to the main issues raised at the respective public hearings. Each chapter deals with either an individual audit, or a group of audits related by subject. Where appropriate, the Committee has commented on unresolved or contentious issues, and has made recommendations. An electronic copy of this report is available on the Committee's website.

1.6　In a number of cases names and responsibilities of agencies reviewed have changed following the 2007 federal election. This report for the most part refers to the agencies as they stood at the time of the audit and the public hearing, although the Committee has endeavoured to address recommendations to the relevant contemporary agency.

2

Audit Report No. 50, 2004-05, Drought Assistance

Introduction

Background

2.1   Australia has experienced several severe and prolonged droughts since the late 1980s. Since 1992, Australia's National Drought Policy (NDP) has been in place to encourage farmers to adopt self-reliant approaches to manage the risks stemming from climatic variability. The NDP also aims to both maintain and protect Australia's agricultural and environmental resource base during periods of extreme climate stress; and to ensure early recovery of agricultural and rural industries consistent with long-term sustainable levels. It advocates planning and the use of risk management to aid farmers in being more self-reliant, and in developing and applying farm plans, strategies and tactics.

2.2   The Government differentiates between circumstances, for example drought, where it is regarded as reasonable to expect farmers to manage risk; and Exceptional Circumstances (EC), for example prolonged drought, where it is not. In EC situations, the Government provides assistance to affected farmers.

2.3   The drought that started in 2002–03 has been particularly severe by historical standards. The consequences included a fall of more than 50 percent in crop production in 2002–03.[1] Flow-on effects contributed to a downturn for rural businesses and fewer regional employment opportunities.

2.4   When drought conditions prevail, it is initially the responsibility of the respective State or Territory Government to provide drought assistance, where appropriate, in the affected region. However, when a drought is rare and severe, and results in a severe and prolonged downturn in income, State and Territory Governments may apply to the Australian Government to have the region or specific industry(s) declared as qualifying for EC assistance.

2.5   The criteria for EC assistance is that:

- the event (whether a drought or other occurrence) must be rare (a one in 20 to 25 year event) and severe;

- the effects of the event must result in a severe downturn in farm income over a prolonged period; and

- the event must not be predictable or part of a process of structural adjustment.

2.6   Initially, the drought was addressed by the Australian Government through the arrangements for EC. EC provides targeted assistance in the form of family income support[2] and interest rate subsidies for farm enterprises.[3] As the severity and spread of the drought increased, *prima facie*[4] EC was introduced by the Australian Government in September 2002. Under the *prima facie* arrangements, Interim Income Support payments are available commencing from the date on which the Minister for Agriculture, Fisheries and Forestry announces that an EC application has a *prima facie* case.

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1   Australian Bureau of Agricultural and Resource Economics, Australian Commodities, Vol 10 No 4, December Quarter, Australia, 2003, p. 570. DAFF advised that 2001–02 was one in which record crop production levels were achieved.

2   EC Relief Payment is paid at a rate equivalent to the Newstart Allowance.

3   A 'farm enterprise' is defined in the Farm Household Support Act 1992 (FHS Act) as an enterprise carried on within any of the agricultural, horticultural, pastoral, apicultural or aquacultural industries.

4   Prima facie EC provides six months of Interim Income Support payments commencing from the date on which the Minister for Agriculture, Fisheries and Forestry announces that an EC has a prima facie case and its full EC status is being confirmed.

2.7   With continuing spread of the drought, additional drought assistance measures were announced on 27 November and 9 December 2002. The measures provided immediate income assistance and interest rate relief for eligible farmers[5], and provided further time for State and Territory Governments to prepare EC applications. The measures also included assistance for eligible small businesses for the first time, through the Small Business Interest Rate Relief (SBIRR) program. Personal counselling services were provided, and funding was allocated to the Country Women's Association to assist it help and support those affected by the drought. The Committee has since been informed that later measures have eliminared the need for State and Territory Governments to prepare new EC applications for areas affected by continued drought.[6]

2.8   At December 2004, there had been 60 EC declarations since September 2002. Over $550 million in direct assistance has been provided, with more than $1 billion allocated until 2006–07.

Audit objective

2.9   The objective of this audit was to assess the administration and implementation of the drought assistance measures. The audit focussed on EC, including *prima facie* EC, and key aspects of the additional drought assistance measures.

Overall audit conclusion

2.10   Australian Government agencies made considerable efforts to deliver the drought assistance measures to affected communities. Delivery of assistance was, on the whole, accurate and timely. However, the overall response to the drought would have been facilitated by clearer arrangements for a lead agency, allied with associated risk management, coordination and whole-of-government performance management arrangements. Such an approach would also assist, in the future, in aligning policy, program, design and service delivery.

2.11   Centrelink and other providers were flexible in their approaches to providing information and advice, especially through outreach services. Some of the innovative outreach approaches, and measures such as the

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5   A 'farmer' is defined in the FHS Act as a person who: has a right or interest in the land used for the purposes of a farm enterprise; and contributes a significant part of his or her labour and capital to the farm enterprise; and derives a significant part of his or her income from the farm enterprise.

6   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 2.

CWA Fund, were effective in reaching those affected and needing assistance. Others, such as the SBIRR program, were far less effective in achieving outcomes.

2.12   There was good cooperation between Commonwealth, State and Territory Government agencies. However, aspects of their administrative interactions could be improved, to improve the delivery of assistance. In particular, improved facilitation of EC applications and use of EC certificates warrants consideration. Better monitoring of the Agreement between the Australian Government and State and Territory Governments is also required to ensure that timely and appropriate action is taken.

2.13   There was a considerable amount of promotion of the measures and provision of related information. However, some of the targeted advertising did not occur until several months after the announcement of measures. Assessment of the effectiveness of various promotional and information approaches would provide valuable lessons for any future assistance measures targeting the farming community.

2.14   Overall, there was a degree of confusion amongst potential recipients of the range of drought assistance measures and of eligibility requirements, which underlines the importance of agencies taking into account the growing experience with whole-of-government approaches in delivering more effective outcomes.

ANAO recommendations

2.15   The ANAO made the following recommendations:

Table 2.1   ANAO recommendations, Audit Report No. 50, 2004-05

1.	The ANAO recommended that, for future significant drought or Exceptional Circumstances where there is a whole-of-government response, but no nominated lead agency, DAFF seek the agreement of government for it to adopt the role of lead agency.
	DAFF response: Agreed
2.	The ANAO recommended that DAFF and Centrelink undertake an assessment of promotion of the drought assistance measures. This should include an assessment of lessons learned and better practice to inform strategies for any future significant drought occurrence.
	DAFF response: Agreed.
	Centrelink response: Agreed.
3.	The ANAO recommended that DAFF, in consultation with State and Territory Governments, review and revise the EC handbook to provide further information and guidance on the data required to support an EC application.
	DAFF response: Agreed.
4.	The ANAO recommended that DAFF maintain reliable documentation of decisions and processes around EC declarations, including records of significant discussions with State and Territory Governments.
	DAFF response: Agreed.
5.	The ANAO recommended that DAFF, in consultation with State and Territory Governments, assess means of establishing greater consistency and clarity between descriptions of EC areas and their representation on maps.
	DAFF response: Agreed.
6.	The ANAO recommended that DAFF work with Centrelink to determine how maps and descriptions of EC areas can best meet Centrelink's needs for administering EC declarations.
	DAFF response: Agreed.
7.	The ANAO recommended that DAFF, through the MOU with Centrelink, identify those activities and outreach services that were most successful and cost effective, to assist with the delivery of future customer service initiatives in the farming community.
	DAFF response: Agreed.
8.	The ANAO recommended that DAFF review the role of, and administrative procedures for, EC certificates, in light of the quality control issues experienced.
	DAFF response: Agreed.
9.	The ANAO recommended, that in evaluating the Small Business Interest Rate Relief program, DITR assess the sufficiency of program design, including whether its criteria targeted intended businesses; effectiveness of promotion; and reasons for low uptake.
	DITR response: Agreed.
10	The ANAO recommended that FaCS assess the extent to which promotion of the drought counselling assistance was sufficient to raise adequate awareness of services amongst the targeted communities.
	FaCS response: Agreed.

The Committee's review

2.16   The Committee held a public hearing to examine this audit report on Monday 13th February 2006. Witnesses representing the Department of Agriculture, Fisheries and Forestry (DAFF); Department of Industry, Tourism and Resources (DITR); Department of Families, Community Services and Indigenous Affairs (FaCSIA); Centrelink; and the Department of Human Services (DHS) appeared at the hearing, as well as representatives from the ANAO.

2.17   The Committee took evidence on the following issues:

- the absence of a defined 'lead-agency' in response to the drought measures;

- the delay in disseminating information about the drought relief measures to affected persons;

- evaluation of the process for promoting the measures and how it could be improved in future;

- assessment of EC applications;

- delivery of assistance to farmers;

- Small Business Interest Rate Relief (SBIRR) program; and

- counselling services available.

Contingency planning and responding to the drought

2.18   The Committee understands that a situation as unique as a drought requires a large degree of coordination and prompt implementation of measures. Impacts of the conditions can be severe and responses need to take into account a variety of circumstances, and will involve a number of agencies for effective service delivery.

Lead agency role in response to the drought

2.19   The ANAO found that there was no formal lead agency in the whole-of-government response to the drought. Consequently, limitations in cross-departmental strategies arose, such as the lack of an integrated communication strategy. The Inter-Agency Group, a high-level coordination forum for the social aspects of drought recovery, did not meet from November 2002 to October 2003. The ANAO recommended that, for future Exceptional Circumstances where there is a whole-of-

government response but no nominated lead agency, DAFF seek the agreement of government for it to adopt the role of lead agency.[7]

2.20   The Committee asked DAFF to outline the measures it had implemented to ensure that this recommendation could be met in future. DAFF responded that:

> At the national level, essentially the lead role on new policy development and approvals is coordinated by the Department of the Prime Minister and Cabinet, which is the case with any other policy and program issues. Individual departments remain responsible for their own program areas, but the Department of Agriculture, Fisheries and Forestry has taken perhaps a lead coordinating role to ensure that things do not fall between the cracks. In the case of relationships between the Commonwealth and the state governments, the Commonwealth is taking a lead policy role in that area, and that is exemplified by the secretary of our department chairing the state, Australian government and industry working group looking at future policy reform. [8]

2.21   The Committee asked DAFF about its apparent failure to establish interdepartmental committees to ensure a much better and quicker coordinated response. DAFF responded:

> … while there was not a formal interdepartmental committee established, there was a succession of meetings between relevant agencies and a coordinated development of processes… The secretary of the department did establish a drought task force in the department as soon as the severity of the drought occurred.[9]

2.22   The Department was also asked whether in terms of undertaking a lead agency role, it could provide instant feedback and advice to its agencies in the States and also to State Governments. DAFF responded:

> It is possible. We have got good working relationships with the state agencies delivering programs, but in the work that has been done with the states, one of the problems that has been identified is differing drought declaration processes in each state. The range of measures that are applied by the states does cause confusion to

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7   Australian National Audit Office, Audit Report No. 50, 2004-2005, *Drought Assistance*, Commonwealth of Australia, p. 97.

8   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 3.

9   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 6.

the public, and that is the purpose of this working group—to harmonise the declaration process, so that people understand this is a one in 5 year drought or a one in 10 year drought or a one in 20 year drought, and we get the terminology right.

2.23   The Committee asked DAFF whether the Department had sufficient resources available for the effective management and implementation of policy. DAFF responded:

During the course of the ANAO audit we established a drought task force in the department, and that is one of the high-priority activities within the department. We resource that, with additional funding and from resources elsewhere in the department as is needed, to ensure that we are able to apply the resources necessary to assess drought and implement programs. We also have regular meetings with the other departments involved, such as Centrelink and Human Services and FaCS, to implement measures, and there are regular meetings, usually by teleconference, with state officials implementing parts of the program. An example would be meetings of all officials when we were looking at the communications program of Human Services last year...[10]

Involvement of other agencies

2.24   The Committee noted DAFF's comments in regards to the role of the Department of Prime Minister and Cabinet (PMC). As noted earlier, DAFF informed the Committee that rather than playing a lead role specifically in the Government's drought response, PMC's role was more in coordinating new policy approval. PMC also participated in the interdepartmental committees that were established.

2.25   The Committee was also interested in Centrelink's perspective on the issues of drought assistance. Centrelink was asked whether anything further could have been done to improve its ability to respond to the drought situation, given that the agency has shopfronts in all areas of Australia. Centrelink responded that because the drought situation took several years to develop, many farmers would have questioned their eligibility for assistance without consulting the Government agencies administering the response. Centrelink made the point that some farmers who thought that they were not eligible for assistance actually were eligible, but did not identify themselves.

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10   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 3.

2.26   Centrelink was also unable to identify when it became evident that this process of 'self-selection' by farmers as to whether they were eligible for assistance was having negative effects. Centrelink stressed, however, that in consultation with DAFF, a communication strategy was put into place, including the running of information seminars, to assist farmers to test their eligibility and to encourage them to apply.[11]

2.27   DAFF informed the Committee that the Department now receives regular reports from agencies such as the Bureau of Rural Sciences and Bureau of Meteorology. DAFF also outlined the National Agricultural Monitoring System which:

> …will be a public database, pulling all the information together from a range of sources—rainfall information, the outputs of agreed standardised pasture growth indices, greening indices and projections.[12]

2.28   DAFF also highlighted the involvement of the States with the National Agricultural Monitoring System. The Department informed the Committee that there:

> …is a joint working group with the states. It is chaired by the Queensland government. The Commonwealth is working on it under a contractual arrangement. It is a joint steering committee between the Commonwealth and the states. It also has a stakeholder reference group with industry and community representatives on it, so they are fully aware of it, and there is constant interaction with users.[13]

Promotion and information

2.29   DAFF developed a draft Communication Strategy in November 2002. This strategy was designed to get the EC assistance message to the target audience. The ANAO indicated, however, that there were no timelines associated with elements of this strategy.

2.30   The ANAO found that there was no national approach to evaluating the effectiveness of drought assistance measures or the promotion and information provided to clients. An agreed communication strategy

11   Centrelink, Submission 1 and Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 8.

12   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 4.

13   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 4.

would have assisted by both guiding timelines for promotional actions and also providing a means of assessing the success of the promotion actions taken.

2.31   The ANAO recommended that DAFF and Centrelink undertake an assessment of promotion of the drought assistance measures. This assessment is to include an appraisal of lessons learned and better practice to inform strategies for any future significant drought occurrence.

2.32   Promoting the assistance available to farmers is seen by the Committee as being a vital aspect of assisting communities to reduce the impact of the drought and to keep communities economically viable. Of most concern to the Committee was the delay in disseminating information regarding assistance to farmers in the areas of most need.

2.33   The Committee asked DAFF why there was such a delayed response in disseminating the information. DAFF responded that droughts:

> …creep up very slowly and…the major Australian government programs of assistance for drought are for exceptional circumstances drought, which are one in 20 to 25 year events. Generally that means most areas of Australia would have experienced what most local farmers would consider quite severe drought. They would have lost a crop, they would have had in a pasture area perhaps 1½ to two years of severely deficient income before the Australian government assistance kicks in because it is for exceptional drought, which are those droughts which are beyond normal risk management.[14]

> …farmers use their own resources or they draw on advice that might be coming from the states about measures to improve water or manage stock under drought conditions. So always with drought, as you move from perhaps a one in 10 to 15 year event into that one in 20 or 25 year event, people say that it is the worst drought ever ... probably the worst part of the drought was not in 2002 or 2003; it was probably early in 2005 when people had had two and sometimes three years of deficient circumstances.[15]

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14   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 5.

15   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 5.

2.34   The Committee was interested in learning about the evaluations that had taken place of the communication strategies used by the agencies in promoting the assistance available to farmers. DAFF informed the Committee that:

> We have not done a comprehensive evaluation, but the message from the Human Services program that was run last year is that we would seek to run that sort of communication program earlier when the program is put in place, because self-assessment has been seen to be one of the problems.

> The other thing we have been doing is ensuring that information about any changes to the programs—any new forms of assistance becoming available—is spread out through the information brokers, the accountants, the rural counsellors, the drought support workers and the voluntary organisations so they all have that information. The evidence that has come forward from some of the analyses done of a range of programs is going for media advertising which hits one audience, but many other people get their information by word of mouth or by government information being repeated in newspapers or that sort of thing. We have tried to cover off those other avenues with newsletters and making sure that everybody has access to the right information. So little packages of information go out every time there is a new announcement.[16]

Internal audit

2.35   The Committee also asked DAFF for an outline of its internal assessment and review processes. DAFF responded:

> The Departmental Audit Committee has responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions.

> The Departmental Audit Committee requires the Internal Audit Section to monitor and report on the status of implementation of management actions against recommendations made in ANAO reports, whether implemented or in progress, against the stated implementation target date. The Internal Audit Section provides the Departmental Audit Committee with a status report every second meeting (approximately four monthly intervals). A senior

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16   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 15.

> ANAO representative attends every Departmental Audit
> Committee meeting and is availed of the internal and external
> audit recommendations monitoring reports.
>
> The Drought and Exceptional Circumstances Branch regularly
> provide management action status reports to the Internal Audit
> Section concerning the implementation of recommendations made
> in the ANAO Report Number 50 (2004-05): Drought Assistance.[17]

2.36   DHS also responded to this question, stating that:

> DHS has an audit committee that oversights the internal audit
> plan for the core department, CRS Australia and Child Support
> Agency. The audit committee does not have responsibility for
> audit activity in other DHS agencies such as Centrelink and
> Medicare Australia.
>
> The internal audit plan addresses the major operational risks for
> DHS. It is for this reason that issues identified by the ANAO in its
> audit activity may already be subject to action by the
> Department.[18]

2.37   DHS was also asked whether it had conducted an assessment of its own
promotion of the drought assistance measures, especially in relation to
why there was such a delay in the dissemination of information. DHS
responded that:

> Amongst the issues that we looked at to improve service delivery
> of government services, one related to communications. A body of
> work had been undertaken. One of the first aspects of that was the
> drought campaign. A big issue is making sure that people know
> what they are entitled to.[19]

2.38   DHS also commented on its assessment of the programs, saying that:

> We did the assessment and we did it collaboratively, although it is
> much easier for us to do it because we have the staff on the
> ground. We found a number of things. Firstly, farmers prefer to be
> contacted via rural press and radio or things like anonymous letter
> drops that the milk tanker can take round and packages of
> information like that. That was reinforced by Mediascape, who did
> the evaluation of the DHS drought campaign. The clearest way

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17   Department of Agriculture, Fisheries and Forestry, *Submission No. 6*.

18   Department of Human Services, *Submission No. 2*.

19   Department of Human Services, *Transcript of Evidence*, p. 14.

that farmers like to get their information is on the radio or in the
rural newspaper.[20]

2.39   DHS also pointed out that part of their evaluation process involved
gleaning feedback from staff who worked 'on the ground'. This feedback
has enabled DHS to develop a nationally consistent media program which
is followed up with an outreach service. It can be enacted within days of a
drought situation being declared.

Recommendation 1

**The Committee recommends that the Department of Agriculture,
Fisheries and Forestry and Centrelink provide the Committee with a
progress report detailing responses to the ANAO's Recommendation 2
concerning the promotion of drought assistance measures.**

Assessment of Exceptional Circumstances applications

2.40   The Committee understands that before EC assistance can be provided,
EC must be applied for. DAFF has a comprehensive set of guidelines
which set out the process for such an application. The Committee was,
however, concerned about several aspects of the EC process, including
whether the correct parameters were used, the internal audit process and
the identification process of who was eligible. The Committee notes the
ANAO's finding that in numerous cases, delays were experienced in both
the application and assessment processes.[21]

2.41   The Committee asked DAFF whether it believed that the current criteria
that are used to determine EC remain valid. DAFF responded that:

> …the definition of exceptional circumstances has not changed. It is
> a one in 20 or 25 year event. It is a sort of a once-in-a-generation
> type of event so the nature of the event that is agreed between the
> Australian government and the states has not changed. The
> criteria for assessing whether the event has occurred is being
> worked on and looked at with the states. For example, one of the
> things that we are looking at is that it is very difficult to determine

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20   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p.
15.

21   Australian National Audit Office, Audit Report No. 50, 2004-2005, *Drought Assistance*,
Commonwealth of Australia, p. 57.

in a timely manner whether it has had a severe impact on farm incomes, because that often builds in an extra 12-months delay. So one of the things we are looking at is doing it on the basis of production, so you can actually look at how much grass is in the paddock or how much wheat is in the silo. So it is part of the process.[22]

Delivery of assistance to farmers

2.42   The delivery of assistance to farmers requires that farmers lodge applications, with evidence supplied, depending on the type of assistance applied for. The ANAO concluded that farmers found the application process confusing due mainly to the number of different measures and differences in the application processes and information requirements.

2.43   The Committee asked Centrelink whether some farmers, even if they are eligible for assistance, will not apply for it based on factors such as not wanting to seek Government assistance for their situation.

2.44   Centrelink responded that the situation did exist and that:

> …there are a number of factors involved. One is that many farmers do not like to take government money. They are quite often proud of their capacity to operate independently. Many of them would have thought that they did not need to because the drought would end, and it was only after we hit the fourth year of the drought that another group of farmers decided that it was time to apply. They had run out of their reserves of feed…[23]

2.45   Centrelink customer service centres developed internal checklists to process EC applications. The ANAO noted that there would be value in identifying better practice, and developing a uniform checklist to process applications.[24]

2.46   Under the *Farm Household Support Act 1992*, a farmer who claimed relief payments was required to possess an EC Certificate issued by a relevant State or Territory Rural Adjustment Authority. Centrelink is required to process an EC application if the applicant holds a Certificate. The issuance of EC certificates is governed by an MOU between the Secretary of DAFF

22   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 9.

23   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 8.

24   Australian National Audit Office, Audit Report No. 50, 2004-2005, *Drought Assistance*, Commonwealth of Australia, p. 71.

and the State and Territory Rural Adjustment Authorities for each separate EC declaration. However, the ANAO found that as DAFF did not have formal agreements with State and Territory Rural Adjustment Authorities for addressing errors in EC Certificates, certificates would be processed by Centrelink with errors or other anomalies. The ANAO subsequently recommended that DAFF review the role of, and administrative procedures for, EC certificates, in light of the quality control issues experienced.[25]

2.47   The Committee asked DAFF whether these issues had been addressed and subsequently resulted in an improvement in quality and accuracy. DAFF responded:

> We have had in place a requirement since 1 October that Centrelink [rather than State/Territory authorities] now issue these EC certificates. So when a customer comes to Centrelink for an ECRP claim it is the same process. There is no duplication. There are proof of identity requirements as required by Centrelink to do their normal work.[26]

Small business interest rate relief

2.48   As an additional drought assistance measure, the Government announced the SBIRR program in December 2002. Allocated $70 million for interest rate relief payments, the program aimed to assist small businesses affected by the drought. It offered interest rate relief of up to $5000 per annum, for a maximum of two years.

2.49   Prior to announcing the SBIRR program, DITR had not undertaken analysis of the key client groups or their needs. Centrelink was responsible for promoting the program, and used a wide range of advertisement methods.

2.50   Applications for SBIRR were assessed against a checklist for eligibility criteria. DITR forecast that it would receive up to 17 500 applications, and up to 14 000 successful applications. Only 452 applications were received during the life of the program, and 182 of the applicants involved were successful. There was no risk management plan in place prior to launching SBIRR, nor during most of its implementation. This plan was not produced until early 2004.

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25   Australian National Audit Office, Audit Report No. 50, 2004-2005, *Drought Assistance*, Commonwealth of Australia, p. 74.

26   Department of Agriculture, Fisheries and Forestry, *Transcript of Evidence*, 13 February 2006, p. 11.

2.51   The SBIRR program was focussed on assisting eligible small businesses in meeting the costs of interest payments on loans during the drought. The ANAO found that the take-up from small business of the assistance available to them through this measure was quite low, falling well short of projected expectations.

2.52   The Committee asked the Department of Industry, Tourism and Resources (DITR) to explain why there was such a low take-up of the SBIRR. DITR responded:

> The focus of the program was to financially assist small businesses significantly affected by the drought. We acknowledge that it is always difficult to introduce criteria to determine those that are significantly affected. It becomes quite difficult. The program was intended to be a safety net program and the $70 million was judged to be at the upper level of expectations… We acknowledge that we did not get anywhere near it. To some extent, we feel that it did reflect the nature of small business, their diversity, as well as their ability to adjust to changing conditions.[27]

2.53   The Committee also inquired as to whether DITR believed that the program was well-designed. DITR responded:

> When we implemented the program we introduced a number of criteria because we were not entirely sure of the program take-up, I suppose. We operate on the best information available and it is not often the case that we have perfect information. We made a number of adjustments through the life of the program to improve take-up and we also worked very closely with our Centrelink colleagues on publicising the program. There may have been a concern that word had got around that if you applied you were not going to get it. But, having said that, several thousands calls were received, so that suggests that the publicity strategy was quite effective. When the program was wound down there was—I suppose in the context of the whole program—a late rush of applications in the three-month wind-down period. So there was a small backlog there, but it is fair to say that the reason we are engaging in our current evaluation is to have another look to see whether we could do it better.[28]

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27   Department of Industry, Tourism and Resources, *Transcript of Evidence*, p. 16.
28   Department of Industry, Tourism and Resources, *Transcript of Evidence*, p. 17.

2.54   For comparative purposes, the Committee was also interested in
        ascertaining the effects that the SBIRR may have had notwithstanding its
        low take-up. DITR was asked whether it could provide a general
        description of the profile of small business in rural areas prior to the
        introduction of the SBIRR. DITR responded:

> …one thing we do know is that they are incredibly diverse. There
> will be businesses that suffer during drought. There are other
> businesses that, almost perversely, can use drought as an
> opportunity—for instance, bore drillers, fence builders and a range
> of other businesses. But to get a snapshot of small business in the
> bush I suppose a mixture of some quantitative data that comes out
> of the National Australia Bank surveys and this sort of thing, plus
> our own impressions of going for a drive to country towns to see
> how they are going, tends to suggest that they know that once
> every few years there is going to be a drought. They also know
> that they are reliant very heavily on farmers' incomes and ability
> to spend. Our impression was that many of them had put in place
> measures to deal with that.[29]

2.55   DITR also provided some examples of the way that small business in
        drought affected towns are transforming the nature of their businesses to
        cope with drought. For example, in Gunnedah:

> An electrical shop in Gunnedah was moving away from selling
> televisions but had actually employed more people in its service
> department because people were bringing in their old televisions
> to be replaced.[30]

2.56   Another example was:

> …about three years ago today I remember heading up to the
> Tamworth area and cold calling small businesses up there. A
> florist up there was having the worst Valentine's Day in living
> memory, but it was selling hydroponic lettuces to Coles and they
> were paying whatever price he asked.[31]

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29 Department of Industry, Tourism and Resources, *Transcript of Evidence*, p. 17.
30 Department of Industry, Tourism and Resources, *Transcript of Evidence*, p. 17.
31 Department of Industry, Tourism and Resources, *Transcript of Evidence*, p. 17.

Counselling

2.57   A component of the Australian Government's drought assistance measures was counselling services to cater for the emotional needs of those who were most affected by the conditions, advice about the assistance options available to them, and referral to other Government services.

2.58   FaCSIA was responsible for the personal counselling section of this program. Centrelink social workers and psychologists also played a role in the provision of personal support and counselling for people in drought affected areas. The most significant aspect of the work undertaken was the outreach work provided to drought affected families.

2.59   FaCS used its existing Family Relationships Services Program (FRSP) to deliver Family Relationships Counselling. It selected 32 organisations from this program to provide services in drought affected areas. Over $1.6 million was provided to FRSP organisations to provide drought counselling services in 2002-03.

2.60   Initially, there was slow uptake of the FRSP counselling services. As a result, FRSP focussed on promotion and outreach counselling activities. FRSP did not assess or measure client satisfaction in a structured way. The ANAO recommended that the FRSP should assess the extent to which promotion of drought counselling assistance was sufficient to raise adequate awareness of services among target communities.[32]

2.61   The Committee asked FaCSIA about the ANAO's finding that there had not been any structured evaluation of the FRSP. The Committee asked whether structured evaluation had now been put in place. FaCSIA responded that:

> I can state in relation to the broader Family Relationship Services Program that a whole-of-service review in 2003-04 and a client input consultancy were undertaken. That was on the broader program, not necessarily specifically on drought. Currently we are commencing a process of evaluation in relation to the earlier drought funding and also in relation to the current drought funding. The evaluation process was factored into this funding process; it was not factored in to the earlier one.[33]

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32   Australian National Audit Office, Audit Report No. 50, 2004-2005, *Drought Assistance*, Commonwealth of Australia, p. 97.

33   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 12.

Recommendation 2

The Committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) provides it with details of the Family Relationships Services Program evaluation.

2.62   The Committee asked FaCSIA whether the Family Relationship Centres which ran the FRSP were sufficiently resourced. FaCSIA responded:

> Referring to the standard kinds of average counselling rates, it was probably slightly more expensive than our standard for the program. I think that, in the initial phases, there probably could have been greater funding directed to that activity. In subsequent processes we have had regular discussions with Centrelink. Because the drought has been going on for a more extended process, people are now more familiar with these services being offered through this service type. The information that is available through the telephone service et cetera means that people generally are more aware of that.[34]

2.63   In relation to whether the original service model wrongly assumed that customers would visit the Family Relationship Centres, without any outreach activity, FaCSIA responded:

> …there was always an expectation that there would have to be significant outreach. Although the numbers of people accessing the service might not appear to be that great in relation to counselling, in the initial phases of the service a substantial amount of time and energy would have been directed into going out to local meetings. Some of that would have been done in conjunction with Centrelink.[35]

2.64   The Committee was also interested in the knowledge sharing between FaCSIA and Centrelink in providing services through the Centres. FaCSIA stated that:

> My understanding is that the discussion happened very early in the piece in relation to the implementation. Obviously we have learned some things from those initial processes that we have now

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34   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 13.

35   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 13.

incorporated into our current discussions and working relationships, about how we might feed back common information between the two agencies and collect some similar data.[36]

2.65   The Committee asked FaCSIA whether the Family Relationship Centres were too formal an approach in dealing with families affected by the drought. FaCSIA responded:

I think that each of the services needs to be able to respond as flexibly as they possibly can to the individual needs of their communities. It may be that individual counselling is suitable for some families, and other types of education processes—all the skills training sessions—are more appropriate to others. I think we tried to give the service providers a reasonable amount of flexibility to respond to need. A range of organisations have now been providing that service type over a number of years. So they have developed some broader expertise around the best ways to link with families. Obviously their service is based in those rural communities and they are used to working with both farming families and other families there. I think the critical element to the services has been that a substantial amount of groundwork has to be done in terms of outreach to those communities.[37]

2.66   The Committee was also interested in the interventions that targeted men and their emotional needs. The Committee noted that there are many community organisations around Australia who dealt successfully with men's issues and inquired as to whether FaCSIA had used these programs when informing their own services. FaCSIA responded:

A number of the organisations that we fund have specific men's funding as part of the Family Relationship Services Program. So aside from providing drought services they are providing a broader spectrum of services, some to families with adolescents as well. So, depending on the area and the service mix in that area, they may well have had some of that expertise. We would expect, as part of the ongoing approval requirements for providers in the program, that they have established referral networks with other providers.[38]

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36   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 13.

37   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 13.

38   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 14.

2.67   Finally, the Committee asked whether there had been any analysis done on which groups of people actually applied for assistance from the Family Relationship Centres and what their backgrounds were. FaCSIA responded:

> We obviously have our standard FaCSLink data. We are moving to a more formal evaluation process. We expect that initial phase of the drought funding to be completed by the end of March, so we should have a more comprehensive report that could be supplied to you around that information. That will then inform the next phases of the evaluation for the current service provision.[39]

Recommendation 3

The Committee recommends that FaHCSIA provide a copy of the evaluation report in relation to drought funding to the Committee.

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39   Department of Families, Community Services and Indigenous Affairs, *Transcript of Evidence*, p. 14.

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Job Network Services

Audit Report No. 6, 2005–06, Implementation of Job Network Employment Services Contract 3

Audit Report No. 51, 2004–05, DEWR's Oversight of Job Network Services to Job Seekers

Introduction

3.1   In mid 2005, the Australian National Audit Office tabled two separate, concurrent audits looking at the Job Network. The two reports were:

- Audit Report No. 6, 2005–06, *Implementation of Job Network Employment Services Contract 3*; and

- Audit Report No. 51, 2004–05, *DEWR's Oversight of Job Network Services to Job Seekers*.

3.2   Audit Report No. 6, 2005–06 assessed whether the Department of Employment and Workplace Relations (DEWR) had implemented the third employment services contract (ESC3) with Job Network providers and the associated computer system, efficiently and effectively. The primary focus of the audit was the transition period from the previous employment services contract to ESC3 and the first full year of operation (2003–04).

3.3   Audit Report No. 51, 2004–05 assessed whether DEWR's oversight of the Job Network ensured that job seekers were provided with high quality services.

3.4   While the audits were conducted and tabled separately, the Committee considered the reports together given they both focussed upon Job Network services.

3.5   The Committee held a public hearing on 27 March 2006 to examine the reports. The Committee also forwarded a number of Questions on Notice to the Department of Employment and Workplace Relations and Centrelink for further information. The departments' responses are published as submissions 4 and 5 to the inquiry.

Audit Report No. 6, 2005-06, *Implementation of Job Network Employment Services Contract 3*

Background

3.6   The Job Network is an Australia-wide network of around 109 community-based and private organisations that provide public employment services to the unemployed under contract to the Department of Employment and Workplace Relations. There have been three contracts for these services since the Job Network's inception in 1998. The third contract, Employment Services Contract 2003-06, commenced on 1 July 2003 and was the subject of this audit.

3.7   The operation of the Job Network changed significantly with ESC3 as a result of the introduction of a new model of operation, known as the Active Participation Model (APM). APM comprises three elements: Job Placement Services, Job Network Services and Vocation Support Programmes.

3.8   The overarching objective of APM was to ensure that job seekers remained 'on the radar' of an employment services provider at all times and actively engaged in either job search, Mutual Obligation or other authorised activities.[1] It was also intended that APM would provide job seekers with easier access to a wider range of job opportunities and more targeted and timely provision of services. Effective incentives would exist for providers

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1   ANAO Audit Report No. 6, 2005-06, p. 29.

to invest in all job seekers, especially those most at risk of long term unemployment.

3.9   The key policy elements of APM were:

■ a job seeker would be referred to a Job Network provider of their choice;

■ the job seeker would receive services from a single Job Network provider for the duration of their unemployment; and

■ employment assistance would increase in intensity the longer the job seeker remained unemployed.[2]

3.10   The introduction of ESC3 and the APM depended on the use of innovative computer technology. DEWR developed a new computer application, Employment Assistant 3000 (EA 3000) for ESC3, which is accessed by the department, Centrelink and Job Network providers on a day-to-day basis.

Overall audit conclusion

3.11   The implementation of ESC3 faced three coinciding challenges: substantial new policy, a simultaneous procurement process to select Job Network providers and a new IT system built with new technology to a deadline.

3.12   ESC3 was to be implemented by 1 July 2003 and critically depended upon EA3000, which was to be used by DEWR, Centrelink and external service providers. Although launched on time, the new system was intermittently unavailable until operational stability was achieved in August-September 2003. This adversely affected the completion of job seeker registrations and referral of job seekers to Job Network appointments. Accordingly, because APM is a continuum, this delay affected the flow of job seekers through the new system and impacted upon payments to Job Network providers.

3.13   Transition to the new model was also affected by a low attendance rate by job seekers at appointments with Job Network providers.

3.14   The ANAO examined the four ministerially endorsed objectives for the transition to ESC3 (see below) and concluded that DEWR largely did not meet these objectives. However, the ANAO notes that following implementation, the IT system was stabilised and job placements and long-term job numbers recovered within a few months.

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2   ANAO Audit Report No. 6, 2005-06, p. 43.

3.15   DEWR intended that ESC3 would be increasingly outcome rather than
        process-focused and that paying providers for outcomes would ensure a
        greater emphasis upon achieving employment for job seekers. The ANAO
        noted that during the first year, the greater proportion of expenditure
        went to service fees rather than outcome payments.

3.16   The ANAO considered DEWR could update aspects of its performance
        information to better enable stakeholders to both understand the figures
        reported by the department and assess whether it has achieved expected
        performance levels.

ANAO recommendations

3.17   The ANAO made six recommendations to DEWR. The department agreed
        in principle with two recommendations, agreed in part with three
        recommendations and disagreed with one recommendation.

Table 3.1   ANAO recommendations, Audit Report No. 6, 2005-06

1.	The ANAO recommends that DEWR seek to ensure that unemployed people are able to make an informed choice of Job Network provider.
	DEWR response: Agreed in principle.
2.	The ANAO recommends that DEWR document the development, use and maintenance of financial models where it uses such models for core business.
	DEWR response: Agreed in principle.
3.	The ANAO recommends that DEWR provide in its budget documentation and annual reports a breakdown of estimates and actual expenditure on Job Network outcome payments and service fees.
	DEWR response: Disagreed.
4.	The ANAO recommends that, when implementing a major change, such as the introduction of the APM, DEWR state all its operational objectives unambiguously in advance, and monitors and reports progress against these to stakeholders.
	DEWR response: Agreed in part.
5.	To enable the Parliament and the public to gain a better understanding of DEWR's performance for its Outcome 1 and, more particularly, the performance of the Job Network, the ANAO recommends that DEWR: - clarify its output performance reporting to clearly identify the contribution to those outputs of programmes such as the Job Network and measures such as the introduction of ESC3; and - re-cast its Job Network Performance Profile so as to identify the influence of external factors on the data presented.
	DEWR response: Agreed in part.
6.	The ANAO recommends that DEWR: - improve transparency by reporting against the performance indicators set out in the employment services contract; - include specific reference to the star ratings system and its method of calculation and operation in its contract with Job Network providers; - ensure that information on star ratings of providers is available to job seekers before they are required to choose a Job Network provider; and - inform all stakeholders of the confidence that can be placed in each element of its star ratings calculations.
	DEWR response: Agreed in part.

The Active Participation Model

3.18   The Active Participation Model was announced by Government in the 2002-03 Budget, following extensive review and evaluation of the Job Network over the previous five years of its operation. It was a major change to the delivery of employment services, intended to simplify the range of services available to job seekers and to provide easier access, better targeted and more timely services. It was also intended to provide incentives for service providers to secure higher levels of outcomes for all job seekers, especially the most disadvantaged.

3.19   A key element of APM is that each job seeker will be assisted by a single Job Network provider throughout their period of unemployment. Job seekers must also be given an opportunity to make an informed choice about this provider. The ANAO examined the Business Partnership

Arrangement between DEWR and Centrelink and found that it did not include the obligation for Centrelink to advise job seekers that it would obtain this preference or other requirements governing Centrelink's attachment to Job Network providers.

3.20   Given this was one of the key policy objectives of APM, the Committee sought clarification as to whether the Business Partnership Arrangement between DEWR and Centrelink has been altered to include Centrelink's obligations. In response, both DEWR and Centrelink advised that the current transitional Arrangement[3] includes a policy guide requiring Centrelink to advise job seekers of star ratings so they are informed about Job Network providers. The 2006-09 DEWR Centrelink Business Partnership Agreement was signed on 30 August 2006.[4] DEWR and Centrelink have also implemented a system called RapidConnect, designed to not only connect eligible job seekers to the Job Network more quickly but to also ensure they have all relevant information to make an informed choice.

3.21   Centrelink advised that one of the primary concerns affecting a job seeker's choice of provider is the provider's location.[5] The Committee then asked what the main reasons would be for a job seeker to then change Job Network provider. The department responded that in the 2005-06 financial year, 66.74 percent of job seeker transfers had occurred as a result of a change of address.[6]

Modelling and funding

3.22   It costs DEWR around $1 billion each year to purchase employment services from the Job Network. Given this expenditure and the scale of changes that were introduced with ESC3, DEWR undertook modelling to predict the financial consequences of ESC3. The ANAO found that DEWR made considerable efforts to improve its predictive capability. In addition to the number of job seekers likely to be referred, DEWR needed to estimate the proportions of different categories of job seeker, the likely duration of each sort in each type of assistance, the exit rates, outcome rates at various levels, and likely expenditure for the job seeker account.[7]

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3   A transitional Business Partnership Arrangement was agreed in September 2005, pending negotiation of the new three-year agreement. Centrelink submission, p. 4.

4   Centrelink, *The Journey: Issue 12*, December 2006, p. 5.

5   Mrs Carolyn Hogg, Centrelink, *Transcript of Evidence,* 27 March 2006, p. 5.

6   DEWR submission, p. 4.

7   ANAO Audit Report No. 6, 2005-06, p. 51.

3.23 Part of the purpose of modelling was to forecast the likely effect on the employment services industry as DEWR recognised financial viability was a potential problem for Job Network providers. DEWR's analysis concluded that ESC3 would generally have a positive impact.

3.24 In 2004, DEWR and the Department of Finance and Administration agreed to develop a common estimates model (the Forward Estimates Model) to support Job Network estimate bids. The model was to provide more accurate expenditure forecasting for the remainder of ESC3, full documentation allowing for greater quality assurance, and easy manipulation for changing parameters. At the hearing, DEWR advised that the model now has a full range of all assumptions fully and comprehensively documented, enabling the department to determine what is causing differences over time, such as changes in policy or an increase in outcome rates.[8] The model has been amended and enhanced over the last twelve months and subject to an independent quality assurance which was completed in February 2006. DEWR has ensured that it reflects the new categories of job seeker who were to join the Job Network after 1 July 2006.

Job Network funding

3.25 There are two categories of payment to the Job Network under ESC3:

- fees for services provided by Job Network providers to job seekers (Job Network service fees); and

- payments to providers upon their achievement of an outcome (Intensive Support Outcome Payments).

3.26 ESC3 is intended to have a greater focus upon outcomes than earlier contracts, with 50 percent of payments to service providers being for service fees and 50 percent for outcome fees.[9] The ANAO found that DEWR expected that paying providers for outcomes rather than process would focus them upon getting job seekers into employment.[10] DEWR pays an outcome payment where an intensive support job seeker starts and remains in continuous paid employment or education for a period of at least 13 weeks.

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8   Ms Joanne Caldwell, Department of Environment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 8.

9   DEWR evidence to Senate Estimates, *Employment, Workplace Relations and Education Legislation Committee,* 6 December 2003, p.EWRE 113.

10 ANAO Audit Report No. 6, 2005-06, p. 51.

3.27 DEWR has tracked and reported its expenditure in detail internally since implementation of ESC3. This shows that, in the first year of ESC3, the department used a greater proportion of funds to pay intensive support service fees ($486 million) than to pay outcome payments for job placements ($171 million). However, DEWR reported that the proportion of funds going towards outcome fees had risen to around 50 percent by the end of the second year of the contract.[11]

3.28 The Committee questioned the department about the circumstances in which a provider is considered to have achieved an outcome, particularly if a job seeker finds employment through their own volition. The department advised that providers only receive a job placement fee where the Job Network member had actively matched the job seeker to a vacancy.[12] The placement would however be reported as an outcome against performance measures.

3.29 DEWR told the Committee that star ratings are entirely based on performance data, with performance defined as 'getting a person into a job'.[13] The Committee questioned the department about whether a provider that is working with people who are more difficult to place in jobs would have their star rating affected in comparison with another provider who is working with 'the two week job seeker' if all placements are reported as outcomes against key performance indicators. The department advised that the star rating system is based upon around 14 or 16 factors and that providers receive a higher weighting in their star rating if they place highly disadvantaged job seekers.[14]

3.30 The outcome payments and service fees are reported by DEWR as a single figure across the entire Job Network programme. The ANAO found that the current level of aggregation of financial information does not allow external stakeholders to identify the contribution that outcome payments and service fees make to Job Network expenditure and any trends that reflect DEWR's success in making the programme outcome-focused. It recommended that a breakdown of estimates and actual expenditure on Job Network outcome payments and service fees be provided in DEWR's budget documentation and annual reports. The department has consistently disagreed, stating that 'Job Network is a single programme

11 ANAO Audit Report No. 6, 2005-06, pp. 68-69.

12 Ms Joanne Caldwell, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 10.

13 Ms Malisa Golightly, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 10.

14 Ms Malisa Golightly, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 14.

and is reported as a single programme in accordance with government policy'.[15]

3.31   The Committee notes that the department has agreed to give consideration to providing additional explanatory information in its annual report and other information publications. The Committee is concerned that interested parties, including parliamentary committees, should be able to readily assess the success of the department in meeting key objectives, in this case the shift to an outcome based programme. Accordingly, the Committee makes the following recommendation.

Recommendation 4

3.32   **The Committee recommends that the Department of Education, Employment and Workplace Relations (DEEWR) provide a breakdown of estimates and actual expenditure on service fees and outcome fees for the Job Network programme in its annual reports.**

IT support for ESC3

3.33   The audit found that the ESC3 initiative relied upon a major IT release, known as Employment Assistant 3000. EA3000 was developed by DEWR for use by both external service providers and department staff to manage the operation of Job Network services and to enable the department to monitor and regulate job seeker flows. To implement EA3000, DEWR developed web services and Centrelink, as 'gateway' to the Job Network, developed the capability for exchange and updating of job seeker information between EA3000 and Centrelink systems. Centrelink and Job Network providers were dependent upon the timely implementation and proper functioning of EA3000.

3.34   The first release of EA3000 occurred on 14 April 2003. The second and major release was on 1 July 2003, when ESC3 commenced.

3.35   The ANAO's key findings in relation to implementation of the system were:

- the risks associated with implementing a large, sophisticated and crucial system with new technology were heightened by a tightly restricted time frame;

15   ANAO Audit Report No. 6, 2005-06, p. 69.

- although a systematic planning approach was developed by DEWR, EA3000 was not effectively integrated with existing systems at the date of implementation. There were major problems with the DEWR-Centrelink interface and no significant load testing was performed before the 1 July 2003 implementation date;

- IT system instability and intermittent unavailability meant that Centrelink was severely constrained in its ability to complete job seeker registrations, perform job seeker assessments, and book or confirm appointments for vocational profiles. Centrelink had to perform tasks manually, which delayed the referrals and affected the rate at which job seekers attended Job Network appointments. Centrelink was later paid by DEWR for this work;

- operational stability was achieved by August/September 2003, which DEWR has stated is 'well ahead of industry standards for such a large project'; and

- several months after implementation, DEWR substantially improved the performance of the system. At the time of the audit, the majority of Job Network providers agreed that problems had been mostly resolved.[16]

3.36   The Committee expressed concern at the hearing about delays in implementing IT changes. DEWR advised that core functionality was delivered on day one but that there was a period of about six weeks in which other issues were dealt with.[17] The ANAO advised that while DEWR delivered what was agreed as baseline functional requirements on 1 July 2003, there were major implementation problems encountered with the interface between DEWR and Centrelink that affected, in particular, the operation of web services. The ANAO concluded that it was about six months before the service was operating as intended.[18]

3.37   The ANAO also reported that with each subsequent release following the implementation on 1 July 2003, DEWR implemented substantial changes to EA3000 to realise operating efficiencies and further business objectives.[19]

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16   ANAO Audit Report No. 6, 2005-06, pp. 89-90.

17   Ms Malisa Golightly and Mr Stephen Moore, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 3.

18   Mr Stephen Lack, Australian National Audit Office, *Transcript of Evidence,* 27 March 2006, p. 4.

19   ANAO Audit Report No. 6, 2005-06, p. 76.

3.38   The Committee notes that there appears to be some disagreement between DEWR and ANAO on what constituted 'development' of the system and what DEWR considers should be categorised as 'enhancement'.

3.39   The Committee is pleased to note, however, that DEWR had considered the ANAO's findings in its planning for the transition to Welfare to Work from July 2006 and taken steps to work more closely with Centrelink on both development and testing of necessary IT system changes.[20]

Management of the transition to ESC3

3.40   DEWR established four principles for the transition to ESC3, which were endorsed by the Minister:

- minimise any disruption to services for job seekers and employers;

- minimise any reduction in outcomes achieved during the transition period;

- have all eligible job seekers referred to Job Network members contracted under ESC3 as quickly as possible; and

- provide, in consultation with the industry, a consistent, manageable flow of job seekers to Job Network members, which maintained appropriate cash flows.[21]

3.41   The ANAO found that although DEWR undertook ongoing and regular monitoring of the transition process, it did not monitor directly against these four objectives.

3.42   Two major issues arose during transition. These were difficulties with EA3000, particularly for Centrelink, and low job seeker attendance at vocational profile appointments.

3.43   Individual job seekers enter the APM by attending their Job Network provider for a vocational profile interview. A prerequisite to providing job seekers with Job Network services after 1 July 2003 and ensuring smooth commencement of ESC3 was the development of vocational profiles for both existing job seekers and those referred during the transition period.

3.44   DEWR estimated 450,000 job seekers would need vocational profiles before 30 June 2003 and providers were advised to expect a substantial workload. However by 27 June 2003, although nearly 451,000

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20   Mr Michael Moore and Ms Malisa Golightly, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 19.

21   ANAO Audit Report No. 6, 2005-06, p. 92.

appointments had been scheduled, only 184,200 attendances had been recorded. This affected provider workloads and diminished cash flows.[22] The ANAO emphasises that because the APM is a continuum of service, any problem affecting the initial vocational profile would have ongoing consequences. This could include delaying long term job outcomes and lowering cash flow to Job Network providers.

3.45   Job Network members raised concerns about cash flows, which were addressed, following discussions between the Minister and Job Network CEOs with changes to payment arrangements. In July 2003, $100 million was paid in advance payments for services that DEWR had expected to be provided and $33 million worth of additional services were purchased.[23] An additional change was made in September 2003, which allowed payments to be made quarterly, in advance, to Job Network providers for all Intensive Support Customised Assistance (ISca) contacts with job seekers.

3.46   The ANAO made a specific assessment against each of DEWR's transition objectives. It concluded that job seekers were disrupted during the transition period with a greater number of complaints recorded by DEWR than in the previous transition period. There was a more marked dip in reported outcomes and, as noted above, poor attendance at vocational profile appointments and payment issues for providers. The ANAO concluded that DEWR largely did not meet the transition objectives. However, it also found that job placements and long term job numbers recovered within a few months, with job placements and long term job rates exceeding those recorded at a similar point during the previous contract.[24]

3.47   The ANAO recommended that all operational objectives be stated clearly and unambiguously in advance when implementing major changes, such as the implementation of APM, and that these objectives be monitored with progress reported to stakeholders.

3.48   The Committee asked DEWR how it has addressed this recommendation. The department advised that it developed and set clear transition objectives for the ESC3 transition period, which were notified to providers on 22 February 2006. The purpose of these objectives was to allow DEWR to focus on key aspects of performance during the transition period, namely the continuation of high quality services to job seekers. The

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22   ANAO Audit Report No. 6, 2005-06, p. 99.
23   ANAO Audit Report No. 6, 2005-06, p. 103.
24   ANAO Audit Report No. 6, 2005-06, p. 118.

department indicated that new transition reports have been developed and progressive monitoring and reporting arrangements, including ongoing stakeholder consultation, are in place.[25]

Recommendation 5

The Committee recommends that DEEWR provide an evaluation in its annual report of progress against the transition objectives identified for the extension of Third Employment Services contract.

Provider performance information

3.49   The performance of Job Network providers is monitored and managed through two different systems: the performance measures set out in ESC3 and DEWR's star ratings system. There are three objectives and key performance indicators within ESC3. The ANAO considered the first two performance indicators, which are 'to help eligible job seekers find work as quickly as possible' and 'to maximise outcomes for eligible job seekers – particularly the long-term unemployed and those identified as highly disadvantaged' and concluded that both were quantitative, unambiguous and measurable.[26]

3.50   The ANAO found that while DEWR collected relevant data, it did not measure and report on individual provider performance against these indicators. This was commented upon by Job Network CEO's when surveyed by the ANAO in September 2004.

3.51   Star ratings range from one star (room for improvement) to five stars (performance that is well above average), and DEWR adjusts Job Network providers' share of business at the site level according to the star rating that the provider has achieved.

3.52   The star ratings measure relative rather than absolute performance, compared with all other providers. The performance measures and ratings used to assess performance are balanced by DEWR against external factors such as local unemployment rates, employment growth in the region, type of industries that are most prevalent in the region, the individual job seeker's duration of unemployment, the job seeker's age, the job seeker's highest level of education attainment, the number of job seekers with

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25   DEWR submission, p. 10.
26   ANAO Audit Report No. 6, 2005-06, p. 138.

disabilities assisted at the Job Network site, and the number of indigenous Australians assisted at the Job Network site.[27]

3.53   Overall the ANAO concluded that the star ratings system is primarily a means for DEWR to press providers for higher levels of performance. It also considered that there were opportunities for the department to improve the transparency of the system and its method of operation and calculation, and to ensure that job seekers are informed of star ratings and how they should be interpreted.[28]

Committee comment

3.54   The Committee acknowledges that ESC3 represented a significant shift in government policy with introduction of the Active Participation Model, and that considerable work was required on the part of both DEWR and Centrelink to implement the necessary operational reforms in accordance with the government's deadline.

3.55   While the extension of the ESC3 employment services contract does not represent the same level of change as implementation of the original contract (the subject of this audit), the Committee considers it important that DEWR properly assess and report on how well the transition objectives for the extended contract are met. The Committee also feels that it is essential that interested parties, such as parliamentary committees, are able to easily assess how well the department is meeting the objectives of APM. The Committee therefore concurs with the ANAO's comments about reporting of performance information.

Audit Report No. 51, 2004-05, *DEWR's oversight of Job Network services to job seekers*

Background

3.56   While Audit Report No. 6, 2005-06 examined ECS3 specifically, this audit examined DEWR's oversight of the Job Network more broadly to determine whether the department had appropriate mechanisms in place to ensure that job seekers are provided with high quality services. The audit focused upon DEWR's corporate approach, its oversight of

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27   ANAO Audit Report No. 6, 2005-06, p. 142.
28   ANAO Audit Report No. 6, 2005-06, p. 149.

Centrelink and Job Network Members, management of complaints, improvements to service delivery and job seeker experiences.

3.57   As noted earlier, DEWR purchases services from a national network of organisations, including Centrelink and 109 Job Network providers. DEWR purchases and monitors these services through the employment service contracts and a Business Partnership Arrangement with Centrelink. It is ultimately accountable for the quality of services provided by Job Network providers.

3.58   At the time of this audit (May 2004), the Job Network programme was in its seventh year and third phase (ESC3).

3.59   Job Network providers provide two major services to job seekers: Job Search Support and, for job seekers who remain unemployed after three months, Intensive Support. The services are designed to form a continuum that increases in intensity the longer a job seeker remains unemployed.

Audit objectives

3.60   The audit objective was to assess whether DEWR's oversight of the Job Network ensured that job seekers were provided with high quality services. In particular, the ANAO examined whether DEWR had:

- an appropriate strategic approach to, and focus on, service quality across the Job Network;

- appropriate specification of the services to be provided to eligible job seekers, and of the quality of service provision;

- provided job seekers with a high quality of service at key Job Network service points; and

- appropriately monitored and reported the quality of service delivery, and appropriately managed service performance.

3.61   The ANAO also examined whether the Job Network had appropriate mechanisms for identifying, assessing and implementing improvements to service delivery.

Overall audit conclusion

3.62   The ANAO concluded that DEWR, as the purchaser of Job Network programme services, required additional assurance that job seekers were being provided with key aspects of employment services as intended by the department.

3.63   The lack of objective and measurable performance indicators relating to specified service standards limited DEWR's ability to gain assurance that job seekers were receiving high quality services from Job Network providers. DEWR was also hampered over 2003-04 by delayed commencement of the monitoring of Job Network contracts.

3.64   Further, delays in the development of the DEWR-Centrelink 2003-06 Business Partnership Arrangement meant that at the time of the audit in May 2004, DEWR had no management information to assess Centrelink's performance against agreed service standards.

3.65   The ANAO found substantial weaknesses in the collection and recording of complaints data, compromising this otherwise valuable source of performance information.

3.66   The ANAO also questioned whether the customised and individualised contracts and services required by ESC3 were being provided to the most disadvantaged job seekers.

3.67   The ANAO concluded that the next round of Employment Service Contracts would provide an opportunity for DEWR to draw on its experience and the matters raised in this audit to improve its assurance about the quality of services being provided to job seekers.

ANAO recommendations

3.68   The ANAO made eight recommendations, which DEWR agreed with either wholly, in part or in principle. Centrelink agreed with the two recommendations specifically related to Centrelink's responsibilities.

Table 3.2   ANAO recommendations, Audit Report No. 51, 2004-05

1.	To assist staff and stakeholders to better understand DEWR's approach to linking the goal of sustainable employment outcomes with high quality service delivery, the ANAO recommends that DEWR refine its corporate statement on Job Network service quality by: - adding the quality of services to be delivered by Centrelink; - clearly articulating the priority to be given to service quality; and - clarifying the role job seeker perceptions of service quality play in informing the development of services, and management of service delivery. DEWR should communicate this statement to relevant staff, service providers and stakeholders. *DEWR response: Agreed in part.*
2.	To assist JNMs and Centrelink to understand and comply with service requirements, and provide a sound basis for DEWR to assess the adequacy of service provision, the ANAO recommends that DEWR ensure that the Employment Services Contract and Business Partnership Arrangement are complete and kept up-to-date. *DEWR response: Agreed in principle.*

3. In order to allow DEWR to assess better the level of service being provided to job seekers, the ANAO recommends that DEWR:

- supplements the principles-based requirements in its Code and Service Guarantee with objective indicators and corresponding measurable performance standards for key aspects of service delivery;

- ensures that job seekers are provided with clear statements about their expected manner of behaviour in their interaction with JNMs and the role played by JNMs in the Job Network compliance function;

- takes steps to improve job seeker awareness of the Code, Service Guarantee and associated complaints mechanisms; and

- reviews its job seeker survey research to ensure that information is gathered from job seekers on JNM achievement of service commitments made in the Code and Service Guarantee.

DEWR response: Agreed in part.

4. The ANAO recommends that, in order to provide assurance that DEWR's monitoring effort is appropriately aligned with its assessments of risk and that monitoring activity covers all key service risks, DEWR establish:

- minimum requirements for monitoring visits in relation to different types and levels of risk exposure; and

- targets for monitoring activity, including site monitoring visits, required to meet corporate priorities, such as complaints handling, with a view to complementing the professional judgement of local contract managers.

DEWR response: Agreed.

5. The ANAO recommends that, in order to provide DEWR with assurance over the services delivered by Centrelink on behalf of DEWR:

- DEWR and Centrelink establish a planned process for developing agreed management information for both the current and the next Business Partnership Arrangement, including: interim measures of service performance, where necessary, and agreed timeframes and responsibilities for producing final measures;

- Centrelink introduce mechanisms to directly monitor the key services delivered by Centrelink on DEWR's behalf; and

- DEWR establish an appropriate quality assurance process to enable the effective monitoring and management of Centrelink's service performance.

DEWR response: Agreed.

Centrelink response: Agreed.

6. The ANAO recommends that, in order to strengthen its accountability for the services provided by JNMs and Centrelink, DEWR introduces a facility to obtain data on the complaints received by JNMs and Centrelink.

DEWR response: Agreed in part.

Centrelink response: Agreed.

7. In order to improve the quality of information about job seeker complaints contained in DEWR's complaints database, and consequently its ability to use complaint information for performance management and continuous improvement purposes, the ANAO recommends that DEWR review:

- complaint data entry processes and systems design to identify and resolve issues with inconsistency in the recording of complaints; and

- the current complaint classification system with a view to establishing a structure that will provide a more accurate reflection of the key complaint sources in the Job Network programme, and the frequency with which job seekers complain about them.

DEWR response: Agreed in part.

8.	In order to meet the continuous improvement commitments set by DEWR in its Request for Tender and Code of Practice, the ANAO recommends that DEWR:

- clarifies its approach to continuous improvement by specifying the roles of DEWR, JNMs and Centrelink;
- monitors the continuous improvement practices of JNMs at the site and organisational level as appropriate; and
- works with JNMs to identify the extent to which their information needs could be met by job seeker satisfaction survey data already held by DEWR.

DEWR response: Agreed in principle.

DEWR's corporate approach

3.69   The ANAO examined DEWR's corporate planning framework, including the specification of services in ESC3, the job seeker account, Centrelink services and service standards. While the ANAO considered this framework to be sound, there were aspects that it considered should be more clearly defined or articulated.

Job Seeker Account

3.70   The Job Seeker Account is a nominal pool of funds that each JNM can use to purchase additional assistance for job seekers, such as clothing, fares and petrol, employer incentives and training. In 2003-04, credits to Job Seeker Accounts totalled $297 million. DEWR's approach to the use of the funds is not prescriptive. It instead encourages Job Network providers to use funds 'flexibly and innovatively' to assist job seekers.[29]

3.71   The ANAO expressed concern about the length of time taken by DEWR to issue detailed guidance on use of this account, the purchase of assets, and incentive payments.[30] The Committee asked DEWR how it monitors and ensures appropriate use of these funds. The department advised that the account is subject to normal contract management framework arrangements, including a risk management plan and monitoring through contract managers, programme assurance activities, targeted investigations and quality audits. DEWR also has a number of mechanisms to provide regular updates and advice to Job Network providers as to what kinds of expenditure are appropriate.[31]

3.72   When asked about the long term advantages of providing this additional assistance to job seekers, the department replied that it is examining whether the Job Seeker Account has been used by providers in the way

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29   ANAO Audit Report No. 51, 2004-05, p. 48.
30   ANAO Audit Report No. 51, 2004-05, pp.48-49.
31   DEWR submission, p. 18.

intended and the extent to which it has contributed to job seekers finding employment. This evaluation was finalised in August 2006.[32]

Centrelink services

3.73   At the time of the audit, DEWR was working with Centrelink to develop a new Business Partnership Arrangement. In response to questions on notice, Centrelink advised that a transitional 2005-06 Business Partnership Arrangement was negotiated after the audit was completed. This agreement was to expire on 30 June 2006, after which a new three-year agreement was scheduled to commence.[33] The Committee notes that the new agreement will align with implementation of the Government's Welfare to Work initiatives that were introduced in July 2006.[34] [35]

3.74   The Committee is pleased to note that a number of changes have been made to the Business Partnership Arrangement in response to the findings of this audit. These changes include:

- development of a Business Assurance Protocol to provide assurance to DEWR that Centrelink is meeting the provisions of the transitional Arrangement. This protocol is being reviewed and carried over into the Business Partnership Arrangement 2006-09;

- development of measurable key performance indicators;

- provision of quarterly data to DEWR about complaints received from job seekers about employment service providers;

- the introduction of joint site visits by Centrelink and DEWR staff to assess Centrelink's delivery of programmes; and

- expansion of the Management Information Protocol in the Business Partnership Arrangement to include arrangements and responsibilities for the production of mutually agreed management information.[36]

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32   URL: http://www.workplace.gov.au/workplace/Category/Publications/ProgrammeEvaluation/JobseekerAccountEvaluation.htm , accessed 2 March 2007, updated by DEWR – 13 December 2006.

33   Centrelink submission, p. 2.

34   DEWR submission, p. 11.

35   URL http://mediacentre.dewr.gov.au/mediacentre/AllReleases/2006/July/WelfaretoWorkEmploymentReformsBeginToday.htm , accessed 2 March 2007.

36   Centrelink submission, p. 2.

3.75   When asked about the steps Centrelink has taken to improve assurance of the quality of service being provided, Centrelink outlined a number of initiatives, including:

- establishment of the Working Age Business Line, which is focussed upon improving areas of network performance to meet the department's performance targets;

- development of a Business Assurance Protocol with DEWR;

- introduction of Rolling Random Sample Surveys, which are used to measure the accuracy and correctness of payments to Australians of working age; and

- introduction of joint site visits by DEWR and Centrelink to Customer Service Centres and Call Centres to assess Centrelink's delivery of programmes.[37]

3.76   In response to the same question, DEWR indicated that it has developed a Quality Assurance project plan for 2005-06 to focus on the quality of services delivered by Centrelink. Effective monitoring of the quality of Centrelink's service delivery is also examined by the Business Assurance Sub-committee, convened under the auspices of the Business Partnership Review Group that was established as part of the transitional arrangement.[38]

Oversight of Job Network providers

3.77   The ANAO examined DEWR's framework for managing the performance of Job Network providers as well as the extent to which DEWR's monitoring mechanisms provide it with reasonable assurance that Job Network providers are delivering high quality client service to job seekers. It found that DEWR has a sound overall approach to managing its Job Network contracts.

3.78   ESC3 is performance based, allowing DEWR to reward or sanction Job Network providers on the basis of their performance against Key Performance Indicators (KPIs) and compliance with the contract. The ANAO considered one performance indicator during the audit, the Quality KPI, which is 'to maximise the delivery of high quality, ethical, employment services'[39].

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37   Centrelink submission, p. 1.
38   DEWR submission, p. 24.
39   ANAO Audit Report No. 51, 2004-05, p. 65.

3.79   The Quality KPI is used by DEWR as a pass/fail 'hurdle' to be assessed by contract managers through subjective judgements. All Job Network providers receive a pass unless a clear reason for a fail has been identified.

3.80   The ANAO considered it was difficult for contract managers to consistently and objectively assess the quality of performance due to a lack of clarity over terminology and the expected level of performance. The ANAO concluded that the current approach to the Quality KPI does not provide a basis for systematically and objectively measuring and assessing the quality of service.

3.81   The Committee noted that DEWR can present data to demonstrate outcomes that have been achieved by Job Network providers. It asked the department how it measures the quality of the service being provided by those members. DEWR responded that it considers the question of quality to be very difficult to separate from the question of outcomes and that improvements in outcome performance are a good indication that quality is improving.[40] On the question of comparisons between providers, the department indicated that outcomes are regularly measured and assessed as part of a provider's star rating, which as noted earlier, is a relative measure against other providers. [41]

3.82   When questioned about the latest assessment of Job Network providers against the Quality KPI, DEWR responded that all Job Network providers had passed the latest assessment, although it noted that issues raised during the assessment may still be subject to investigation or may have resulted in sanctions being imposed for breaching other elements of the contract.[42]

3.83   The Committee asked DEWR about the sanctions that were available under ESC3. DEWR may temporarily suspend referrals to eligible job seekers to any or all sites, or reduce the provider's share of available places for all or part of the remaining contract period at any or all sites. DEWR can also terminate the contract.[43]

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40   Mr Michael Manthorpe, Department of Employment and Workplace Relations, *Transcript of Evidence*, 27 March 2006, p. 15.

41   DEWR submission, p. 21.

42   DEWR submission, p. 19.

43   DEWR submission, p. 19.

Risk assessment

3.84   The ANAO found that DEWR's risk assessment and management processes were poorly implemented, including untimely risk assessments, lack of substantiation of risk assessments, limited weighting of monitoring effort toward higher risks and inadequate updating of risk assessments.

3.85   The Committee asked DEWR about the steps it had taken to improve its risk assessment and management. DEWR advised that a number of ongoing reviews and subsequent improvements have been made and continue to be made. This includes a new risk assessment and management tool that is compliant with Australian Standards, which is being used by contract managers to systematically manage risks. It also includes an annual review of all risks, indicators, benchmarks and monitoring processes; monitoring analysis and quality assurance of risk assessments; and a review of training for employment services on the risk management process.[44]

Oversight of Centrelink

3.86   There are three key differences in the relationship between DEWR and Centrelink compared with the relationship between DEWR and the Job Network providers:

- Centrelink is the sole provider of its services. There is no alternative provider;

- payments are linked to the number of services delivered, not to outcomes; and

- DEWR does not undertake substantial direct monitoring of Centrelink, but relies on agreed performance information, Centrelink's own internal monitoring, indirect feedback from Job Network providers, and its own state office network.

3.87   The ANAO examined performance assessment under the Business Partnership Arrangement between DEWR and Centrelink and found that 14 months into the Arrangement, measures for most of the performance indicators, reciprocal requirements and business processes had not been developed.[45] Development of these measures was affected by delays in finalising the Agreement itself, the need to develop a new reporting framework, and issues relating to data ownership and quality.

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44   DEWR submission, p. 23.
45   ANAO Audit Report No. 51, 2004-05, p. 81.

3.88   The ANAO considered that when the Business Partnership Arrangement
        was renegotiated, DEWR and Centrelink should pay close attention to the
        process by which agreed management information, including
        performance information and benchmarks, were developed for measuring
        and assessing Centrelink's service performance. The Committee is pleased
        to note the arrangements, as outlined above, that have been put in place.

Management of complaints

3.89   During ESC3, the ANAO found that the average number of complaints
        received per month was double the levels experienced before this contract
        started. In the nine months prior to April 2003, the average number of
        complaints was 634 per month. In the nine months following the end of
        the Contract transition period in October 2003, the average number was
        1287 per month. During the hearing, DEWR emphasised that it is dealing
        on a day-to-day basis with a far larger number of clients that it previously
        did and that the number of complaints received by it and Centrelink have
        reduced quite significantly from the peak numbers around the time of
        transition to the third contract.[46]

3.90   The Committee was concerned about the apparent increase in complaints
        and sought information from DEWR as to the trend in the number of
        complaints received from job seekers. DEWR referred the Committee to its
        annual reports, where the following statistics are noted:

        ■ of 31 596 calls to the customer service line in 2003–04, 24 889 (79%) were
          complaints. According to DEWR, this was a 76 percent increase in calls
          over this reporting period reflecting the transition to the new contract.
          DEWR goes on to state:

            Following the transition to the APM, complaint numbers fell
            significantly. In the second half of the financial year 7 109 fewer
            complaints were made, representing a 44 percent decline. Of all
            complaints made, about 97 percent (compared with the
            benchmark of 95 percent) were resolved within 20 working days.
            Over the year the data indicates that approximately 2.2 percent of
            clients referred to employment services made a complaint.[47]

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46   Mr Michael Manthorpe, Department of Employment and Workplace Relations, *Transcript of
     Evidence*, 27 March 2006, p.15.

47   DEWR Annual Report 2003-04 at
     http://www.annualreport.dewrsb.gov.au/2004/part2es/1207.htm, accessed 14 June 2006.

- of 26 794 calls to the customer service line in 2004-05, 16,300 (61 percent) were complaints.[48]

3.91   While DEWR is unable to provide trend data on the nature of these complaints, it can advise that the five main complaint categories for 2005-06 (as at 31 March 2006) and their percentage of the total complaint issues, are:

- commitment to clients (26 percent)

- provider choice (15 percent)

- Job Seeker Account (8 percent)

- policy (7 percent)

- system issues (2 percent)[49]

3.92   The Committee notes DEWR's comment that only in the order of 1 to 2 percent of job seekers lodge a complaint.[50]

3.93   In 2003-04, job seekers made 332 complaints to Centrelink in relation to the services it delivers under its Business Partnership Arrangement with DEWR, however DEWR does not receive any systematic data from Centrelink about complaints.

3.94   The Committee asked both DEWR and Centrelink why systematic data is not provided. In response, both agencies indicated that this data is now being provided. Centrelink forwards systematic data via quarterly reports to DEWR about complaints recorded on the Customer Relations Unit Database about Job Network providers and other contracted employment service providers. [51] DEWR notes that Centrelink does not provide data on complaints concerning Centrelink as this can not readily be broken down by each Department Centrelink delivers services for. DEWR and Centrelink have put other business assurance measures in place to monitor the quality of service delivered by Centrelink.[52]

3.95   The ANAO also found that while DEWR requires Job Network providers to record all complaints that they receive, DEWR does not collect aggregate data from Job Network providers on the number and nature of complaints. The ANAO found that DEWR is unable to determine how

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48   DEWR Annual Report 2004-05 at http://www.dewr.gov.au/NR/rdonlyres/D7E3DE90-91DE-4D5A-AC9A-AA2E1941665A/0/DEWRARPart21.pdf, accessed 14 June 2006.

49   DEWR submission, p. 26.

50   DEWR submission, p. 26.

51   Centrelink submission, p. 3.

52   DEWR submission, p. 27.

many complaints job seekers make directly to Job Network providers or to monitor trends in the number and type of complaints.

3.96   The ANAO notes that in the past DEWR has rejected recommendations that it obtain regular mandatory reports from Job Network providers on complaints. The ANAO considers that the lack of collected data about complaints weakens the accountability of Job Network providers and Centrelink to DEWR.

3.97   The ANAO found a number of weaknesses in DEWR's complaints database, ESQIS, including ambiguous and unclear issue codes, substantial overlap between issue codes, and the absence of codes that could be required to cover common sources of complaint. The ANAO considered that the information drawn from the system would be of limited use for management purposes. The Committee is therefore pleased to note that DEWR's complaints management system was enhanced in the July 2006 release.[53]

3.98   The ANAO found inconsistencies in the manner in which Job Network providers recorded complaints and that the recording of complaints by Job Network providers was generally poor. In addition, complaints registers were not adequately examined during site monitoring visits. DEWR has indicated that, in response to the audit, the department has increased its monitoring of the complaint registers that the Job Network members are required to have in place. It has been identified as a priority for contract managers when they are visiting Job Network sites.

3.99   The Committee agrees with the ANAO that the proper collection and assessment of complaints data would provide one useful mechanism to monitor the performance of Job Network providers. Examining trends in the nature of complaints should provide a means to identify any systemic issues that may exist with the Job Network.

Case studies

3.100   The ANAO presented a case study that examined access to Job Network services through Centrelink and identified concerns about the quality of information being provided to job seekers, identifying a number of cases where information was out-of-date or not provided. It also examined the information seminar conducted by Centrelink and made a number of suggestions to improve the quality and effectiveness of information provision to job seekers. DEWR advised at the hearing that since the audit

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53   DEWR submission, p. 51 and DEWR email correspondence of 27 April 2007.

was performed, the information seminar has been replaced through implementation of the Government's RapidConnect initiative.[54]

3.101   This system enables accurate and timely assessment of job seekers and rapid referral to a Job Network provider. It is also intended to ensure that a job seeker receives the correct information up-front and as early as possible.[55] The initial interview is followed by a new claim interview during which Centrelink provides further information to job seekers. Centrelink also has a range of publications for job seekers that are regularly reviewed.

3.102   The Committee is pleased to note that currently 94 percent of RapidConnect job seekers have an appointment booked within two days and that since the introduction of this initiative there has been a noticeable increase in attendance rates at Job Network appointments with an average attendance rate of 72 percent at initial RapidConnect appointments compared with 54 percent for all initial appointments.[56]

3.103   In a second case study, the ANAO examined the Intensive Support customised assistance program and concluded that:

- there were delays in commencing job seekers in ISca;

- Job Network providers were not meeting with job seekers as often as required despite being paid to do so;

- detailed assessments of a job seeker's capabilities and barriers to employment were not being adequately undertaken; and

- Job Search Plans (JSPs) were not being updated.

3.104   DEWR survey results for October 2003 to February 2004 indicated that 84 percent of job seekers were satisfied or very satisfied with customised assistance they received from Job Network providers. However, an ANAO assessment of the services received by an indicative sample of job seekers raises concerns about whether assistance is actually intensive and customised, with problems including level of contact between Job Network providers and job seekers, documentation and customisation of job seekers' JSPs.

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54   Mr Michael Manthorpe, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p.5.

55   Mr Michael Manthorpe, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p.5.

56   DEWR supplementary submission, p. 5.

3.105   The Committee questioned DEWR as to how it ensures that Job Network providers are fulfilling their contractual obligations, particularly when it pays up front for the provision of services through the Intensive Support customised assistance program.

3.106   The Department advised the fee structure that applies to Job Network services creates a mix of incentives to encourage increased job placements and sustained employment outcomes as well as increased job seeker activity and improved service and assistance. Service fees that are paid are based on what the provider has delivered at various stages of the continuum of assistance. DEWR has a comprehensive range of monitoring tools, practices and guidelines in place to assist contract and account managers and compliance staff to ensure providers comply with their contract. These include:

■ the Risk Management Framework which enables the assessment of the provider's service delivery against nationally established risk criteria;

■ the development of risk management plans to manage risks of concern (extreme or high risks);

■ site visits to all full time sites at least once a year and more often if deemed necessary;

■ desk top monitoring including Health Check Reports, survey results and provider outcomes; and

■ regular programme assurance activities, such as surveys of jobseekers and checks on provider documentation.[57]

3.107   The Committee notes, as discussed earlier, that DEWR has a range of penalty options, and that the department took the opportunity when extending ESC3 to tighten sanctions that are available to the department and provide clearer advice on requirements.[58]

Committee comment

3.108   The ANAO concluded that the next round of Employment Service Contracts would provide an opportunity for DEWR to draw on its experience and the matters raised in this audit to improve its assurance about the quality of services being provided to job seekers.

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57   DEWR submission, p. 31.
58   DEWR submission, p. 12.

3.109   The Committee notes however that rather than negotiate new contracts, the majority of contracts under ESC3 have been extended for a further three years to 30 June 2009 using existing contractual provisions. It further notes that the department has made a number of small variations to the contract, including tightening sanctions for failure to comply with the contract and including guidelines (such as those for the use of the job seeker account) as part of the contract material.[59]

3.110   The Committee endorses the ANAO's overall conclusion that the negotiation of a new contract would have provided an opportunity to strengthen DEWR's oversight of the Job Network and provide it with greater assurance about the quality of service. The Committee notes with concern the current investigations[60] being undertaken into allegations of financial mismanagement and false claims by Job Network providers and is interested in the outcome of investigations that are currently underway. While it notes the department's comment that it is only a very small number of Job Network providers[61], it is nevertheless essential that appropriate monitoring and accountability mechanisms are in place.

3.111   The Committee therefore considers that the department should maintain a rigorous process of review and assessment of the services being provided by Job Network members to ensure that the system is not only providing a high quality of service to job seekers, but that Job Network providers are also implementing the system fairly and honestly.

3.112   The Committee also considers that a comprehensive review of the extended contract should be undertaken to address any residual issues arising from this audit and any new issues that arise throughout the life of the contract before it expires in 2009. It therefore makes the following recommendations.

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59   DEWR submission, p. 12.

60   Advised in email correspondence of 27 April 2007 that the investigations are still proceeding.

61   Ms Malisa Golightly, Department of Employment and Workplace Relations, *Transcript of Evidence,* 27 March 2006, p. 9.

Recommendation 6

The Committee recommends that DEEWR undertake a comprehensive review of the existing Employment Services Contract prior to its expiry in 2009 and that the results of this review inform future renegotiations or extensions of the contract.

Recommendation 7

The Committee recommends that DEEWR regularly assess the effectiveness of its risk management, monitoring, and penalty regimes in ensuring the highest standard of service from Job Network providers.

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Audit Report No. 58, 2004-05, Helping Carers: the National Respite for Carers Program

Introduction

4.1   In 2003, an estimated 2.6 million people (carers) provided assistance to those who needed help because of a disability.[1] This included assistance with self-care, mobility, communication, transport and housework.[2]

4.2   The Australian Government and State and Territory governments deliver support services for carers and care recipients. Support services include basic care, coordinated services for those with complex needs, financial support, and respite and information services. Carer-focused respite, information and counselling services are provided under the National Respite for Carers Program (NRCP).

4.3   NRCP is a collection of activities arising from successive Australian Government policy and funding initiatives to support a variety of carers in the community. Health has defined NRCP's objective as *the support and*

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1   Australian Bureau of Statistics, *2004 Disability, Ageing and Carers: Summary of Findings*, 2004, Canberra, p.3. The Australian Bureau of Statistics defines disability as any limitation, restriction or impairment, which has lasted, or is likely to last, for at least six months and restricts everyday activities. Examples range from hearing loss which requires the use of a hearing aid, to difficulty dressing due to arthritis, to advanced dementia requiring constant help and supervision.

2   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia.

maintenance of caring relationships between carers and their dependent family members or friends by facilitating access to information, respite care and other support appropriate to their individual needs and circumstances, and those of the people for whom they care.[3]

4.4   Respite care, and associated information and counselling services, are primarily delivered through NRCP's three major components, which are:

- Resource Centres—these Centres act as points of contact for carers seeking **information and advice** about services and other support and assistance. For example, carers can telephone their nearest Resource Centre, located in each State and Territory capital city, for information on various topics, referrals to a range of community and government services, emotional support and counselling, and for a wide range of resources including a free carers' kit. Resource Centres assisted 42 627 carers in 2003–04;

- Respite Centres—these Centres **arrange short-term or emergency respite for carers through existing services**. They are also funded to purchase or subsidise flexible respite care, provide emergency respite services, and link carers to residential respite services. For example, Respite Centres are able to provide immediate in-home respite to assist carers in an emergency or unplanned situation, assist carers to access other emergency/after hours services, and arrange ongoing respite if the carer requires emergency assistance for more than a few days. Respite Centres assisted 47 800 carers in 2003–04; and

- Respite Services—these Services **deliver respite** to carers and the people they support in a variety of settings, including in-home, day centre, host family and other short-term respite accommodation. Respite Services assisted 28 000 carers in 2003–04.

4.5   Health does not deliver services directly to carers, with funding provided to a range of organisations to operate NRCP Centres/Services, including community organisations, charitable organisations, State/Territory governments, local government, religious organisations, and private sector organisations.

4.6   In 1996–97, the Australian Government commenced funding for NRCP, with Program funding increasing from $19 million in that year to $134.8 million in 2005–06. The most significant increases have occurred over the

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3   Respite care is defined as an alternative or supplementary care arrangement with the primary purpose of giving the carer:

- a short-term break from the usual caring role; and/or
- assistance with the performance of the caring role.

last three years, including additional funding to expand NRCP target
groups. Funds are currently allocated across the three major Program
components as follows[4]:

- Resource Centres — $4.7 million (9 Centres);

- Respite Centres — $46.2 million (61 Centres); and

- Respite Services — $59.5 million (432 service providers).

4.7   This funding is part of an estimated $2.5 billion in carer support, provided
each year by the Australian Government and by State and Territory
governments through joint programs with the Commonwealth.

4.8   The delivery of Australian Government funded community care services,
including NRCP, is the subject of reform following the completion of a
major review. In 2002, the then Minister for Ageing initiated a review of
Health's 17 community care programs. The Minister released the resulting
report, A *New Strategy for Community Care — The Way Forward*, on 3 August
2004. This report proposed significant changes to the way in which
community care services, including NRCP, are delivered. These changes
are intended to provide consumers with easier access to care and support,
a fairer system, comprehensive services, and greater consistency in the
quality of care. It is in this context that Health advised the ANAO that it is
working to streamline and improve administrative arrangements for
NRCP in association with administrative reform in other community care
programs. Implementation of reforms may involve consultation with
industry and/or State and Territory governments where appropriate, pilot
testing and evaluation prior to full implementation. At the time of the
audit, Health was already well advanced on some initiatives stemming
from the review.

4.9   The audit objective was to assess the effectiveness of Health's
administration of NRCP. The audit comments on a range of issues,
including program design, planning on the basis of need, funding,
coordination, performance monitoring, and compliance management. It
also takes into account Community Care Review initiatives.

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4   The amount of funds allocated across the three major Program components is less than the
annual budget because some funding announced in the 2005–06 Budget, which is included in
the annual NRCP budget, is yet to be allocated to components.

The audit

4.10   The ANAO's audit objective was to assess the effectiveness of Health's administration of the National Respite for Carers Program.

4.11   The audit assessed the effectiveness of Health's administration of NRCP against the following criteria:

■ does Health effectively plan Program delivery;

■ has Health established appropriate systems/processes to guide Program administration; and

■ does Health effectively monitor Program delivery?

4.12   To form an opinion against the audit objective, the ANAO interviewed Health personnel, examined Health documents, interviewed personnel at a selection of service providers and stakeholders, and reviewed relevant literature.

Overall audit conclusion

4.13   The ANAO concluded that while Health's administration of NRCP supports the delivery of respite, information and counselling services to carers, opportunities exist for Health to improve the effectiveness of its administrative practices.

4.14   The significance of weaknesses in administrative practices has increased as the Program has grown in size and complexity. This growth has been primarily driven by government policy initiatives, with complexity arising from the creation of separate components within NRCP. Notwithstanding, the ANAO considers that Health should adopt a more structured, integrated and planned approach to implementation and future expansion of NRCP.

4.15   Health has acknowledged problems with the administration and delivery of community care services in general, and more specifically its administration of NRCP. It is currently working to resolve a number of these problems.

4.16   The Minister's review of community care services, which resulted in the publication in 2004 of a report entitled *A New Strategy for Community Care – The Way Forward*, has identified a number of areas where a more consistent and coordinated approach across all of Health's community care programs, including NRCP, is necessary. Health has already commenced the implementation of review initiatives and is well advanced with some.

ANAO recommendations

4.17   The ANAO's recommendations are listed below. To improve Health's administration of NRCP, the ANAO made six recommendations. The ANAO suggested that Health give priority to Recommendations 1 and 2.

Table 4.1   ANAO recommendations, Audit Report No. 58, 2004-05

1. The ANAO recommended that Health develop a longer term strategy for NRCP that: - provides a statement of strategic directions and priorities;   - describes key Program aims and approaches; and   - establishes an integrated performance measurement framework, against which the achievement of Program objectives can be assessed.   *Health's response: Agreed*
2. The ANAO recommended that Health implement a needs-based planning methodology to underpin NRCP service provision, comprising: - a methodology, incorporating a common assessment tool, for determining carers' needs; and   - regional planning, incorporating program data from relevant community care programs.   *Health's response: Agreed.*
3. The ANAO recommended that, in order to improve the efficiency of its funding activities, Health: - monitor both open and targeted funding rounds to inform future funding activities; and   - ensure that funds are allocated sufficiently early to allow considered expenditure over the full financial year.   *Health's response: Agreed.*
4. The ANAO recommended that, in order to ensure consistent implementation of NRCP nationally, Health issue an up-to-date national NRCP policy and procedures manual and ensure that staff are aware of the manual. *Health's response: Agreed.*
5. The ANAO recommended that Health, in order to better inform its decision-making and to demonstrate due process, ensure that its record keeping processes and practices are aligned to better practice. *Health's response: Agreed.*
6. The ANAO recommended that Health review the number, type and timing of reports it requires from funded organisations to ensure that they support Health's monitoring requirements. *Health's response: Agreed.*

The Committee's review

4.18   Throughout the assessment of this audit report, the ANAO was very complimentary about the actions Health was undertaking through the National Respite for Carers Program.

4.19   The Committee is also pleased to note the department's positive response to the audit report in acknowledging the problems identified and in working to resolve these problems. Health's overall comment on the audit indicates a good working relationship between the Department and the ANAO in relation to this audit:

> The Department is supportive of the audit report and agrees to the recommendations. The Department welcomes the ANAO's acknowledgement of the reforms and initiatives already in hand that will address many of the matters raised in the audit report.[5]

4.20   The Committee held a public hearing to examine this audit report on Monday 13th February 2006. Witnesses representing the Department of Health and Ageing appeared at the hearing, as well as representatives from the ANAO.

4.21   The Committee took evidence on the following issues:

- Program design
  ⇒ The Way Forward
- Planning
- Needs analysis
- Continuity of funding
- Reporting and monitoring
- Common assessment tool
- Administrative procedures.

Program design

4.22   The ANAO describes the NRCP as 'a collection of disparate components arising from successive Australian Government policy and funding initiatives with the aim of supporting carers in the community'.[6] The program has three major components, several minor programs and a related carer information program.

> The design of NRCP reflects the influences of a series of policy initiatives that have shaped the Program since its inception in

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5   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.18.

6   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.28.

1996. These initiatives have created separate components and
targeted services within them. As a consequence, NRCP has a
number of components, each with its own administration team,
guidelines, model of service delivery and reporting processes. This
structure, while aligned to the Government's policies, poses
challenges for administration and increases costs.[7]

4.23   At the public hearing, Health told the Committee that the history of the
        NRCP needs to be considered when developing a long-term strategy for
        the program. The program components have built up over time, each with
        its own objectives, aims, directions and performance information.[8]

> Each of the program elements had its own history. It started off
> when it was put under that broad title … the NRCP. Three broad
> service delivery components were part of a broader agenda
> around providing services for carers … and there were a number
> of initiatives in different portfolios. … We had three service
> assistance mechanisms that were in our portfolio and they were
> drawn together under this broad heading, or umbrella, of NRCP.
>
> … These initiatives happened over a number of years. As part of
> the community care review it was recognised that across all
> community care … we needed to draw things together into a
> much more consistent system. … In this particular case the NRCP
> funding has grown from $19 million in around 1996 to about $140
> million now. So it certainly was time to start drawing those things
> together.[9]

4.24   Currently the target groups for NRCP are based on the policy initiatives
        that have shaped the Program and the adaptation by Health of the target
        groups from the Home and Community Care Program (HACC).[10] The
        ANAO reported that although Health has communicated the target
        groups for each major component of NRCP to funded organisations; it had
        not developed sufficient guidance for Respite Centres, or Resource

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7   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National
     Respite for Carers Program*, Commonwealth of Australia, p.13.

8   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and
     Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 23.

9   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and
     Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 23.

10   Australian Government and State and Territory governments jointly fund community care
     services (including NRCP) through HACC, with State and Territory governments setting
     priorities for funding across their jurisdictions. Services for frail aged and younger people with
     disabilities, and their carers, include home help, respite, home modification and transport.

Centres, to inform the allocation of services to the different types of recipients within target groups.[11]

4.25   The Committee aggress with the ANAO that such guidance is an important approach to limit potential cost shifting between programs, departments and different levels of government.

4.26   The Committee therefore reminds Health of this issue in their actions responding to the ANAO's recommendation four.

The Way Forward

4.27   In 2002 the Government initiated a review of community care programs to identify strategies that would simplify and streamline current arrangements for the administration and delivery of community care services.[12]

4.28   The strategy arising from the review, released at the end of 2004, was titled *The Way Forward* and aims to develop more consistent and coordinated programs. Expected reforms include agreed assessment processes, eligibility criteria, consistent accountability and quality arrangements and targeting strategies.

4.29   The strategy aligns the reform process with the timeframe for reviewing and redeveloping the HACC Agreement with states and territories, extending the reforms across the HACC Program at the same time as improving community care programs.[13]

> …through the community care review *The way forward,* a number of recommendations were made about working with state governments around consistent arrangements for community care, and that includes respite services. We are now working with the state governments around consistent quality arrangements, which would go across the HACC program as well as providing the opportunity for the state government to look at their state only funded services. The states have agreed to this process and work is under way at the moment.[14]

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11   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.13-14.

12   The Hon Julie Bishop MP, Minister for Ageing, Foreword to *The Way Forward: A New Strategy for Community Care*, Commonwealth of Australia 2004.

13   *The Way Forward: A New Strategy for Community Care*, Commonwealth of Australia 2004.

14   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 22.

4.30   Information about the progress of reforms outlined in *A New Strategy for Community Care -The Way Forward* is presented by Health online at http://www.health.gov.au/internet/wcms/publishing.nsf/content/ageing-twf-welcome.htm.

Planning

4.31   The Audit Office advised that Health's planning requires further strengthening to support the current size and complexity of the national program. They identified that "a strategic plan for NRCP to guide the deployment of resources ... would assist Health to integrate the various components within the Program and guide development and expansion."[15]

4.32   Health accepted the recommendation to develop a long-term strategic plan for the NRCP, and noted in their response that:

> Further development is being undertaken through the development of common arrangements as *The Way Forward* is implemented across community care programs (including NRCP).[16]

4.33   Health felt it was important to note the history of the program and the fact that it is made up of a number of components, when discussing a long-term strategy. With each of the components having its own objectives, aims, directions and performance information, development of a single strategy is a complex process.

4.34   At the time of the hearing, Health advised that the strategic plan was not yet complete:

> We have certainly taken the first steps. We are now undertaking a number of reviews which are under way at the moment around some components of the NRCP... This is taking place over the next few months. We will then be in a position to start pulling the rest of that together.[17]

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15   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.14.

16   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.51.

17   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 24.

4.35   Health told the Committee that the needs assessment would also be included in this plan, as well as an investigation of consistent performance information across the system.

> We now have a much stronger planning and accountability platform and also consistency in what we are asking of service providers and consistency in not only financial accountability but, most importantly, accountability for the way they are responding to carers' needs.[18]

4.36   Health advised that the respite part of the strategic plan would be completed by the end of 2006, but that there was a lot of other work, right across the community care system, that would also need to be done over the next few years. The respite part of the plan was expected to be used upfront in the guidelines for services, as well as being a key departmental document. [19]

4.37   At the hearing Health also referred to a planned evaluation of the overall program and the delivery of services to particular carers:

> That evaluation will be taking place in 2007, when we will be nearing the end of the three-year contracts. That will feed into what we then do in the next round.[20]

4.38   The June 2007 edition of *The Way Forward* newsletter announced that work to determine the feasibility of a nationally consistent planning framework for community care had started.

> Although community care programs have similar objectives and target populations, planning processes differ between states and territories. These planning processes are covered by a range of legislation and administrative processes.
>
> The aim of the National Planning Framework Project is to develop a streamlined and coordinated approach to planning that helps to reduce the potential for gaps and overlaps in service delivery.[21]

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18   Mary Murnane, Deputy Secretary, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 26.

19   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 29.

20   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 26.

21   'Planning for Community Care', *The Way Forward Newsletter*, June 2007 edition, Department of Health and Ageing (accessed online at http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-twf-news-newsletter-june07.htm. Page modified: 25 June, 2007)

4.39   Mapping exercises will be conducted in each state and territory to examine the planning cycles, tools and analysis methods currently in use in different programs, and to highlight where community care planning connects with other health and aged care programs and joint planning initiatives. The results will be used to:

> develop suggestions for common planning principles and data sharing protocols that could be applied across the tiered model of community care and other programs.[22]

4.40   The final feasibility report was due in December 2007. The Committee looks forward to examining this report and the results of the evaluation of the program and its service delivery to carers.

4.41   The Committee noted that clients accessing different services often found that the use of inconsistent boundaries across different programs or jurisdictions added frustration to their search for appropriate information.

4.42   Health informed the Committee that when they finalised the application process for the centres, where possible they combined Carelink[23] centres and the respite centres. At that time, the result also aligned with the HACC boundaries.

> We are going to continue to work with our state counterparts around that area to ensure that we have consistent arrangements across the boundaries. … in a number of areas that we work on jointly we have a joint interest in having consistent boundaries and agreeing on those.
>
> … we are also going to be working on … the development of consistent entry points into the community care system... Those entry points will obviously involve the respite centres and they will need to have boundaries associated with them as well. So there is a real shared interest with the states in improving the way the system works and keeping it as consistent as possible.[24]

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22   'Planning for Community Care', *The Way Forward Newsletter*, June 2007 edition, Department of Health and Ageing (accessed online at http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-twf-news-newsletter-june07.htm. Page modified: 25 June, 2007)

23   Commonwealth Carelink Centres are information centres for older people, people with disabilities and those who provide care and services. Centres provide free and confidential information on community aged care, disability and other support services available locally, interstate or anywhere within Australia. There are 65 'walk-in' shopfronts throughout Australia a national Freecall™ telephone number.

24   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 28.

4.43   The Committee is pleased to note this alignment of boundaries for related services but understands that this situation can easily change for example where a state changes its health boundaries.

Needs analysis

4.44   The ANAO noted that the absence of an effective needs-based planning approach for NRCP, incorporating service delivery data from other community care programs, has limited Health's ability to target funding to areas of greatest carer need:

> The assessment of need is an important element of sound program planning. It allows funding providers to target the provision of respite services. It also provides baseline information against which the impact of programs can later be assessed.[25]

4.45   The ANAO described Health as knowing who their clients were but not having good data on the distribution of carers within regions. They found that the department allocated funds to the states on a reasonable basis, using ABS data estimating the numbers of carers.

4.46   There were no clear approaches to identifying relative need within regions and within states, rather, Health tended to use service providers' expenditure capacity as a proxy measure for relative need.

> We are pulling together better information and working with the states in pulling together consistent and very detailed regional information. But we certainly carried out our own mapping exercise and we used that information. We also gathered ABS data around carer numbers and information around people.[26]

4.47   The Committee was concerned that this process favoured those providers with the capacity to deliver rather than those actually delivering.

4.48   At the hearing, Health described an assessment of the mix of carer needs in an area which was undertaken:

> Last year there was a request for application process that described the new program arrangements. It gave existing providers and new providers the opportunity to apply for

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25   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.14-15.

26   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 24.

funding. It also gave them the opportunity, especially in relation to
respite services, to have a look at the whole range of local needs
and to establish what they could best deliver in relation to
services. That allowed a breaking down of some of those artificial
barriers where we had particular buckets of money targeted to
particular groups. When all those applications came in there was
then an assessment looking at the needs region by region.[27]

4.49   This process also allowed an examination of the mix of carer needs in the
        area, including models of service delivery.

We took into account carer numbers in the region and the mix of
carers. Then the funding was allocated on a priority basis. In some
cases we found that, for various reasons, there were gaps in
service delivery and more growth funding went into those regions
than maybe some other regions.[28]

4.50   Health explained that the carers' movement developed from what was
        initially a very grassroots movement which was then responded to by
        governments:

The establishment of carer resource centres was done very much
in consultation with the carer movement, which by that stage had
arisen in almost every state.[29]

4.51   Health believes that this evolution ensured that the funds were not wasted
        or duplicated, even before the new formula was applied. Rather, the
        money was directed to areas of need as well areas where there was a carer
        movement and volunteers who were able to take it on.

4.52   In line with *The Way Forward*, the Australian Government and the states
        and territories signed a new agreement, the Review Agreement, in May
        2007 and it came into effect on 1 July 2007. The agreement aims to improve
        longer-term planning and administration of the HACC Program through
        measures to better support the delivery of HACC services, such as
        improved administrative arrangements and business processes.

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27   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and
     Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 23-24.

28   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and
     Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 25.

29   Mary Murnane, Deputy Secretary, Department of Health and Ageing, *Transcript of Evidence*,
     Monday, 13 February 2006, PA 26.

4.53   The Review Agreement also introduces common arrangements into HACC, as outlined in *The Way Forward*:

> This will help to improve national consistency and will also help reduce overlap and duplication in administration. It is anticipated that common arrangements will be fully implemented in the HACC Program by the end of the first Triennium under the Review Agreement in June 2011.[30]

4.54   The Committee notes that despite the lack of a clear identification of the relative need in regions, Health feels that NRCP funds have been delivered without waste or duplication so far. The Committee will watch with interest to see the expected improvements from the assessment of needs and the new common arrangements.

Continuity of funding

4.55   The ANAO found timing issues with the NRCP funding rounds, in particular regarding the series of short-term funding agreements which were issued 'to streamline its existing agreements and allow for the introduction of revised contractual terms stemming from the Community Care Review'.[31]

4.56   There were also concerns about the time allowed by Health for the application and assessment phases of funding rounds:

> The majority of Respite Centres interviewed by the ANAO advised that the time allowed for the preparation of applications, some involving the development of innovative approaches to service delivery, ranged between one day and four weeks and that the time allocated was generally insufficient.[32]

4.57   The Committee is concerned at the distress such timing issues may cause for carers when they are unsure whether their respite care will continue.

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30   'New HACC Agreement', *The Way Forward Newsletter*, July 2007 edition, Department of Health and Ageing (accessed online at http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-twf-news-newsletter-july07.htm. Page modified: 14 August, 2007)

31   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.15-16.

32   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.63.

4.58   Health accepted that these short term agreements created uncertainty for providers and increased the workload of their own administrators. At the time of the audit Health was working on the implementation of new three-year agreements for funded organisations from 1 July 2005.

4.59   At the hearing, the new agreements had been put in place, as Health described:

> We introduced three-year contracts for the new contracts we put in place in July 2005, six months ago. Those contracts also gave out growth funding across the three-year period. We have not only given services certainty in their base funding; we have also provided them with certainty around growth funding. So they know that for the 2005-06 year this is their particular level. Then if they were getting growth funding in the next year and the year after that they now know well in advance, which means that they can plan.[33]

4.60   A new agreement, entitled the Review Agreement, detailing the funding and management arrangements for the HACC Program, was signed by the Australian Government and the states and territories in May 2007.[34] This agreement involves all governments moving to three year planning cycles, the first of which will be for the period 2008-09 to 2010-11.

4.61   The Committee is pleased to note the introduction of three-year planning cycles for the state and territory governments as well as at the national level, and the greater certainty this will mean for the program's clients, as well as for communities and service providers. The Committee also commends Health on the provision for growth funding in their current contracts.

Reporting and monitoring

4.62   The ANAO found that Health had established comprehensive NRCP reporting processes for funded organisations so it could manage the program soundly and ensure accountability for public funds. However the

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33   Mary McDonald, Assistant Secretary, Community Care Branch, Department of Health and Ageing. *Transcript of Evidence*, Monday, 13 February 2006, PA 25.

34   'New HACC Agreement', *The Way Forward Newsletter*, July 2007 edition, Department of Health and Ageing (accessed online at http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-twf-news-newsletter-july07.htm. Page modified: 14 August, 2007)

monitoring system was not able to provide balanced information to inform Health of the extent to which NRCP was meeting its objectives, or sufficient information to enable it to determine whether funded organisations were complying with funding agreements (including the National Service Standards).[35]

4.63   The audit identified that the monitoring system relied primarily on self-reporting and limited activity from the department to verify the accuracy or quality of information within these reports. The ANAO also stated that:

> The number and frequency of reports … place a considerable workload on Health administrators and funded organisations. [36]

4.64   The ANAO explained to the committee that agencies that were funded provided reports to Health. These reports were not always read very thoroughly and the quality and accuracy of the data provided was not necessarily confirmed by Health staff.

4.65   There was also found to be some confusion and misunderstandings which resulted in poor data being provided by some Services.

4.66   The Committee notes that there are opportunities for Health to engage more with service providers to reduce such confusion.

4.67   At the time of the audit, Health was improving the coverage of its monitoring regime through a system to monitor the quality of services provided to carers under NRCP. This system involved a three-step process, with services self-reporting against uniform quality standards every three years and Health officers carrying out a desk audit and a validation visit.[37]

4.68   As part of *The Way Forward*, financial reporting processes for community care service providers are being refined through the development of a National Financial Reporting Framework. The March 2007 edition of *The Way Forward* newsletter announced the development of a framework to provide 'a streamlined and consistent approach for service providers when reporting financial information across the range of community care programs.'[38]

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35   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.16-17.

36   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.17.

37   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.17.

38   'National Financial Reporting Framework', *The Way Forward Newsletter*, March 2007 edition, Department of Health and Ageing (accessed online at

4.69   Mapping of current financial reporting requirements, terminology,
        processes and tools is also underway, to inform the development of the
        National Financial Reporting Framework:

>   The mapping will take into account Australian Government and
>   state and territory government financial and accountability
>   responsibilities and develop options for consistency and
>   streamlining.[39]

4.70   Furthermore, *The Way Forward* involves work on Common Arrangements,
        developing options for community care in areas including quality
        assurance and accountability across programs.

4.71   A comparison of quality standards applying to service providers across
        community care programs was undertaken and the community care
        sector's feedback on the proposed set of common standards and approach
        to quality reporting has been sought to assist with the development of a
        National Quality Reporting Framework. The closing date for feedback was
        1 June 2007.

4.72   The Committee is pleased to see the steps being taken as part of *The Way
        Forward* strategy to improve the reporting and monitoring environment
        for HACC programs, particularly the NCRP. The Committee remains
        interested in this area and will continue to scrutinise the results of the
        strategy.

Common assessment tool

4.73   The audit noted that a consistently applied assessment tool is an
        important element in the equitable delivery of services under national
        programs. At the time of the audit, Health had not established a common
        assessment tool to determine eligibility for NRCP services. Health had,
        however, identified common assessment as a key initiative stemming from

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http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-twf-news-newsletter-mar07.htm. Page modified: 02 April, 2007)

39   'Progress of Common Arrangements', *The Way Forward Newsletter*, May 2007 edition,
     Department of Health and Ageing (accessed online at
     http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-twf-news-newsletter-may07.htm. Page modified: 14 May, 2007)

the Community Care Review and has commenced work on development of an NRCP assessment tool.[40]

4.74   At the hearing, Health described the common assessment tool as an assessment of a particular carer's needs. A draft tool had been developed and was about to be piloted. Health envisaged that in the year following the results of the pilot, refinements would be made and then it will be introduced across the country.[41]

4.75   The Committee is interested to see the impact of the common assessment tool being used across the country to ensure equitable delivery of services.

Administrative procedures

4.76   The ANAO identified a number of issues relating to the administration of the program including:

- an absence of documented policies and procedures on funding approaches;

- administrative practices for NRCP are not nationally consistent; and

- limited coordination between NRCP and other community care administrators.

4.77   According to the ANAO, a lot of the administration for the program was devolved to the states and practices varied from state to state, with some inconsistencies in procedures. Each state and territory had its own business plan, and there was a national business plan, all for administering the one program.

4.78   Although there was a manual for providers, there was no up-to-date procedures manual for prescribed appropriate practices and the provider manual was not well integrated with the documentation which Health put out for its own staff.

4.79   The ANAO's recommendation No.4 in particular addressed this issue:

> The ANAO recommends that, in order to ensure consistent implementation of NRCP nationally, Health issue an up-to-date

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40   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program*, Commonwealth of Australia, p.14.

41   Mary Murnane, Deputy Secretary, Department of Health and Ageing, *Transcript of Evidence*, Monday, 13 February 2006, PA 25.

national NRCP policy and procedures manual and ensure that
staff are aware of the manual.[42]

4.80   The Committee notes that the department has accepted the ANAO's
recommendations relating to its administrative procedures. The
Committee encourages Health to ensure that these issues are addressed in
order to improve the efficient functioning of the program across all
jurisdictions.

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42   Australian National Audit Office, Audit Report No. 58 2004–05, *Helping Carers: the National
Respite for Carers Program*, Commonwealth of Australia, p.68.

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Department of Defence audit reports

Audit Report No. 45, 2004-05, Management of Selected Defence System Program Offices

Audit Report No. 3, 2005-06, Management of the M113 Armoured Personnel Carrier Upgrade Project

Introduction

5.1   The Committee selected two Audit Reports as part of its commitment to regularly review reports on Defence project and acquisition management. The two reports were Audit Report no. 45, 2004-05: *Management of Selected Defence System Program Offices*; and Audit Report no. 3, 2005-06: *Management of the M113 Armoured Personnel Carrier Upgrade Project*. In addition, the Committee subsequently announced a larger review into financial management and equipment acquisition at the Department of Defence (Defence) and Defence Materiel Organisation (DMO).

5.2   The Committee held a public hearing on 9 February 2006 to examine the above two reports. The Committee also forwarded a number of Questions on Notice to the Department of Defence for further information. The department's responses are published as submission 5 to the inquiry.

Audit Report No. 45, 2004-05: *Management of Selected Defence System Program Offices*

Background

5.3   This audit focused on the major capital equipment and logistics support managed by the Defence Materiel Organisation, which manages some 250 major capital equipment acquisition projects.

5.4   The audit included fieldwork from April to October 2004, with discussion papers issued to Defence in December 2004 and February 2005. The audit was tabled in April 2005.

5.5   Within DMO, the Capability Development Group (CDG) has responsibility for assessing and defining current and future Australian Defence Force (ADF) capability needs, and for managing Defence's overall major capital equipment investment program. CDG bases its management processes on a 'two pass' Government approval process, involving formal Government consideration of future Defence capability.

5.6   DMO manages its capital acquisitions projects through a national network of 46 Systems Project Offices (SPOs). These are located within four Divisions: Aerospace Systems Division; Electronic and Weapon Systems Division; Land Systems Division; and Maritime Systems Division.

5.7   In general terms, SPOs are responsible for:

- defining and monitoring contractor performance;

- ensuring acquisition and logistics program integrity in terms of consistency with performance specifications, coherence with infrastructure planning and with other programs, and conformance with corporate, technical and specialist standards;

- ensuring deliveries of new products or services meet requirements in terms of contracted performance, cost and schedule;

- managing risks to the program's successful outcome;

- initiating management interventions wherever gaps in the program are identified or issues arise; and

- reporting progress of the program at regular intervals to the program's sponsor, Governance Board and DMO Senior Executives.

5.8   During February to May 2004, DMO undertook a due diligence analysis of
        its business as part of preparations for becoming a prescribed agency from
        1 July 2005. The analysis found that of 156 major acquisition projects, 30
        percent had already missed their agreed in-service date or had
        unrecoverable schedule slippage. A further 20 percent, while not yet late,
        would require intensive management to achieve their in-service date, and
        the remaining 50 percent should meet their in-service dates with normal
        management processes. The Due Diligence report also found that over the
        period 1981 to 2004, DMO's top 64 major acquisition projects incurred
        price increases totalling $11.8 billion.

5.9   This audit report examined the operations of four SPOs, from different
        DMO Divisions. The SPOs subject to audit were:

        ■ Aerospace Systems Division: Tactical Fighter Systems Program Office
          (TFSPO);

        ■ Land Systems Division: Track Manoeuvre Systems Program Office
          (TMSPO);

        ■ Electronic and Weapon Systems Division: Over-the-Horizon Radar
          Systems Program Office (OTHRSPO); and

        ■ Maritime Systems Division: Fast Frigate Guided System Program Office
          (FFGSPO).

5.10   In view of the significant role that DMO's SPOs play in managing major
        capital equipment acquisition projects, the audit included a case study of
        the $1.448 billion Fast Frigate Guided (FFG) Upgrade Project.

Audit objectives

5.11   The objective of the audit was to assess the adequacy of Defence's capital
        equipment project definition, approval, acquisition and logistics support
        management, at the system program management level.

Overall conclusion

5.12   The ANAO found that the formation of the Capability Development
        Group together with the two-pass Government approval process, should
        in the future result in improved capital equipment acquisition contract
        work definitions, and more accurate project cost and schedule estimates.
        Both of these initiatives came out of the 2003 Kinnaird Review.

5.13   The ANAO believed that the DMO's SPO structure should enable
        accountability to be effectively aligned to system acquisition and logistics
        support management. However, the ANAO found that there remained

scope for further improvement in the areas of DMO's standardised Business Process Model, project scheduling and status-reporting system, and within the technical integrity management systems within DMO's Maritime and Electronic and Weapon Systems Divisions.

5.14   The ANAO also found that in the period 1999 to mid-2003, the Fast Frigate Guided SPO financial records did not provide a reasonable level of assurance for the orderly, efficient and accountable measurement of the use of Australian Government resources. The ANAO was concerned that legislative and administrative requirements concerning the keeping of accounts and records may not have been met for a significant period, prior to mid-2003, in relation to this project. The ANAO includes a potential follow-up audit of the FFG Upgrade Project in its forward audit work program.

5.15   The audit highlighted differences in management processes between the four SPOs audited. The TFSPO provided an example of better program management practice.

Recommendations

5.16   The ANAO made eight recommendations to Defence. The agency agreed with six recommendations, and agreed with qualifications and in principle to the remaining two recommendations.

Table 5.1   List of recommendations, ANAO Audit Report No. 45, 2004-05

1.	That Defence:
	(a) increase the priority of the Quality and Environmental Management System's development; and
	(b) as an interim measure, incorporate into the Quality and Environmental Management System appropriately amended Capital Equipment Procurement Manual 1 policy, to address content gaps.
	Defence response*:* Agreed.
2.	That Defence review training resources for Improve Project Scheduling and Status Reporting, to ensure that System Program Office personnel have adequate training to effect successful transition to the new system.
	Defence response*:* Agreed.
3.	That Defence establish a timetable for all Defence Groups to migrate to the mandated Defence Records Management System.
	Defence response: Agreed.
4.	That Defence increase the priority and assistance to DMO's Maritime Systems Division and Electronic and Weapon Systems Division System Program Offices to achieve Authorised Engineering Organisation certification, in order that they can provide improved assurance regarding safety and fitness for service of Australian Defence Force materiel.
	Defence response*:* Agreed with qualification.

5.	That Defence ensures that in future major equipment acquisition contracts:
	a) milestone payments are, where appropriate, aligned to the successful completion of mandated system reviews and tests and evaluations; and
	b) full payments for milestones, which follow critical milestones, be made only when all critical milestone review issues are satisfactorily resolved.
	Defence response: Agreed.
6.	That Defence promulgate to System Program Offices, guidance on the legislative and administrative process requirements for the payment of accounts and the keeping of proper records.
	Defence response*:* Agreed in principle.
7.	That Defence review, on a regular basis, System Program Office's acquisition contracts administrative processes for the payment of the Goods and Services Tax.
	Defence response*:* Agreed.
8.	That Defence provides specific training to all System Program Office liability approvers of their obligations to promote effective and efficient use of Australian Government resources in accordance with legislative and contracted obligations.
	Defence response*:* Agreed

SPO management issues

Staff levels, recruitment and retention

5.17   The audit report highlighted a number of workforce issues for the DMO; and issues with development of its project management methodology. In early 2005, DMO had approximately 6,500 staff, 75 percent of whom were civilians, with the remainder ADF members. In August 2004, DMO had 23 percent, or 1,709 positions, unfilled. Difficulties with recruitment included:

- a shortage of project management, engineering, and contract management skills;

- the location of vacant positions; and

- the remuneration offered.

5.18   The Committee sought an update on staffing levels at February 2006. DMO responded that the number of positions unfilled is not an accurate reflection of the vacancy levels. DMO did not provide a figure on staffing levels at February 2006. It argued that although more than 1,000 positions had been advertised since 1 July 2005, some of these have been advertised on more than one occasion, and other advertised positions end up not being filled due to changing management requirements.[1]

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1   Defence, submission No. 5, p. 1.

5.19   At the hearing, the Committee asked DMO to provide information on its staff's prior length of service prior to being posted to the DMO. Military personnel have 15 years' service prior to being posted. Civilian staff experience ranges between 12 and 15 years, depending on individual SPOs.[2]

5.20   The ANAO audit report found that the average military posting to DMO was 2.17 years, shorter than the recommended tenure of three years. The ANAO found that the length of postings could leave projects exposed to risks such as loss of staff continuity and corporate knowledge.[3]

5.21   In the Audit Report, the DMO responded that it was developing a business model to address the issue of military staff levels in DMO. While many jobs in the DMO could be filled by either military or civilian staff, the ANAO noted that much of the ADF weapon system acquisition and support skills rely on technical training and experience provided by the Services.[4] In April 2006 DMO provided the Committee with an update on its military and civilian staffing:

   ▪ the ratio of civilian to military personnel at DMO is 3:1;

   ▪ all project director and project manager appointments (civilian or military) are for a three or four year tenure;

   ▪ the period of tenure for appointment of military personnel in project manager roles is to be no less than three years with any variation being subject to CEO DMO agreement;

   ▪ for military preferred positions, those at Colonel (COL) level and above would normally be no less than three years with the majority of positions at four years. Tenure for those at Lieutenant Colonel (LTCOL) level and below is to be no less than two years, with the majority of positions at three years.[5]

5.22   DMO fills some of its specialist positions with Professional Services Providers (PSPs). PSPs are engaged to provide skills not available in the Australian Public Service, and to cover peak workloads. During 2004-05, 395 PSPs were engaged by DMO.

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2   Defence submission No. 5, p. 4.

3   ANAO Audit Report No. 45, 2004/05, *Management of Selected Defence System Program Offices*, Commonwealth of Australia, May 2005, p. 35.

4   ANAO Audit Report No. 45, 2004/05, p. 35.

5   Defence, submission No. 5, p. 1.

Professional development

5.23   The Audit Report noted that DMO had embarked on a professional development program aimed at providing training in procurement and project management to many staff. The DMO was also aiming to enable its qualified engineers to become qualified to Certified Engineer status or equivalent. The target for uptake of this professional development was 50 percent by the end of 2005-06.

5.24   The CEO of DMO, Dr Stephen Gumley, told the Committee that at the time of the hearing (February 2006), there were over 400 DMO personnel undertaking courses in project management. Dr Gumley noted that industry also has problems with recruiting and retaining skilled project managers. A number of companies, such as BAE Systems, Raytheon and Tenix, are also providing project management training for their staff members.[6]

5.25   In answering Questions on Notice, DMO stated that it had 245 personnel (214 civilian, 31 military) with Chartered Engineer status – an increase from 125 in 2004. Approximately 31 percent of DMO engineers (civilian and military) are chartered and a further 63 percent are enrolled and pursuing chartered status.[7] The Committee notes that this meets (in fact exceeds) DMO's target of 50 percent uptake of the program, and commends DMO for its efforts in this area.

Quality and Environmental Management System (QEMS)

5.26   In 2001 DMO commenced development of the Quality and Environmental Management System (QEMS), which was intended to be DMO's primary reference for capital equipment acquisition and logistics policy and management practice.

5.27   Sitting underneath QEMS, the System Project Offices already had their own Quality Management Systems (QMS); which contain detailed processes, support instructions, guidance and templates tailored to each SPO's operations.

5.28   The ANAO recognised the need for QEMS to properly integrate with the SPO-level quality systems already in place.

6   Dr Stephen Gumley, Defence Materiel Organisation, PROOF *Transcript of Evidence*, 9 February 2006, p. 2.

7   Defence submission No. 5, p. 2.

5.29   The ANAO acknowledged that DMO had made considerable effort with QEMS to document policy and process information covering IT, project management, software and systems, risk management, logistics and support. However, the ANAO stated:

> the information in QEMS is difficult to access, and falls short in providing guidance on translating policy into practice. QEMS lacks comprehensive treatment of financial policy, even compared to its predecessor, Defence's CEPMAN 1. For example, QEMS lacked policy guidance on variations to project approval. Project approval is a fundamental element of effective governance.[8]

5.30   The ANAO recommended that Defence increase the priority of QEMS development, and address content gaps in QEMS where necessary, using an updated version of the CEPMAN 1.[9]

5.31   The Committee followed up on development and implementation of QEMS. DMO stated that the target date for QEMS integration was December 2006. Defence has subsequently advised that this target date was met.[10] From July 2006, all development work was expected to be complete, allowing efforts to be focused on migration to the new QEMS system. A new user interface, scheduled for release in June 2006, was expected to make it easier for users to access job-relevant policy and procedural information.[11] The new "Business Unit Graphical User" Interface was delivered in November 2006.[12]

5.32   Regarding the information gaps identified by the ANAO, DMO stated that it had conducted a 'gap analysis' on CEPMAN and QEMS. Additionally, the DMO Accounting Policy Manual and DMO Finance Instructions had been loaded into the QEMS system.[13]

5.33   At the hearing DMO told the Committee that ISO 9000 accreditation for QEMS was still some time away. An initial quality audit was conducted in December 2005. As a result of this audit, rectification work was underway in order for QEMS to reach the ISO standard.[14] Defence has advised that the Executive phase of the DMO Quality Management System (DMO QMS), which QEMS is a supportive tool of, was established and certified

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8   ANAO Audit Report No. 45, 2004/05, p. 38

9   ANAO Audit Report No. 45, 2004/05, p. 38.

10   Defence QoN, 9 May 2007.

11   Defence, submission No. 5, p. 2.

12   Defence QoN, 9 May 2007.

13   Defence, submission 5, p. 2.

14   Dr Stephen Gumley, Defence Materiel Organisation, PROOF *Transcript of Evidence* 9 February 2006, p. 15.

to the AS/NZS ISO 9001:2000 international standard on 25 October 2006.[15] The other two phases, DMO Corporate QMS and DMO Enterprise QMS, were to be delivered in 2007.

Record keeping

5.34   The ANAO report noted the importance of record keeping as a critical factor in accountability and performance. The DMO is utilising the IT-based Defence Records Management System (DRMS) for document management and record keeping. However, the ANAO found that implementation of DRMS across the DMO was inconsistent. In the case of the Fast Frigate Guidance System Project Office (one of the SPOs audited), there was a critical need for an improved record management system. The ANAO recommended that Defence establish a timetable for all Defence Groups to migrate to the mandated DRMS.

5.35   Defence told the Committee that the DRMS is implemented on a user pays/cost recovery basis within the organisation. At April 2006, approximately 42 percent of DMO staff were using the DRMS, with a further 350 staff undergoing training on the system. Other DMO units were considering implementing the system, as well as other Defence agencies with significant interactions with the DMO.[16]

Technical Regulatory Framework

5.36   Defence's Technical Regulatory Framework (TRF) aims to ensure that ADF equipment and systems may be operated without hazard to personnel or the general public, and also without negative effect on the environment.

5.37   Each Defence organisation involved with design and construction of ADF material must be authorised to perform their tasks through certification as an Authorised Engineering Organisation (AEO), or in the case of equipment maintenance, Authorised Maintenance Organisation (AMO) certification.

5.38   The Defence AEO and AMO certification requirements also apply to commercial organisations involved in design, construction and/or maintenance of ADF aircraft and related systems. However, commercial organisations involved with maritime or land materiel are not required to seek or maintain AEO or AMO certification. Instead, DMO's Maritime and Land Systems Divisions must ensure that their commercial service

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15   Defence QoN, 9 May 2007.
16   Defence, submission 5, p. 2.

providers are made aware of the technical standards, and that the providers comply with these standards.

5.39   The ANAO found that all SPOs within the Aerospace Systems Division, and the Airborne Early Warning and Control organisation have AEO or AMO certification. However, only three out of 19 Electronic and Weapon Systems Division SPOs had AEO certification, and two had provisional certification. Of the 10 Maritime Systems Division SPOs, eight have only provisional certification.

5.40   The ANAO commented:

> Given the risks involved, there is a strong case for DMO to increase the priority and assistance to those Divisions to achieve and maintain improved compliance with the Technical Regulatory Framework.[17]

5.41   The ANAO recommended that Defence increase the priority and assistance to DMO's Maritime Systems Division and Electronic and Weapon Systems Division SPOs to achieve AEO.

5.42   Defence agreed, with qualification. Defence stated:

> It is important to note that AEO status alone does not ensure the materiel safety or fitness for purpose of any system. Each of the technical regulators assures themselves through objective evidence that a system is fit for purpose and safe.[18]

5.43   Defence argued that the integration of SPOs with the QEMS system (outlined above) would assist individual SPOs to gain AEO status.

5.44   In April 2006 DMO provided an update, stating that within Maritime Division, six organisations now had AEO status, three had provisional status and two were in progress. Within Land Division, 80 percent of SPOs had accreditation. As a result of a restructure, two new organisations (one SPO and the Overlander Program Office) required new accreditation, which was underway. The Committee is pleased to note DMO's efforts in gaining AEO status for the majority of its SPOs and other units, as recommended by the ANAO.[19]

5.45   In May 2007 DMO advised that Maritime Systems Division has five organisations with full AEO status. Two SPOs were nearing completion of a re-appraisal and were expected to be at full AEO certification be the end

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17   ANAO Audit Report No. 45, 2004/05, p. 44.
18   ANAO Audit Report No. 45, 2004/05, p. 45.
19   Defence, submission 5, p. 3.

of the month. A further three had provisional status and were progressing towards full AEO certification. In addition, four had sought appraisal by the Director Technical Regulation – Navy and were expected to complete the remediation for full status by late 2007.[20]

ANAO reviews of individual SPOs

5.46   After reviewing general management issues for the SPOs, the ANAO conducted detailed audits in a number of SPOs. These reviews are examined below.

Tactical Fighter Systems Program Office

5.47   The Tactical Fighter Systems Program Office (TFSPO) is located within the Aerospace Systems Division, and is responsible for acquisition and logistics support management of the Air Force's tactical fighter fleets and associated equipment. Two main responsibilities of the TFSPO are:

- management of the $1.55 billion Hornet Upgrade Project, which aims to ensure that the F/A 18 Hornets remain effective in their roles until withdrawal from service by 2015; and

- management of the acquisition and logistics contract for the supply and in-service of 33 Hawk Model 127 aircraft.

5.48   The ANAO found that the TFSPO provided an example of better program management and practice. There was a hierarchy of plans linked to key performance indicators, and it had a well-established quality management system and regulatory compliance.

5.49   The ANAO outlined management practices within the TFSPO and work on its two major projects, the Hornet Upgrade Project and the Hawk radar simulation and emulation.

5.50   The final phase of the Hawk Acquisition Project provides the Hawks with radar emulation and simulation capabilities. The ANAO found that the project schedule for operational capability had slipped from July 2005 to August 2005. Factors contributing to the slippage included a lack of precedent in Hawk aircraft development, and a lack of suitable on-site Defence representation.[21]

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20   Defence QoN, 9 May 2007.
21   ANAO Audit Report No. 45, 2004/05, p. 53.

5.51   The Committee requested an update on the Hawk Acquisition Project. DMO replied that the radar emulation and simulation capabilities were expected to be added into the aircraft by August 2006, with project closure in January 2007. The Committee has been subsequently advised that full fleet embodiment for both radar simulation and radar emulation was achieved in December 2006. [22] The project is substantially complete but will not financially close until two ongoing technical issues are resolved; namely the resolution of eight outstanding System Problem Reports for radar simulation, and the late delivery of the Radar Emulation Threat Loader Programme.[23] While the radar emulation was due for in-service use by July 2006, testing on simulation function had shown that further development would be required, hence the delay until end 2006/early 2007.[24]

5.52   The Committee also questioned why, according to the ANAO, there was a lack of Defence representation on-site at the Hawk Acquisition Project. DMO replied that at the beginning of the project (1997) 18 project staff were posted to the BAE systems site in the United Kingdom. Upon delivery of the first UK built aircraft in 2000 (whereupon production started in Australia), the UK representation was reduced to four. The overseas team was disbanded in 2002, with the plan to fund 'as-needed' travel of Australian based specialists to the UK. Later, Departmental restrictions on overseas travel had further reduced the on-site representation. DMO stated that this had a minor impact on the clarification and resolution of some technical problems.[25]

Track Manoeuvre Systems Program Office

5.53   The Track Manoeuvre Systems Program Office (TMSPO) is part of the DMO's Land Systems Division, and is responsible for the acquisition and logistics support of the Army's tracked armoured fighting vehicles and associated equipment, including:

■ 766 M113 Armoured Personnel Carriers – the TMSPO is managing the M113 Upgrade Project which is examined in Audit Report No. 3, 2005-06 (to be examined later in this chapter);

■ 90 Leopard Medium battle tanks – the Army's main armoured capability; and

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22   Defence QoN, 9 May 2007.
23   Defence QoN, 9 May 2007.
24   Defence submission 5, p. 5.
25   Defence submission 5, p. 5.

■ the acquisition of 59 refurbished Abrams M1A1 Main Battle Tanks, at a cost of $530 million. These were scheduled to replace the Leopard tanks from 2007.

5.54   The Audit Office found that the TMSPO's hierarchy of plans, Key Performance Indicators, quality management and regulatory system were not as well developed as the TFSPO's.[26] However, its AEO certification, and ongoing compliance with the Technical Regulatory Framework, provided a level of assurance that the tracked vehicles operate within an appropriate regulatory framework.

5.55   The Audit Office found that in recent years, the Army had been unable to maintain the Leopard fleet's 'rate of effort' within target levels. What this means is that because of increasing tank fleet usage, decreasing support funding, and increasing support costs, all reserves of spares and maintenance stock have been consumed. This had reduced Army's tank reserves and spares holdings to minimal levels.[27]

5.56   The ANAO commented that the Leopard and M113 fleets have a complex logistics support chain. In 2003, an internal Defence audit found that only four percent of the vehicles sampled by the audit were fully functional, and only 22 percent of all equipment sampled was fully functional. TMSPO advised the ANAO that this low level of functionality had not prevented equipment usage, as Army managed equipment readiness primarily according to the ability to make equipment serviceable for planned missions.[28]

5.57   The Committee asked Defence to further explain the low levels of readiness for the Leopard tanks. Defence acknowledged that while it had sufficient spare parts for the turret system of the Leopard tank, other high usage, expensive inventory has declined to minimal levels. However, Defence argued, while at the time of the ANAO audit there was an urgent need for replenishment of some items, by April 2006 the inventory levels were sufficient to support the present usage of the tank fleet, and were being replenished as necessary. A number of tanks in the reserve equipment pool also provided backup for serviceable tanks.

5.58   Defence also acknowledged that its own 2003 finding of a four percent functionality rate (out of vehicles surveyed) was unacceptable. Following a joint effort between Army and DMO, availability is improving – although there is still room for improvement. Army subsequently

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26   ANAO Audit Report No. 45, 2004/05, p. 57.
27   ANAO Audit Report No. 45, 2004/05, p. 54.
28   ANAO Audit Report No. 45, 2004/05, p. 56.

reported that 42 percent of Leopard and M113 tanks were fully functional.[29]

Over-the-Horizon Radar System Program Office

5.59   The Over-the-Horizon Radar System Program Office (OTHRSPO) is part of the DMO's Electronic and Weapon Systems Division. The Over-the-Horizon Radar network comprises the Jindalee Operational Radar Network (JORN) located at Longreach, Queensland and Laverton, WA, and the Jindalee Facility Alice Springs (JFAS). The role of the OTHRSPO is to provide for OTHR system acquisition and logistics support management services. At the time of the audit, OTHRSPO was working towards ISO9001:2000 accreditation in 2005. DMP advised that OTHRSPO achieved accreditation in December 2005.

5.60   The Audit Office found that OTHRSPO had encountered some problems in implementing the DMO's quality management system (QEMS, outlined above). In particular:

■ QEMS needed to be available to all DMO personnel involved with acquiring and sustaining defence materiel. This included contractor staff. However, the majority of contractor personnel did not have access to the Defence Restricted Network, which hosts QEMS. Further, the restricted network was not available in all JORN or JFAS sites;

■ most of OTHRSPO's engineering plans were developed by private contractors. Because of commercial and other considerations, there was some uncertainty about whether these plans would be placed on the QEMS network; and

■ QEMS does not have document management tools for version control, so was considered unsuitable for use as an ISO quality management system. The OTHRSPO's quality management system was found to comply with ISO9001:2000 in December 2004.

5.61   Defence responded that the ISO9001 quality management system had now been fully integrated with QEMS. The Committee notes that the ANAO tabled a report in January 2006 on JORN.

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29   Defence, submission 5, p. 6.

Case study: Fast Frigate Guided Systems Upgrade Project

5.62   In view of the significant role that the SPOs play in managing major capital equipment acquisition projects, the Audit Office conducted a case study of project management for the $1.448 billion Fast Frigate Guided Systems Upgrade Project.

Background

5.63   The Fast Frigate Guided Systems Upgrade Project seeks to regain the original relative capability of six FFGs, and to ensure they remain effective and supportable through to the end of their life in 2013-2021. The project includes:

- improvements to the FFG's self defence and offensive capabilities;

- modifications to improve equipment reliability and maintenance;

- improvements to crew living quarters;

- a Warfare Systems Support Centre;

- three Operator Trainers and a Team Trainer; and

- logistics support.

Project progress

5.64   The Audit Office found that FFGSPO records indicated extensive schedule slippage. By July 2004, the project was almost two years behind the original delivery schedule. At the time of the audit (March 2005), delivery of the first upgraded ship was not expected until August 2005.

5.65   The Project began in 1994 when Defence sought industry participation in the FFG Upgrade Project through a request for expressions of interest. A contract with ADI was signed in June 1999. By December 2001, the schedule had slipped to such an extent that Senior Defence Committees considered a potential reduction in the numbers of FFGs to be upgraded, as well as the option of the Program's total cancellation.[30]

5.66   The Committee sought an update on the FFG project at its hearing in February 2006. DMO advised that the first ship to be upgraded, the HMAS *Sydney*, was undertaking a range of trials at sea, including testing the combat system, Mark 92 fire control system, radars, the guided missile

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30   ANAO Audit Report No. 45, 2004/05, p. 71

launcher system, and a number of upgraded electronic systems. DMO expected the trials to conclude by April 2006.

5.67   The contract stipulated that the upgrades on the second ship would not proceed until the first upgrade had been delivered and accepted by the DMO. However, DMO advised that they were working with the contractor (ADI) to begin some aspects of upgrading to the next ship (HMAS *Melbourne*).[31]

5.68   At the hearing, Defence argued that slippage was also determined by the performance of the contractor:

> I think one has to differentiate between the Commonwealth management of the activities, our recording of documentation, our linking of payments clearly to activities, to value achieved and to milestones achieved, and the contractor's performance against the contract…actual delivery of the capability does depend on the contractor's ability to do the engineering, to do the trials, to be able to demonstrate the outcomes.[32]

Role of the SPO

5.69   The FFGSPO is responsible for delivering and sustaining the materiel capability of the FFG class for whole of life. For the Upgrade project, this means the FFGSPO is responsible for directing and controlling product delivery in the Acquisition Phase of the project, including:

- defining and managing contractor performance;
- ensuring consistency with performance specifications;
- coherence with planning and other programs; and
- conformance with corporate, technical, safety and specialist standards.[33]

5.70   At April 2006 there were 60 personnel working on the FFGSPO Upgrade Project, with a further 12 positions undergoing recruitment.[34]

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31   Rear Admiral Ruting, Defence Materiel Organisation, PROOF *Transcript of Evidence* 9 February 2006, p. 15.

32   Rear Admiral Ruting, Defence Materiel Organisation, PROOF *Transcript of Evidence* 9 February 2006, pp. 3-4.

33   Defence, submission 5, p. 7.

34   Defence, submission 5, p. 7.

Milestone payments

5.71   By January 2005, the approved budget for the FFG Upgrade Project was
        $1448.32 million. At February 2005, around one-third of this budget
        remained to be spent. The contract consists of 71 milestone payments. The
        ANAO found that the milestone payments were not necessarily linked to
        the actual or budgeted cost of work performed at the time of the
        nominated milestone. Rather, they were based on projected prices over the
        period of the contract, which were agreed during contract negotiations in
        1999.[35]

5.72   The ANAO recommended that for future major equipment acquisition
        contracts, milestone payments are, where appropriate, aligned to the
        successful completion of mandated system reviews and tests and
        evaluations; and that full payments for milestones only be made when all
        review issues for previous milestone payments are satisfactorily resolved.

5.73   The Committee questioned whether any milestone payments made after
        the ANAO Audit had taken account of the above recommendation.
        Defence responded that while three milestone payments had been made
        since May 2005, the ANAO's recommendation was taken to apply to
        future contracts only. While the Commonwealth had an entitlement to
        withhold some or all of the payments, until previous critical milestones
        were achieved, it chose not to exercise its discretion on these occasions.
        Defence stated:

>   In each case the Terms and Conditions of the Contract were
>   observed and the Project Authority elected to exercise its
>   discretion to make these payments. This was after receipt of the
>   Prime Contractor's Supplies Acceptance Certificate and
>   certification that the relevant Milestones and Milestone Precursors
>   had been achieved.[36]

Financial management framework

5.74   As part of its audit, the ANAO requested that the FFGSPO assemble the
        financial records for payments made under the project. The ANAO found
        that prior to 2003, on 22 occasions, the Defence claim for payment sheets
        were not signed by any or both of the approving and certifying officers.
        These claims totalled $76.9 million. FFGSPO also paid $11.75 million based
        on unsigned invoices from the Contractor.[37]

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35   ANAO Audit Report No. 45, 2004-05, p. 85.
36   Defence, submission 5, p. 7.
37   ANAO Audit Report No. 45, 2004/05, p. 87.

5.75   The ANAO noted improved practices and procedures since 2003. There is now a formal signoff process to approve contractor payments. However, the ANAO stated:

> for 1999 to mid-2003, [FFGSPO records] did not provide a basis for orderly, efficient and accountable measurement of the use of Defence resources.[38]

5.76   The Committee asked why record-keeping and payment approval was so haphazard prior to 2003, and what had changed to ensure proper financial management. Defence replied that numerous factors had contributed to the problems identified by the ANAO, including:

- restructuring within Defence which resulted in reductions of skilled and experienced group personnel;

- a lack of appropriately skilled/professional FFGSPO business staff, coupled with challenges arising from the office's move from Canberra to Sydney;

- the Prime Contractor's record deficiencies; and

- less than effective correspondence management and filing processes.[39]

5.77   The Committee asked what had been done to strengthen financial management practices as a result of the audit report. DMO replied that it had brought in external accountants to assist in developing accounting practices that met the Australian Equivalents to International Accounting Standards. The external consultants had reviewed payment regimes and revised instruction procedures. These changes were being implemented in the FFGSPO, with the intention to rollout changes to other SPOs within the Maritime Systems Division. DMO told the Committee that the Aerospace Division was also looking at the FFG's financial changes.[40] In addition, external ISO 9000 accreditors review the SPO's processes, including financial systems, every six months.

Committee comment

5.78   Many of the issues highlighted in this audit report reflect the wider financial and project management problems in Defence, which were subsequently the subject of a more comprehensive Committee inquiry (*Report 411*, tabled August 2008). These include:

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38   ANAO Audit Report No. 45, 2004/05, p. 88.

39   Defence, submission 5, p. 8.

40   Rear Admiral Ruting, DMO, PROOF *Transcript of Evidence*, 9 February 2006, p. 9.

- projects running over-time and over-budget, often due to poor initial scoping and project planning;

- poor record-keeping;

- frequent staff rotation resulting in loss of corporate knowledge;

- information systems not able to cope with the reporting required, also staff not being given adequate training on the information systems; and

- different levels of management and financial skills throughout the organisation – some System Program Offices are performing better than others.

Audit Report No. 3, 2005-06 – Management of the M113 Armoured Personnel Carrier Upgrade Project

Background

5.79 The M113 is a lightly armoured aluminium bodied, fully tracked vehicle available in a range of different variants. It was introduced into service in Australia in the mid 1960s with a planned end life of 1995. There are 766 M113A1 vehicles in the Australian Army fleet, with 520 in-service at the time of the audit. The M113 has a number of identified operational deficiencies and currently remains in its original mid 1960s M113A1 standard.

5.80 In 1992, Defence initiated a minimum upgrade of the M113 fleet to improve firepower, night vision, fighting, habitability and survivability capabilities. The project was to be undertaken in two stages. Phase 1 would upgrade 537 vehicles to an A2 standard (minimum upgrade with new components such as spall curtains, suspension, engine cooling turret and machine gun). Vehicles were to be delivered from 1996 to 1998 at an approved cost of $39.9 million. Phase 2 would upgrade the remaining vehicles for final delivery by late 2000.

5.81 Phase 1 was to be delivered under six separate contracts. A prime contract for Phase 1(a) was signed with Tenix in May 1997.

5.82 In late 1997, Tenix (the Contractor) provided Defence with an unsolicited proposal to combine Phases 1 and 2 and to upgrade 360 vehicles to an M113AS3 standard (major upgrade to an A2 standard plus power pack and drive train) with expected savings of $30 million to Defence.

5.83   Defence subsequently decided to sole source the combined upgrade to the
        Contractor and Phase 1(a) of the prime contract was suspended in June
        1999.

5.84   A Major Upgrade Contract was signed in July 2002 for the supply of 350
        vehicles at an AS3 and AS4 standard (major upgrade to AS3 standard with
        stretch technology) at a cost of $388 million. These vehicles would be
        substantially different to what was originally envisaged when the M113
        Upgrade Project commenced in the early 1990s.[41]

Audit objectives

5.85   The objective of the audit was to provide independent assurance of the
        effectiveness of the management of the M113 fleet upgrade for the
        Australian Defence Force (ADF). The audit sought to identify the initial
        capability requirements and approval process, analyse the contract
        negotiation process, and examine the management of the project and
        contracts.

5.86   The audit focused upon the two major stages of the project: the minimum
        vehicle upgrade commenced in 1992 and a major upgrade of the fleet,
        which commenced in 2002 following a period of contract suspension from
        1999 to 2002.

5.87   Audit fieldwork was conducted between August 2004 and February 2005.
        Papers summarising the audit findings were presented to Defence from
        March to May 2005, with the report tabled in July 2005.

Audit conclusion

5.88   The ANAO found that the Project had undergone extensive scope changes
        and chronic schedule delays since its inception.

5.89   The Minimum Upgrade Phase of the Project suffered from poor project
        management practices, ineffective project planning, inadequately defined
        project objectives, and technical problems with the T50 turret. Combined
        with an inability to successfully integrate the components of the vehicle,
        this resulted in a failure to deliver capability to the ADF.

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41   ANAO Audit Report No. 3, 2005/06, *Management of the M113 Armoured Personnel Carrier
     Upgrade Project*, Commonwealth of Australia, July 2005, p. 28.

5.90   The ANAO found that Defence was unable to successfully manage changes in requirements, leading to a three year delay between approval to combine Phases 1 and 2 of the original Project in June 1999, and entering into the contact for the Major Upgrade Project in 2002.

5.91   The ANAO considered that the Major Upgrade Contract executed in July 2002 provided an improved framework for Defence to advance the Project. However, at the time of the audit, the ADF was yet to receive any upgraded vehicles and there was some doubt as to whether the upgraded vehicles would meet their in-service date of late 2006. The last vehicle is to be delivered in late 2010 and has a planned end life of 2020.

5.92   The ANAO noted that the Contractor was fast tracking production, meaning that they had commenced producing vehicles at their own risk before the vehicles had passed Defence formal testing. The ANAO considered that this approach involves a high level of risk. Notwithstanding the Contractor's liability for this risk, the ANAO believed the situation would require close management by both the Contractor and Defence.

Recommendations

5.93   The ANAO made three recommendations to Defence. The agency agreed with all recommendations.

Table 5.2   List of recommendations, ANAO Audit Report No. 3, 2005-06

1.	That the Defence Materiel Organisation put in place control mechanisms to ensure that changes in scope are approved at the appropriate level.
	Defence response*: Agreed.
2.	That the Defence Materiel Organisation recover against deliverables, the outstanding amount of the May 1997 mobilisation payment remaining from the Phase 1(a) M113 Upgrade Contract at the earliest opportunity.
	Defence response*: Agreed.
3.	That the Defence Materiel Organisation review contracting policy and its application of the collection of liquidated damages, to be received either by way of financial or agreed compensation, to ensure that they are collected in a timely manner.
	Defence response*: Agreed.

Minimum Upgrade Project

5.94   Phase 1 of this Project included six sub phases, which were to be managed through separate contracts (Phases 1(a) to 1(f)) with Phase 1(a) considered the prime contract as it included the highest cost component of the Project and provided for the installation of all other components. The ANAO

found that Defence's Equipment Acquisition Strategy did not identify or mitigate the risks associated with a number of separate contracts.

5.95   When questioned about these risks, DMO responded that with the exception of the turret enhancements, the Phase 1 upgrade elements were stand alone, mostly proven systems and that the integration task was assessed as low complexity and low risk. DMO argued that the benefits of greater choice and lower cost from the direct, competitive purchase of these elements exceeded the potential costs of any subsequent integration problems.

5.96   DMO considers that its judgement on this approach was vindicated when many of the Phase 1 upgrade elements were retained and installed into the present prototype upgrade vehicle with little difficulty.[42]

5.97   However, DMO also advised that in the event of total failure to integrate the systems, the project could have been cancelled, resulting in costs of at least $22 million, which was the amount that had been incurred to that time.

5.98   The audit report highlighted the numerous changes to the scope of this Project. Initially to be undertaken in two stages, the scope of Phase 1 was reduced from 537 vehicles to 364 vehicles in 1995 due to cost increases.

5.99   Phase 2 was to involve modifying the remaining vehicles to the same standard as the Phase 1 vehicles. However, in October 1997, Defence commenced discussions on upgrading 347 vehicles to an A3 standard, rather than the A2 standard originally envisaged. Defence also proposed that armour protection for the turrets, a climate control system, an inertial navigation system and two simulators be procured.

5.100   The project scope altered again following an unsolicited proposal from the Prime Contractor (Tenix) in November 1997, whereby the Contractor would procure and install Phase 2 upgrade components concurrently with the Phase 1 upgrade. It was intended that this approach would reduce duplication, maximise the use of existing facilities, meet the in-service dates of the vehicles some two to three years earlier than the current Phase 2 schedule, and realise savings of approximately $30 million.[43]

5.101   The ANAO noted that the Contractor had also, in December 1997, agreed a Commercial Support Program Contract with Defence to manage the specialist facility for the repair and overhaul of Army vehicles (including M113 vehicles).

42   Defence submission 5, p. 9.
43   ANAO Audit Report No. 6, 2005/06, p. 34-35.

5.102   This gave the Contractor access to the purpose built Defence facilities at
         Bandiana. In exchange for this, the contractor provided 'favourable'
         labour rates. Defence subsequently decided that Tenix's proposal was the
         best value for money.[44] This was noted by the Minister for Defence in May
         1998 and Cabinet gave approval for Phase 2 in early 1999 at a cost of
         $250 million.

5.103   The Committee queried Defence as to why it considered changing the
         scope of the Project so soon after contracts had been executed for the
         minimum upgrade. Defence replied that the minimum upgrade had been
         planned as an interim improvement to the vehicles pending development
         and approval of the capability requirement and a business case for a major
         upgrade. The unsolicited proposal from the Contractor brought forward
         consideration of the major upgrade.[45]

5.104   As part of the original Phase 1(a) contract, the Contractor was required to
         deliver prototype vehicles to Defence for trial purposes. All Phase 1
         components were initially to be subject to test and evaluation. However
         the four prototype vehicles that were delivered did not include all Phase 1
         components. There was no accepted delivery of prototype sights (an
         integral component of the turret). Continuing problems with the sights
         were identified during trials conducted in August and September 1998
         and three redesigned turrets were provided in August and September
         1999.

5.105   When asked why Defence did not insist that the technical issues
         surrounding the turret be resolved and that a prototype that included all
         Phase 1 components be provided before the project proceeded, DMO
         replied that Defence believed at the time that the various elements could
         be considered independently of each other. Further, a Defence review of
         the turret development concluded that the Contractor remained able to
         develop a satisfactory turret.

             However, this was deferred when work was halted in favour of
             the proposal to bring forward and merge the Phase 1 and Phase 2
             upgrades.[46]

5.106   The ANAO notes that at the time of the audit the Phase 1(a) component of
         the contract remained largely incomplete.[47]

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44   ANAO Audit Report No. 6, 2005/06, p.35.
45   Defence submission 5, p. 9.
46   Defence submission 5, p. 10.
47   ANAO Audit Report No. 6, 2005/06, p.15.

5.107　The ANAO found that the Minimum Upgrade Phase suffered from poor project management practices, ineffective project planning and inadequately defined project objectives. The Committee questioned Defence about what action it had taken to improve project planning in subsequent projects. DMO replied that a number of reforms have been implemented within Defence, including:

- establishing a single point of accountability, the Head of Capability Development;

- establishing a mandatory two-pass project approval system;

- establishing the DMO as a prescribed agency to give it a separate business-like identity;

- increasing staff professionalism through project management training and accreditation by the Australian Institute of Project Management;

- improving project management systems and processes, including standardised methodologies and reporting tools; and

- establishing Materiel Assurance Boards to advise the Chief Executive Officer of DMO.

5.108　The Committee notes that these reforms reflect the outcomes of the Defence Procurement Review 2003 (the Kinnaird Review). Defence's implementation of these reforms was one component of the Committee's broader inquiry.

Contract suspension and interim phase

5.109　Following the decision to combine Phases 1 and 2 and sole source to the Contractor, the existing Contract was suspended in June 1999 and it was decided that a series of Contract Change Proposals (CCP) should be developed. The ANAO described this period as being characterised by an inability of Defence to successfully manage changes in requirements.[48]

5.110　The ANAO also found that Defence did not follow its normal processes during this period:

- rather than follow normal procedures of developing a detailed operating requirement, statement of requirement and top level

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48　ANAO Audit Report No. 6, 2005/06, p.14.

specification, Defence considered these were unnecessary as the Contractor would be part of an integrated product team; and

- CCP13 was a joint exploration between Defence and the Contractor and did not include a formal request for CCP, evaluation criteria, or an evaluation report. Further, concurrence was not sought from either the Minister for Defence or the Minister for Finance and Administration for a real cost increase of $9.71 million. Defence is required to obtain ministerial concurrence where there is a real variation of more than $8 million and less than $20 million.[49] Defence disagrees with the ANAO that CCP13 constituted a real variation and therefore argues it did not require concurrence.

5.111   The ANAO recommended that Defence put in place control mechanisms to ensure changes in scope are approved at the appropriate level. Defence agreed and commented that these mechanisms are already in place.[50]

5.112   The Committee notes that that implementation of the Defence Procurement Review (the Kinnaird Review) should remediate this situation in future projects.

5.113   Three CCPs were developed, two of which were rejected by the Defence Evaluation Board for a number of reasons.[51] The Contractor subsequently claimed postponement costs in 2000 and $1.28 million was paid by Defence.

5.114   Defence redefined the scope of the M113 Upgrade Project in May 2000, when it agreed that the life of the M113 fleet would be around 2020. A mixed fleet would be necessary as only approximately 160 vehicles could be upgraded to an AS3 standard within the cost cap. The balance of approximately 190 vehicles would be upgraded to the A2 standard.

5.115   The ANAO found that Defence had decided 'that there was no reason to believe that there were better value for money replacement vehicle options and that upgrading the M113s was feasible as current hull integrity issues were manageable'.[52] However, there were a number of issues:

- the M113s would no longer be amphibious due to increased weight;

- army's existing eight tonne Mack trucks would no longer be able to transport the upgraded M113s; and

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49   ANAO Audit Report No. 6, 2005/06, p.47.
50   ANAO Audit Report No. 6, 2005/06, p. 48.
51   ANAO Audit Report No. 6, 2005/06, p. 40-41.
52   ANAO Audit Report No. 6, 2005/06, p.44.

- savings that were to accrue to the Australian Government from the sole source option may not eventuate due to changes to the project cost and acquisition strategy.

5.116   The Committee queried whether, in light of the cost of the project and the delays experienced to this point as well as the expected lifespan of these 1960s vehicles, continuation of the project represented value for money. In its response to Questions on Notice, DMO advised that the M113 vehicles represent significant capability for the Army and that the project was endorsed as value for money by the Defence Capability Committee on 15 May 2000, in the Defence White Paper 2000, and again by the Government's second pass project approval in June 2002.[53]

Phase 1 costs

5.117   The ANAO calculated that $9.70 million had been spent at the time the Phase 1 contract was suspended. Of this, $5.60 million had been spent upon contract deliverables while $4.21 million was paid as an advance payment. The Contractor was then paid $18.30 million, including $1.28 million postponement costs, to undertake a number of activities towards developing an acceptable combined upgrade proposal.

5.118   Only $970,000 of the $4.21 million advance payment made in 1997 had been offset against deliverables with the remaining amount of $3.24 million a debt owing to Defence at the time of the audit.

5.119   While this debt has now been collected,[54] the Committee is concerned about the length of time allowed to elapse prior to its collection and that it was recovered only following a specific recommendation by the ANAO.

Management of the Major Upgrade Contract

5.120   The M113 Major Upgrade Project was approved in 2002 at a cost of $552 million. The contract between Defence and Tenix provided for the supply of 350 upgraded M113 vehicles in seven variants. 259 vehicles were to be provided to an AS4 standard.

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53   Defence submission 5, p.10.
54   Mr Colin Sharp, Defence Materiel Organisation, PROOF *Transcript of Evidence*, 9 February 2006, p. 17.

5.121   The Committee asked Defence why it had sole sourced the major upgrade
         to the same Contractor, when it had been unable to complete the Phase
         1(a) Prime Contract signed in 1997. DMO replied that it believed,
         notwithstanding the technical problems encountered in development of
         the turret improvements, that the Contractor would deliver a satisfactory
         turret and successfully install the remaining Phase 1 upgrade elements. It
         also justified its decision on the following basis:

         ■ the Contractor had previously established its cost competitiveness for
           other contracts;

         ■ a similar offer had been provided by another company shortly before
           acceptance of Tenix's unsolicited proposal, which was rejected because
           of its higher price;

         ■ Defence strongly preferred an Australian contractor;

         ■ there would be low labour rates as a result of Tenix's access to
           Commonwealth facilities at Bandana;

         ■ another contractor would "complicate the interaction between support
           of the existing vehicles and any upgrade program"; and

         ■ termination costs for the Phase 1 contract would be payable.[55]

5.122   In response to a further question, DMO conceded that in hindsight an
         open tender would have provided a more robustly defensible contractor
         selection and possibly a stronger basis for Defence in subsequent contract
         negotiation.[56]

5.123   The project involved three stages: demonstration vehicles (stage 1), initial
         production vehicles (stage 2) and production vehicles (stage 3).

5.124   Stage 1 required the Contractor to build two demonstration vehicles: an
         Armoured Personnel Carrier and an Armoured Logistics Vehicle. In early
         2004, Defence advised the Contractor it could proceed to stage 2, which
         involves development of fourteen production vehicles for further testing
         and evaluation.

5.125   The ANAO found that despite being given permission to proceed, two
         concerns were identified at stage 1 and remained outstanding at the time
         of the audit, representing an ongoing risk to schedule and performance.
         These issues were 'heat in relation to the effect on both the vehicle systems
         and its occupants whilst operating in the climatic conditions that can be

expected in the northern regions of Australia, and the provision of the required integrated logistic support data'.[57]

5.126   The Committee asked Defence why it allowed the Contractor to proceed to stage 2 before outstanding issues associated with the prototype vehicles were resolved. It its response, DMO outlined the exit points that were included in the contract, whereby the contract provided for termination at the end of stage 1 only in the event that major problems were identified that would prevent compliance with the vehicle specification and that the Contractor could not demonstrably resolve.

5.127   Defence's legal advice at the time concluded that as there was evidence that the problems would be resolved, Defence had no basis to exit the contract at that point.[58]

5.128   While the Committee accepts that Defence may not have been able to exit the contract at this point, it is not apparent that Defence considered delaying implementation of stage 2 until the technical issues were satisfactorily resolved.

5.129   DMO has provided an update on the current status of these outstanding issues. Improvements to prevent engine overheating have been developed and subject to extensive testing with no recurrence of engine overheating. DMO considers it is unlikely that further engine overheating will occur.[59]

5.130   DMO also advised that delivery of integrated logistic support data was delayed by the failure of the main subcontractor to provide the data to the Contractor. The Contractor also experienced difficulties recruiting sufficient staff, which contributed to delays. Delivery of the integrated logistic support data continues to be behind schedule and is receiving DMO's close attention.

5.131   Defence has indicated that these issues must be fully resolved before approval for stage 3, which is full production, will be given. Acceptance testing will also be conducted prior to acceptance by Defence.

5.132   The Committee questioned the implications for Defence capability that have arisen from the numerous delays in this project. DMO replied that it has been necessary for the Army to retain the M113A1 family of vehicles in service for a longer period and to manage known capability deficiencies in the areas of protection, firepower, mobility and habitability.

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57   ANAO Audit Report No. 6, 2005/06, p. 53
58   Defence submission 5, p. 12.
59   Defence submission 5, p. 12.

5.133   The ANAO noted that the United States upgraded its fleet of M113A1 vehicles in the 1980s to AS3 standard.[60] The Australian M113A1 fleet had an expected life end of 1995 and in 2005 remained in its original condition. When questioned about whether this upgrade ultimately provides the best value for money, Defence responded that the present upgrade offers the best value for money as upgraded M113s are highly capable and cost effective vehicles that continue to serve around the world. Defence had examined the experience of other countries such as Canada, Germany and Denmark in upgrading vehicles as well as new vehicle options in reaching this conclusion.[61]

5.134   Defence considers that the project will deliver "one of the best protected and capable light armoured fighting vehicles in the world".[62]

5.135   The ANAO noted that the provision of late or inadequate Government furnished equipment (GFE) is one contributing factor to Defence induced schedule delays. Schedule slippage may leave Defence open to postponement claims from the Contractor. Defence has advised that it is conducting detailed planning of stocks levels and supply lead times and is stockpiling GFE to provide a buffer stock for planned production demand. Where GFE is being supplied through the overhaul of M113A1 components by Tenix via the vehicle support contract at Bandiana, Defence has included terms in the upgrade contract to ensure Tenix remains liable for timely supply to support vehicle production.

Transportation

5.136   The upgraded vehicles are to be transportable by road within Australia without special permits, by Australian railways within standard loading dimensions and preferably without preparation, on specified watercraft and as an internal load in the C-130 (Hercules) aircraft.

5.137   The ANAO noted a number of weight issues when carrying the upgraded vehicles on the current military transportation vehicles. It also identified that there may be a reduction in lift capacity as the number of vehicles to be procured by Project Overlander, a multi-phased project to provide the ADF with field vehicles and trailers to meet its mobility requirements, will

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60   ANAO Audit Report No. 6, 2005/06, p. 23.
61   Defence submission 5, p. 13.
62   Defence submission 5, p. 13.

be significantly less than the number of vehicles originally used to lift the M113A1 vehicles.

5.138   Defence has advised that Project Overlander will acquire vehicles that are capable of transporting the M113AS4 Armoured Personnel Carrier in its transport configuration, that is, without crew and passengers at a weight of about 16 tonne. In the interim period, the upgraded M113s can be transported on Defence semi-trailers.

5.139   While Project Overlander is expected to acquire fewer vehicles than are presently available to transport M113s, Defence also intends to reduce the number of M113s issued to Army units. Army units are to be re-equipped with ASLAV and Bushmaster vehicles, and reallocated equipment as per the Hardened and Networked Army initiative.[63]

Production

5.140   While the in-service date remained November 2006 in early 2005, the ANAO commented that the production of some variants would slip up to six months. For example, the excessive engine heat was not yet resolved. Due to the delay, the Contractor advised Defence that it would fast track some elements of initial production vehicle testing in order to meet the scheduled in-service date. The Contractor would be relying upon its own Reliability Qualification Test to proceed to full production before it received Defence sign off. The ANAO acknowledged that while the risk sat largely with the Contractor, it was still a high risk option for Defence.

5.141   Defence advised that the status and results of testing of the upgraded M113, as at April 2006, are:

   ■ endurance, 100% complete, no major problems;

   ■ turret performance, 100% complete, no major problems;

   ■ mobility, performance and physical characteristics, 99% complete, no major problems;

   ■ maintainability, 90% complete, due 20 March 2006, no major problems;

   ■ electromagnetic and electrical performance, 98% complete, due 24 February 2006, no major problems; and

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63   Defence submission 5, p. 14.

- reliability qualification test, 28% complete, due May 2006, hand brake failure being investigated.

5.142   Defence provided the Committee an update of the status in May 2007:

- maintainability, 95% complete, due July 2007, no major problems;

- electromagnetic and electrical performance, 200% complete, no major problems;

- reliability qualification test, 28% complete, stopped on 17 March 2006, due May 2007.[64]

Financial management

Payment of Goods and Services Tax invoices

5.143   The ANAO noted that invoices for foreign currency received prior to mid 2004 appear to be invalid and that in order for Defence to claim GST credits, it must have a valid tax invoice to support each claim for purchases. There are some 84 invoices from January 2002 to June 2004 that may be invalid.

5.144   It further noted that the retail sell rate of the Australian Financial Review rather than the wholesale rate quoted by the Reserve Bank of Australia was used by the Contractor, resulting in a difference of $15,000 through the use of this rate over seven months.

5.145   The Committee asked Defence whether it had changed the way that it processed invoices in response to the ANAO comments. Defence responded that it maintains that the spot selling rate for the foreign exchange component is an appropriate method and is in accordance with Goods and Services Tax Ruling 2001/2 dated 2 February 2001.

Liquidated damages

5.146   Defence is entitled to recover liquidated damages of 0.1 percent of the milestone value of the supplies in default each week after the milestone due date (following a grace period not exceeding 90 days) if the Contractor fails to deliver. Defence may alternatively accept agreed compensation in lieu of recovering liquidated damages.

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64   Defence QoN, 9 May 2007.

5.147   The ANAO noted two areas of delay identified by Defence: integrated logistic support data and plans and the production of initial production vehicles, with an amount of damages of $23,255. While Defence advised the Contractor in September 2004 of its intention to seek liquidated damages, no claim had been made at the time of the audit.

5.148   The Audit Report's third recommendation was that DMO review contracting policy and the collection of liquidated damages to ensure that are collected in a timely manner. Defence agreed with this recommendation, noting that this is comprehensively addressed in the ASDEFCON Suite of Contracting Templates, Defence Procurement Policy Manual, Defence Procurement Policy Instructions, relevant DMO Financial Instructions and Chief Executive Instructions.

5.149   The Committee is pleased to note that the damages referred to by the ANAO have now been collected.[65]

Committee comment

5.150   The M113 upgrade project clearly illustrates many of the systemic problems in Defence project management that have been identified by the ANAO and other reviewers. The project has been characterised by chronic schedule delays and numerous changes in scope. The result is a situation whereby, 16 years after a minimum upgrade was initiated, at the time of the audit these vehicles remained in the same A1 standard as when they were introduced into service in the 1960s.

5.151   The Committee notes the three year delay between suspending the Minimum Upgrade Project and signing the contract for the Major Upgrade Project. It also notes the ANAO findings that, at the time of the audit, the work required by the original Phase 1(a) contract, executed in 1997, remained largely incomplete despite the project being sole sourced to the same Contractor.

5.152   The Committee considers that this project highlights serious failures in Defence project management that must be rectified through the reform process currently in train. The Committee is pleased to acknowledge that Defence has adopted a systemic approach to these matters and that progress has already been made.

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65   Mr Colin Sharp, Defence Materiel Organisation, PROOF *Transcript of Evidence*, 9 February 2006, p. 17.

5.153   The Committee remains concerned about the cumulative impact upon
        ADF capability that has arisen from poor project management practices. It
        is clear that these practices have had an overall effect. More than ten years
        after the original planned end life of the M113 armoured personnel carrier,
        the ADF had yet to receive any upgraded vehicles and continued to
        manage known capability deficiencies.

5.154   During the hearing on 9 February 2006, Defence commented that many of
        its projects in difficult areas, such as the M113 upgrade, came from the
        1990s and that "a lot of improvements have been made since then".[66] The
        Committee examined the reform process further through its broader
        inquiry which reported in August 2008 (JCPAA *Report 411*).

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66   Dr Stephen Gumley, Defence Materiel Organisation, PROOF *Transcript of Evidence,* 9 February
     2006, p. 2.

6

Consultancies and Contracts

Audit Report No. 11, 2005–06, Senate Order for Departmental and Agency Contracts

Audit Report No. 27, 2005–06, Reporting of Expenditure on Consultants

Introduction

6.1   The Committee reviewed two audit reports dealing with the reporting of consultancies and contracts. These were Audit Report No. 11, 2005–06: *Senate Order for Departmental and Agency Contracts*[1] and Audit Report No. 27, 2005–06: *Reporting of Expenditure on Consultants*[2].

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1   ANAO Audit Report No. 11 2005–06, *The Senate Order for Departmental and Agency Contracts (Calendar Year 2004 Compliance)*, September 2005.
2   ANAO Audit Report No. 27 2005–06, *Reporting of Expenditure on Consultants*, January 2006.

Audit Report No. 11, 2005–06: *Senate Order for Departmental and Agency Contracts*

Background

6.2   The report outlines the results of the seventh audit of *Financial Management and Accountability Act 1997* (FMA Act) agencies' compliance with the Senate Order for departmental and agency contracts (the Senate Order), to list contract details for the 2004 calendar year reporting period on the Internet.

6.3   The audit was conducted in accordance with the Senate Order request for the Auditor-General to undertake an annual examination of agency contracts listed on the Internet, and report whether there had been any inappropriate use of confidentiality provisions.

6.4   The Senate Order was originally made in June 2001 and has been amended several times, most recently on 4 December 2003. The Order intends to underline the principle that information in government contracts should not be protected as 'commercial in confidence' unless there is a sound reason to do so.

6.5   The Senate Order originated from a perception that with increased outsourcing and contracting to the private sector, there was an increasing risk that rights of access to information relating to government services could be diminished. The Joint Committee of Public Accounts and Audit (JCPAA) commented in Report 379 that 'accountability and parliamentary scrutiny are being eroded through the application of commercial-in-confidence to all or parts of government contracts'.[3]

Audit objectives and scope

6.6   The objectives of the audit were to assess agency performance in relation to compiling their Internet listings as required by the Senate Order and the appropriateness of the use of confidentiality provisions in Commonwealth contracts.

6.7   The audit involved a detailed examination in seven agencies of the processes used to compile their Internet listings and the use of confidentiality provisions in contracts.

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3   ANAO Audit Report no. 11, 2005–06, p. 51.

6.8 Specifically, the audit objectives were to examine in the selected agencies:

- whether all the details as required by the Senate Order were included in the agency's Internet contract listing;

- the process by which the agency's Internet listing was prepared, and assess whether the process was likely to lead to the list of contracts placed on the Internet being complete;

- the process by which the agency determined which contracts placed on the Internet contained confidential provisions or were considered to be confidential, and assess whether the process was likely to be appropriate;

- a selection of contracts listed as confidential and determine whether the use of such provisions was appropriate; and

- a selection of contracts which have been excluded from the Internet listing because the whole contract was deemed to be confidential and assess whether the contract should have been listed.

6.9 The seven agencies selected for review were:

- Australian Customs Service (Customs);

- Australian Electoral Commission (AEC);

- Department of Family and Community Services (FaCS);

- Department of Immigration and Multicultural and Indigenous Affairs (DIMIA);

- Department of the Prime Minister and Cabinet (PM&C);

- Department of Transport and Regional Services (DoTaRS); and

- Department of Veterans' Affairs (DVA).

Overall audit conclusions

6.10 Overall, the ANAO concluded that although agencies' Internet listings generally complied with the Senate Order, the percentage of contracts listed as containing confidential information, that were considered by the ANAO as being appropriately listed, was low. This situation could be attributed to inadequate guidance being provided in some agencies to staff with contract negotiation responsibilities, as well as a lack of training and/or the provision of awareness-raising sessions to these staff.

6.11   Importantly, the audit found that all the agencies reviewed had included in their template contract, and the majority of contracts, a clause providing for the disclosure of information to the Parliament and its Committees.

6.12   The results of the ANAO's audits over the last three years indicate a need, at least in some agencies, to improve their awareness of, and compliance with, the Senate Order. The need for agencies to revise their procurement and related guidance material in the light of revisions to the Commonwealth Procurement Guidelines (CPGs), which took effect from 1 January 2005, represents a good opportunity for agencies that have not already done so, to review and as necessary improve their guidance of material relating to the Senate Order. Agencies should also reinforce the importance of compliance with the Order in procurement-related training and awareness sessions undertaken. This is particularly important in circumstances where agencies have a devolved procurement environment where line managers are responsible for the negotiation and management of contracts, including making judgements about the confidentiality of contract provisions.

ANAO recommendations

6.13   The ANAO made three recommendations in total, which are detailed in Table 6.1.

Table 6.1   ANAO recommendations, Audit Report No. 11, 2005–06

1.	The ANAO recommends that agencies, that have not already done so, implement additional controls designed to ensure the completeness and accuracy of their Internet listings. These controls could include reconciling the Senate Order listing to AusTender information and/or contract details included in their Financial Management Information System (FMIS).
	All responding agencies agreed.
2.	The ANAO recommends that agencies provide further guidance, together with training and/or awareness-raising sessions on the requirements of the Senate Order, to all staff responsible for negotiating contracts.
	All responding agencies agreed.
3.	The ANAO recommends that agencies ensure adequate documentation of the reasons for agreeing to identify specified information in contracts as being confidential.
	All responding agencies agreed.

The Committee's review

6.14   The Committee held a public hearing on 14 June 2006 with witnesses from the Department of Finance and Administration (Finance), PM&C and the ANAO.

6.15   At the public hearing, the main issues addressed by the Committee included:

- content of internet listings and processes for preparing listings; and

- confidential provisions in contracts.

Internet listings

6.16   The Committee is pleased that, consistent with previous audits, in most cases, agencies had published their listings on their websites in a timely manner and the presentation of listings complied with the requirements of the Senate Order.[4]

6.17   In relation to the processes agencies had in place to ensure the accuracy of listings, the ANAO found that, whilst all sample agencies had controls in place, most should improve their existing procedures by implementing additional controls. The ANAO suggested that such controls could include the reconciliation of listings with contract details in their Financial Management Information System (FMIS) and/or their AusTender listing.[5]

Confidential provisions in contracts

6.18   One of the main objectives of the Senate Order is to require agencies to adopt a considered decision in relation to the inclusion of confidential information in Australian Government contracts.[6] The ANAO found that a low proportion of contracts audited (25 percent) met all four of Finance's tests for evaluating confidential information.[7]

6.19   Although the ANAO suggested that the overall policy frameworks within agencies had improved over time, it acknowledged that there had been some failings in individuals understanding and appropriately applying those policy frameworks.[8]

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4   ANAO Audit Report No. 11, 2005–06, p. 23.
5   ANAO Audit Report No. 11, 2005–06, p. 28.
6   ANAO Audit Report No. 11, 2005–06, p. 30.
7   ANAO Audit Report No. 11, 2005–06, p. 37.
8   ANAO, *Transcript of Evidence*, 22 May 2006, p. 2.

6.20   The Department of the Senate expressed its disappointment that there did not seem to be significant improvement in agencies' compliance with the requirements of the Senate Order.[9]

6.21   Similarly, the Committee was very concerned that the audit found that the excessive use of confidential provisions in contracts remained a serious problem. Finance outlined its role in providing advice and training across the public service to ensure that procurement officers in agencies take a considered approach to decisions to include confidential clauses in contracts.[10]

6.22   In response to concerns that the desire to include confidentiality clauses came from agencies rather than contractors, Finance conceded that its:

> … confidence is not high that in all cases it is driven by the commercial contractor … I think sometimes agencies overclassify their requirements. Again, we have been working to get agencies to step back and look at their requirements and not overclassify them.[11]

6.23   The ANAO found that all audited agencies had included in their standard tendering documentation and contract templates information on the Australian Government's accountability framework, including its policy in relation to confidential information and disclosure to the Parliament and its Committees.[12]

6.24   The ANAO suggested that agencies had moved away from accepting contractors' reasons for protecting particular information as confidential, particularly information such as hourly rates. The ANAO suggested that agencies had started to question the legitimacy of some of these claims of confidentiality, although noting that further improvements could be made.[13]

6.25   Similarly, Finance argued that there had been a significant improvement in agencies' appropriate use of confidential clauses in contracts, and was confident that further improvements would take place over time.[14]

9   ANAO, *Transcript of Evidence*, 22 May 2006, p. 2.
10 Finance, *Transcript of Evidence*, 22 May 2006, pp. 2–3.
11 Finance, *Transcript of Evidence*, 22 May 2006, p. 3.
12 ANAO Audit Report No. 11, 2005–06, p. 35.
13 ANAO, *Transcript of Evidence*, 14 June 2006, p. 7.
14 Finance, *Transcript of Evidence*, 14 June 2006, p. 17.

6.26   The Committee was pleased to hear that, in response to findings of the
        ANAO audit, PM&C had revised its procurement checklist to draw
        particular attention to the need to consider contractors' confidential
        information in light of the four tests outlined in Finance's *Guidance on
        Confidentiality of Contractors' Commercial Information* (Finance's
        Guidance).[15]

6.27   The Committee was satisfied that there had been a concerted effort, by
        many agencies, to actively inform contractors that confidential
        information may still be provided to the Parliament or the courts.[16] The
        ANAO advised that many agencies now included up-front information in
        their contracts stating that information within the contract may be
        disclosed to the Parliament and as required by law.[17] Notwithstanding,
        the Committee sees merit in this advice being included in all agencies'
        tender and contract documentation.

Recommendation 8

**The Committee recommends that all agencies include in their proforma
contract and tendering documentation, advice pertaining to the
Australian Government's accountability framework.**

6.28   The ANAO found lacking, in some agencies, the adequacy of guidance
        material provided to staff, as well as the timeliness of training and
        awareness sessions provided to staff, particularly staff in line areas with
        procurement responsibilities.[18] The Committee notes Finance's efforts to
        provide awareness sessions to Australian Government agencies, but urges
        all agencies to take seriously their responsibility to provide detailed and
        timely training to all new and ongoing procurement officers.

6.29   Given that the Committee is charged with scrutinising the economic
        performance and accountability of government agencies, and despite
        improvements that have been made in relation to the use of confidentiality
        provisions in government contracts, it is anxious to ensure that
        confidential provisions are not included in contracts unless absolutely
        necessary.

15   PM&C, *Transcript of Evidence*, 14 June 2006, p. 5.
16   Finance, *Transcript of Evidence*, 14 June 2006, p. 4.
17   ANAO, *Transcript of Evidence*, 14 June 2006, p. 8.
18   ANAO Audit Report No. 11, 2005–06, p. 35.

Recommendation 9

>   **The Committee recommends that all departments, that have not yet done so, incorporate into their procurement process documentation:**
>
> - ■ **details of the four tests for the inclusion of confidential clauses in contracts, as detailed in Finance's** *Guidance on Confidentiality of Contractors' Commercial Information*; **and**
>
> - ■ **advice highlighting the importance of procurement officers seeking specific reasons for the use of confidential clauses, and for these reasons to be clearly documented.**

6.30   The Committee noted that ANAO's Recommendation No. 3 referred to agencies ensuring that the reasons for including confidential clauses in contracts are adequately documented, and sought clarification from the ANAO in relation to the form that this documentation should take. The ANAO did not wish to prescribe the specific form that such documentation should take, but broadly stated that there should be:

>   … some evidence that a contractor has put forward reasons why they feels that the material should be kept confidential, and they should be some matters of substance, not just the fact that the do not think it should be disclosed. We think there should also be some indication of the consideration that the agency has given to that and documentation of the final judgment. That does not have to be an extensive piece of work. In some circumstances it can be quite short, quite brief.[19]

Finance's role

6.31   When asked for its view on some agencies' tendencies to continually over-use confidentiality provisions in their contracts, Finance responded that:

>   We basically support the recommendations of the ANAO. We have in fact recently re-released a department of finance publication which deals with the Senate order and confidentiality of reporting. We have raised it at our procurement conference, in

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19   ANAO, *Transcript of Evidence*, 14 June 2006, p. 6.

our procurement seminars and in our procurement development forum, and we continue to work to improve the knowledge and the application of these requirements.[20]

6.32 In response to suggestions that Finance's Guidance was somewhat difficult to understand and could be open to manipulation, Finance informed the Committee that it was in the process of reviewing this publication. It estimated that it would have a draft revised Guidance available for circulation over the coming months.[21] The draft revised guidance was issued in March 2007 following the Senate Standing Committee on Finance and Public Administration's report, *Departmental and agency contracts*: *second report on the operation of the Senate order for the production of lists of departmental and agency contacts (2003-2006)*.[22] It defended the amount of time that had transpired since the last Guidance was issued (February 2003), arguing that it takes some time to gauge the effectiveness of the advice before taking a decision to issue revised guidance.[23]

6.33 The Committee was interested to learn about Finance's role in facilitating and monitoring agencies' compliance with the requirements of the Senate Order. Finance responded that it has a role in providing advice to agencies, including:

> … ensuring that people in departments understand what is required, but we do not have a role in terms of monitoring or enforcement.[24]

6.34 The Committee was concerned that there did not seem to be any systematic cross-agency monitoring of compliance with the Senate Order. Finance's view was that the ANAO was responsible for monitoring compliance, although the Committee does not accept this view, noting ANAO advice that:

> Successive Auditors-General have agreed to undertake an audit each year of compliance, but certainly we would not accept a monitoring responsibility over this. At the end of the day each agency's head is responsible.[25]

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20 Finance, *Transcript of Evidence*, 22 May 2006, p. 2.
21 Finance, *Transcript of Evidence*, 22 May 2006, p. 3.
22 Pers. Comm. John Grant, Division Manager, Procurement Division, Finance. 6 March 2007.
23 Finance, *Transcript of Evidence*, 22 May 2006, p. 4.
24 Finance, *Transcript of Evidence*, 22 May 2006, p. 3.
25 ANAO, *Transcript of Evidence*, 22 May 2006, p. 5.

6.35   The Senate observed that it could impose sanctions for the wilful breach of this order and that it expected that:

> … government would be keen to be seen to be complying with the order to the best of its ability and may well set up some kind of additional monitoring section in the responsible agency.[26]

6.36   Notwithstanding the implications of agencies operating in a devolved financial framework, and agency heads being ultimately responsible for their organisation's compliance with statutory requirements, the Committee feels strongly that a central agency should have responsibility for monitoring and enforcing, in a whole-of-government context, compliance with the requirements of the Senate Order.

Recommendation 10

The Committee recommends that the Department of Finance and Deregulation be given authority to monitor agencies' compliance with Finance's *Guidance on Confidentiality of Contractors' Commercial Information* in relation to the Senate Order.

Audit Report No. 27, 2005–06: *Reporting of Expenditure on Consultants*

Background

6.37   In 2003–04, 73 agencies were covered by the FMA Act and therefore subject to this audit.

6.38   Consultancy expenditure in 2003–04 was reported as $361 million by these agencies, which have three separate obligations to report on their use of consultants:

- the Requirements for Annual Reports by Departments, Executive Agencies and FMA Act Bodies published by the Department of Prime Minister and Cabinet (after approval by the JCPAA) requires agencies to publish details in their annual reports of all consultancies let in the financial year and valued at over $10,000;

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26   Department of the Senate, *Transcript of Evidence*, 22 May 2006, pp. 7–8.

- the CPGs require agencies to report all contracts (including consultancy contracts) greater than $2,000 in the Gazette Publishing System (GaPS); and

- the Senate Order requires FMA Act agencies to report on their website all contracts (including consultancy contracts) greater than $100,000 and to identify those contracts that contain confidentiality provisions.

Audit objective and scope

6.39   The objective of the audit was to assess the accuracy and completeness of Australian government agencies' reporting of expenditure on consultants across the 73 agencies subject to the FMA Act in 2003–04.

Overall audit conclusions

6.40   The ANAO concluded that agencies should take greater care in reporting expenditure on consultants. The ANAO found, in terms of the accuracy and completeness of reporting across the three reporting regimes, that none of the 73 FMA Act agencies had correctly reported in all three regimes.

6.41   In response to the audit, most of the 73 agencies affected by the audit acknowledged inadequacies in their reporting and 85 percent advised the ANAO that they would take some form of corrective action.

6.42   There are overlaps between each of the reporting regimes and it is often necessary to report the same consultancy contract in all three regimes. Different data is required in each, however, and the ANAO found that this had contributed to the difficulties agencies experienced in reporting accurate and complete data.

6.43   The ANAO's key recommendation was that the relevant central agencies, in consultation with stakeholders, examine options for improving the accuracy of reporting of Government procurement and rationalising the number of reporting regimes with a view to addressing the overlaps and inefficiencies evident in the current approach.

ANAO recommendations

6.44   The ANAO made three recommendations, which are detailed in Table 6.2.

Table 6.2   ANAO recommendations, Audit Report No. 27, 2005–06

1.	The ANAO recommends, having regard to the significant number and value of ongoing contracts that it has omitted from its Senate Order listings, that the Department of Defence set, and report against in the future Senate Order listings, the expected time by which full compliance will be achieved.
	The Department of Defence disagreed.
2.	The ANAO recommends that the Department of Finance and Administration and the Department of the Prime Minister and Cabinet, in consultation with key Parliamentary Committees, affected agencies and other relevant stakeholders, examine options for improving the accuracy and completeness of reporting of Government procurement, including the merits of rationalising the number of reporting regimes.
	All but one of the responding agencies agreed.
	The Bureau of Meteorology agreed with qualification.
3.	The ANAO recommends that FMA Act agencies appropriately correct omissions or incorrect inclusions of information which relate directly to their reported expenditure on consultants in their next annual report.
	All but one of the responding agencies agreed.

The Committee's review

6.45   The Committee held a public hearing on 14 June 2006 with witnesses from Finance, PM&C, the Department of the Environment and Heritage (DEH), the Department of Health and Ageing (Health), and the ANAO.

6.46   At the public hearing, the main issues addressed by the Committee included:

- reporting of consultancies in annual reports;

- reporting of procurement in the Gazette Publishing System;

- reporting of consultancies in Senate Order; and

- inefficiencies across reporting regimes.

Reporting consultancies in annual reports

6.47   The ANAO audit found that reporting of consultancies in annual reports was not as accurate as it should have been. The Committee was interested to learn what changes had been made to improve accuracy of consultancy information in annual reports.

6.48   PM&C explained that the audit was based on reporting of 2003–04 consultancies under the annual reporting guidelines in place at that time. The requirements were changed considerably for 2004–05 annual reports, which would not have been picked up by the ANAO's audit. Departments now had access to proformas to assist with reporting of consultancies in

annual reports, and PM&C was confident that the amended requirements would improve the accuracy of information reported.[27] PM&C had also consulted with a number of departments before formulating the new requirements, and was therefore confident that implementation could be achieved.[28]

6.49   DEH confirmed that the revised guidelines and guidance from central agencies, as well as investigations by the ANAO, had assisted in clarifying ambiguities, and was therefore confident that its 2004–05 annual report would show marked improvement on 2003–04 reporting.[29] Health also assured the Committee that its 2004–05 reporting would be an improvement on the previous year's results.[30]

Reporting procurement in the Gazette Publishing System

6.50   The Committee noted that data is directly entered into AusTender by relevant agencies, rather than coordinated by a central agency. The Committee was concerned to ensure that appropriate areas of each agency take responsibility for ensuring that data entered into AusTender is accurate and complies with relevant reporting requirements. In particular, the Committee noted the need for the Department of Defence (Defence) to incorporate a monitoring role into one of its central coordination areas, perhaps within the Defence Materiel Organisation.

6.51   DVA noted that the agency head was ultimately accountable for its compliance with reporting requirements. It argued that the Department's procedures were adequate, but that a staffing issue had led to those processes not working adequately.[31]

6.52   In light of Finance's advice regarding improvements to AusTender (subsequently implemented), the Committee was interested to learn how these changes would overcome the considerable delay in agencies reporting data on the GaPS/AusTender system. Finance advised that, although there would be no in-built 'trigger' to alert them to late entries in AusTender, the 'system, in its enhanced mode, is being designed to draw

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27   PM&C, *Transcript of Evidence*, 14 June 2006, p. 12.

28   PM&C, *Transcript of Evidence*, 14 June 2006, p. 12.

29   DEH, *Transcript of Evidence*, 14 June 2006, p. 13.

30   Health, *Transcript of Evidence*, 14 June 2006, p. 13.

31   DVA, *Transcript of Evidence*, 14 June 2006, p. 22.

information from the procurement recording systems within each agency.'[32]

6.53   Although this development could potentially improve the accuracy of data in AusTender, the Committee notes that such automated data transfer would require agencies' procurement recording systems to be reliable and contain highly accurate information.

6.54   The Committee notes and encourages Finance's initiatives to improve agencies' compliance with reporting requirements, including the provision of advice to agencies on improving the quality of data they enter in AusTender and supporting agencies through the Procurement Discussion Forum, Procurement Seminar Series and Annual Procurement Conference, and the establishment of a Procurement Agency Advice Branch.[33]

Reporting consultancies under the Senate Order

6.55   Defence outlined some of its problems in complying with the requirements of the Senate Order. It observed that in 2005, Defence had entered into 5,522 new contracts valued at over $100,000.[34] Whilst Defence argued that these new contracts alone equated to 500 pages of spreadsheet print-out, the Committee is of the view that those contracts also represent billions of dollars of the Australian public's money.

6.56   Nevertheless, Defence argued that it could not report ongoing contracts, as per the Senate Order's requirements, due to the sheer volume of new and ongoing contracts.[35] Although Defence advised that its past listings were available on its website, thus allowing some visibility of ongoing contracts, the ANAO noted that this approach did not comply with the Senate Order in full.[36]

6.57   The Committee was not satisfied with Defence's failure and apparent unwillingness to comply with the requirements of the Senate Order. Notwithstanding these concerns, the Committee notes the Department's difficulty in complying with the requirements as they stood at the time of the audit.

32   Finance, *Transcript of Evidence*, 14 June 2006, p. 12.

33   Finance, Submission no. 2, pp. 2–3.

34   Defence, *Transcript of Evidence*, 22 May 2006, p. 15.

35   Defence, *Transcript of Evidence*, 22 May 2006, p. 16.

36   ANAO, *Transcript of Evidence*, 22 May 2006, p. 16.

Inefficiencies across reporting regimes

Duplicating legal advice

6.58   The Committee was also concerned that there seemed to be some inefficiencies in relation to several government agencies seeking separate legal advice on substantially the same matter. Further complicating the issue, the Committee noted that it was possible for the Commonwealth to 'be in possession of numerous pieces of advice on substantially the same matter which come to different conclusions.'[37]

6.59   Under legal services directions, agencies are required to circulate legal advice that may have implications beyond their own organisations, although this applies only to legal advice sought specifically in relation to legislation.[38] Finance informed the Committee that it was not 'aware of agencies seeking legal advice which is repetitive.'[39] The ANAO, however, was of a different point of view:

> … what we have seen through our audit work is that there are a lot of instances where advice on similar points of issue are obtained by many different agencies, often from different law firms, and agencies obviously have different perspectives [as a result].[40]

6.60   The Committee was concerned to hear that there are no formal whole-of-government processes for ensuring that such legal advice is indeed distributed where appropriate, and that there is no central repository for the various legal advices sought by government agencies.[41] The Committee is of the view that considerable cost efficiencies may be gained by minimising the potential for government agencies to unnecessarily obtain legal advice, particularly if similar advice has been sought by the Commonwealth previously. The ANAO supports this position, noting:

> Sometimes it is fairly apparent to us when we look at the advice and it has been obtained from the same firm that it is in large part a copy and paste of the earlier advice. But the fee does not seem to have been reduced significantly![42]

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37   ANAO, *Transcript of Evidence*, 14 June 2006, p. 9.

38   ANAO and Finance, *Transcript of Evidence*, 14 June 2006, p. 9.

39   Finance, *Transcript of Evidence*, 14 June 2006, p. 11.

40   ANAO, *Transcript of Evidence*, 14 June 2006, p. 9.

41   Finance, *Transcript of Evidence*, 14 June 2006, p. 9.

42   ANAO, *Transcript of Evidence*, 14 June 2006, p. 10.

Recommendation 11

> **The Committee recommends that, in an effort to minimise inefficient use of legal services, PM&C, Finance, and any other relevant bodies, implement monitoring systems to ensure that legal advices obtained by agencies, with implications broader than that specific agency's circumstances, are appropriately distributed to other relevant government agencies.**

Recommendation 12

> **The Committee recommends that PM&C and Finance establish a repository of legal advices obtained by government agencies, for use by all government bodies where practicable.**

Rationalising the reporting systems

6.61   The ANAO argued that the Parliament and other stakeholders do not currently have access to accurate and reliable data in relation to expenditure on consultants, because the existence of the three overlapping reporting regimes, with different reporting requirements and timelines, creates so much confusion.[43] The ANAO noted that:

> … whilst you are starting with essentially the same fundamental information—there is a contract, what that contract is form the price and so forth—the various different nuances in the reporting systems and the different time frames and the different way information is presented starts adding complexity. Once you start adding complexity, in some respects it is a recipe for failure.[44]

6.62   The ANAO noted that the operation of the three reporting regimes had resulted in inconsistent data being reporting across the different regimes. To the ANAO:

> … the key question was: what can be done to rationalise the various reporting regimes so that parliament and other stakeholders would be getting complete, accurate and reliable

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43   ANAO, *Transcript of Evidence*, 22 May 2006, pp. 18–19.

44   ANAO, *Transcript of Evidence*, 14 June 2006, p. 15.

> information? … if we are going to have three systems, how could
> they work together better or should there be fewer systems?[45]

6.63   The complexities of the three systems were discussed, Finance suggesting that:

> If every department and agency reported accurately against the
> three reporting systems, they would still not be understood,
> because people would not understand what they were reading.
> They would not understand the distinctions between the three
> systems and they would still get confused.[46]

6.64   The DVA supported calls for the current reporting regimes being streamlined, arguing that the current system resulted in staff 'erring on the side of caution', thereby resulting in 'over-reporting' as identified by the ANAO audit.[47] PM&C and Finance were also supportive of the three reporting systems being rationalised.[48] For its part, Finance stated that it:

> … support[s] the ANAO finding that it becomes very complex and
> very difficult for agencies to differentiate what information they
> should be providing for which system.[49]

6.65   Finance informed the Committee of progress on improving the functionality of AusTender, formerly known as GaPS.[50] Finance stated that this redevelopment would deliver enhanced functionality, be able to label consultancy contracts over $100,000 and would provide the sort of information sought under each of the three reporting regimes. Finance's vision for the redeveloped AusTender system was that it would become 'a single point of [procurement] information'.[51] Finance informed the Committee that:

> We would expect that the new functionality would allow agencies
> to put into a single place for expenditures above $10,000 the details
> of the value of contracts let and, included in that, indicate whether
> it is a consultancy, the confidentiality provisions and the like in
> terms of reporting framework. So we would hope that from 1 July

45   ANAO, *Transcript of Evidence*, 14 June 2006, p. 14.
46   PM&C, *Transcript of Evidence*, 14 June 2006, p. 14.
47   DVA, *Transcript of Evidence*, 22 May 2006, p. 22.
48   PM&C and Finance, *Transcript of Evidence*, 14 June 2006, p. 14.
49   Finance, *Transcript of Evidence*, 22 May 2006, p. 19.
50   Finance, submission no. 2, pp. 3–4.
51   Finance, *Transcript of Evidence*, 22 May 2006, p. 21.

> 2007 we will have a central reporting framework for the nature of the information that is sought, other than expenditure.[52]

6.66   The Committee was interested to learn whether the new AusTender system would alert users when contracts had continued beyond their intended period of operation. Finance advised that, although AusTender would not have the capacity to generate reports of overdue contracts, timeframe data could be entered into the system and interested parties would have access to this information.[53]

6.67   Finance stated that the redeveloped AusTender system would report the value of all contracts over $10,000, along with any subsequent changes to maximum contract value. AusTender would not, however, provide information on expenditure against these contracts, which is currently captured in agencies' annual reports.

6.68   Whilst supportive of changes to AusTender, the ANAO cautioned that these changes on their own would not address the fundamental challenges with three overlapping reporting regimes operating simultaneously.[54] The ANAO argued that there is a need for a holistic approach to rationalising the reporting system, and noted that:

> … we are very good in the Commonwealth at adding new responsibilities and new tasks, but sometimes one needs to look at whether we need to remove some of the old ones, as they are no longer adding the value that can be added through another process.[55]

6.69   Following the public hearings, Finance provided the Committee with a discussion paper on rationalising the procurement reporting regimes. The discussion paper proposed that the online AusTender facility becomes the single procurement reporting mechanism and subsequently, subject to agreement, the Senate Order and requirements for reporting consultancies in annual reports would be discontinued.

6.70   The Committee notes, however, that AusTender would provide information on procurement-related contracts only, whereas the Senate Order requires agencies to report on non-procurement activities such as grants and revenue contracts. The Committee also notes that AusTender will not provide information on actual expenditure against contracts or

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52   Finance, *Transcript of Evidence*, 22 May 2006, pp. 11–12.

53   Finance, *Transcript of Evidence*, 22 May 2006, p. 22.

54   ANAO, *Transcript of Evidence*, 14 June 2006, pp. 16–17.

55   ANAO, *Transcript of Evidence*, 14 June 2006, p. 17.

competitive tendering and contracting advice, which form part of the current annual report requirements.

6.71   The Committee notes the inefficiencies caused by overlaps in the three procurement reporting regimes at the time of the audit, and welcomes the subsequent measures to rationalise the procurement reporting regime, subject to the requirements of all stakeholders being met.

7

Audit Report No. 17, 2005-06, Administration of the Superannuation Lost Members Register

Background

7.1   The Lost Members Register (LMR) is a central register of separated superannuation fund members and retirement savings account holders maintained by the Australian Taxation Office (ATO). It was established on 1 July 1996 and is intended to re-unite people with their lost superannuation. It contains information sent to the ATO by a superannuation provider or its supplier, who are obliged to report every six months.

7.2   The ATO administered the LMR on delegation from the then Insurance and Superannuation Commission from 1996 to 1999 when the *Superannuation (Unclaimed Money and Lost Members) Act 1999* established the legislative framework to support the ATO's administration of the Register.

7.3   The ATO is responsible for:

- keeping a register of lost members containing the information received from providers;

- granting lodgement extensions; and

- reducing at an early stage the amount of lost superannuation that becomes unclaimed.[1] Lost member accounts are deemed to be unclaimed superannuation when the superannuation monies become payable.

7.4   At the end of 2004-05, the LMR contained 5.4 million accounts worth approximately $8.2 billion. Around 40 percent of these accounts had a value between $1 and $200 and less than 5 percent had a balance over $10,000.[2]

Audit objective and scope

The objective of the audit was to assess the ATO's administration of the LMR and specifically:

- examine and report on aspects of LMR governance;

- assess the systems, processes and controls used by the ATO to capture and process LMR data reported by providers;

- examine the mechanisms and strategies the ATO uses to gain assurance that providers are complying with LMR legislation; and

- assess the mechanisms and strategies the ATO uses to promote awareness of, and enable access to, the LMR.

Overall audit conclusion

7.5   The ANAO found that since July 2004, the ATO had significantly restructured its governance arrangements for the delivery of superannuation products and strengthened the LMR governance framework.

7.6   The ATO had established systems and controls to capture lost member data received from providers. The ANAO found shortcomings, however, with the LMR system control framework and the ATO's approach to identity matching lost member data stored on the LMR.

7.7   The ANAO considered that the ATO should take further steps to strengthen LMR compliance by providers. In particular, it considered that the ATO should improve the functionality of the LMR system to support

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1   ANAO Audit Report No. 17, 2005-06, p. 12.
2   ANAO Audit Report No. 17, 2005-06, p. 13.

compliance activities and address problems with the quality and completeness of lost member data received from providers.

7.8   The ANAO also considered that it was timely for the ATO to evaluate the effectiveness of its strategies and tools used to reunite people with their lost superannuation.

ANAO recommendations

The ANAO made eight recommendations. The ATO agreed with seven recommendations and agreed with qualification with one recommendation.

Table 7.1   ANAO recommendations, Audit Report No. 17, 2005-06

1.	The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:
	• Revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and
	• Provide relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy.
	ATO response: Agreed
2.	The ANAO recommends that, to improve the efficiency and effectiveness of the lost member data capture and identity-matching process, the ATO identity-match all lost member accounts prior to their inclusion on the Lost Members Register.
	ATO response: Agreed
3.	The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:
	• Compile a complete set of baseline specifications to document the LMR system; and
	• Introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications.
	ATO response: Agreed with qualification
4.	The ANAO recommends that to properly manage the completeness of lost member data lodgements, the ATO improve the functionality of the LMR system to record relevant compliance information not presently captured. Importantly, this should enable it to:
	• Obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and
	• Maintain an up to date listing of non lodgement advices (NLAs). In this regard, the ANAO considers the ATO should give consideration to making NLAs mandatory (as permitted by s.23(1)(e) of the LMR legislation).
	ATO response: Agreed
5.	The ANAO recommends that, to improve the quality of data stored on the Lost Members Register, the ATO implement a systematic approach to matching lost member data with other superannuation data sets received from superannuation providers.
	ATO response: Agreed
6.	The ANAO recommends that, to improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the Lost Members Register, the ATO establish comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation. This will allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.
	ATO response: Agreed

7.	The ANAO recommends that to improve the timeliness of SuperMatch exercises, the ATO identity match all SuperMatch input records before matching these against details stored on the LMR.
	ATO response: Agreed
8.	The ANAO recommends that to measure the effectiveness of SuperSeeker access by members, the ATO measure and report on the proportion of SuperSeeker enquiries that result in a match with ATO records. This should also differentiate matches that relate to the Lost Members Register, as opposed to the Superannuation Guarantee System or the Superannuation Holding Account Reserve.
	ATO response: Agreed

The Committee's review

7.9   The Committee held a public hearing on 23 June 2006 with witnesses from the Australian Taxation Office and the Australian National Audit Office. The ATO also made a submission to the inquiry reporting on its progress in implementing the ANAO's recommendations.

7.10   The Committee notes that while the ATO indicated its agreement with all recommendations, it also stated that implementation of four of the recommendations would require system redevelopment work and would therefore not be implemented as envisaged by the ANAO.

7.11   In its submission, the ATO reiterates its earlier response to the ANAO that:

> in October 2005 we indicated that where recommendations involved system changes we may have been unable to implement them in the way proposed. For the next three years the Tax Office system resources are fully committed to implementing new policy, the Change Program and to maintaining existing systems and undertaking urgent remediation work.[3]

7.12   The ATO goes on to state, however, that the government has announced a proposal for the simplification of superannuation that includes changes to the LMR. The Committee is pleased that the ATO is:

> currently reconsidering our overall superannuation rebuild priorities in the light of these proposals…The system changes from these ANAO recommendations will be reconsidered as part of this process.[4]

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3   ATO submission, p. 1.

4   ATO submission, p. 1.

Composition of the LMR

7.13   The ANAO found that while the size of the LMR has grown since 1999-
        2000, the overall number and value of lost member accounts has remained
        relatively constant. However, in comparison to the total superannuation
        assets under management in this period, the LMR has decreased.

7.14   At the hearing, the Committee questioned the ATO about the extent to
        which people who are included in the LMR are actually lost as opposed to
        knowingly inactive. The ATO advised that there a number of people who
        are well aware that their accounts exist, but are choosing not to activate
        them at the present time.[5] The ATO is currently looking at means to
        encourage more members to contact their fund to advise that they are
        inactive members and have themselves removed from the LMR, so that
        the register reflects the people who are 'truly lost'.[6] The LMR legislation
        currently stipulates that a person must recontact the fund and advise they
        want to be a permanent inactive member in order for the fund to remove
        them from the LMR.[7]

Identity matching

7.15   The LMR system is a mainframe system designed to capture and store up-
        to-date data on lost members that can be easily accessed by members and
        providers. The ANAO considered it essential that lost member data be
        accurately captured and verified against ATO systems to ensure the LMR
        remains up-to-date. Providers can lodge this data through magnetic media
        or through the ATO's Electronic Commerce Interface. This data is then
        transmitted directly to the LMR.[8] The current LMR reporting
        specifications include a limited number of mandatory fields and the
        quotation of a member's tax file number (TFN) is optional.

7.16   Lost member data is treated differently to other external data received by
        the ATO as it undergoes identity matching after it is already stored within
        the LMR. Identity matching is an important feature of the ATO's
        administration of the LMR as it allows the ATO to either verify the
        member's TFN or derive a TFN where one has not been quoted.

5   Ms Jennie Granger, Australian Taxation Office, *Transcript of Evidence,* 23 June 2006, pp. 3-4.

6   Ms Raelene Vivian, Australian Taxation Office, *Transcript of Evidence,* 23 June 2006, p. 7.

7   Ms Raelene Vivian, Australian Taxation Office, *Transcript of Evidence,* 23 June 2006, p. 8.

8   ANAO Audit Report No. 17, 2005-06, p. 45.

7.17   As at 30 June 2005, about 81 percent of the accounts stored on the LMR had a TFN recorded against them. The remaining accounts were unmatched and effectively redundant for enquiry purposes as a TFN is a fundamental requirement for a member to be able to search the LMR.[9] At the hearing, the ATO advised that currently 27 percent of the LMR data it receives has a TFN. After ATO identity matching processes are completed, 83 percent of accounts on the LMR are matched to a TFN.[10]

7.18   The ANAO recommended the ATO identity-match all lost member accounts prior to the inclusion on the LMR to improve efficiency and effectiveness of the data capture and identity matching process.

7.19   The Committee was informed that the ATO has made progress in implementing this recommendation by:

- identity matching all existing records on the LMR through the ATO identity matching system;

- implementing processes to identity match all new LMR data within one week of receipt, rather than on a monthly basis as was done at the time of the audit; and

- rematching all unmatched records on a quarterly basis through the ATO identity matching system.[11]

7.20   The Committee notes, however, that full implementation as intended by the ANAO would require system modification which the ATO did not intend to undertake at the time of the Committee's review.

7.21   To improve the quality of data stored on the LMR, the ANAO also recommended that lost member data be matched with other superannuation data sets received from superannuation providers. The ATO advised the Committee that while it considers the most effective process is to match data against tax return identity information, it is piloting the use of other data streams, such as electoral data. It will also consider further matching against other superannuation datasets as part of implementing the superannuation simplification changes.[12]

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9   ANAO Audit Report No. 17, 2005-06, p. 48.
10   ATO submission, p. 3.
11   ATO submission, p. 2.
12   ATO submission, p. 3.

Compliance with legislation

7.22   Superannuation providers have clear responsibilities under LMR
        legislation regarding the provision of lost member data to the ATO. The
        effective administration of the LMR relies on the ATO gaining sufficient
        assurance that providers are complying with their obligations.

7.23   The ANAO found that the ATO's general approach to compliance aims to
        balance active compliance (such as audits, risk reviews and prosecutions)
        with compliance assistance (help and education) activities. The ANAO
        examined the ATO's approach to managing lodgement compliance by
        providers, lost member data quality, and opportunities for lost member
        data matching.

7.24   The ANAO considered that the Superannuation Business Line's (SBL)
        approach to managing lodgement compliance by providers should
        provide sufficient assurance that all providers with a responsibility to
        lodge reports do so in a timely manner. The SBL completed a detailed
        LMR compliance project in 2000 that identified ways that the quality and
        quantity of data on the LMR could be improved. It did not follow through
        with these strategies until early 2003 when a project was initiated to
        improve the lodgement rate and quality of lost member data. This project
        targeted the top 300 providers and was successful in:

        ■   improving the number of key client providers actually lodging lost
            member data or non-lodgement advices as appropriate;

        ■   ensuring the ongoing lodgement of lost member data by all eligible
            rollover funds; and

        ■   establishing more comprehensive LMR communications with key
            clients.[13]

7.25   There are a number of providers that fall outside the key client group and
        the SBL has not focussed on obtaining assurance that these providers are
        complying with the LMR lodgement obligations. As the complete
        lodgement of superannuation data (including lost members data) is the
        most severe risk facing the SBL, the ANAO considered that the SBL
        should broaden its focus from only key clients and apply additional effort
        towards improving the completeness of this data. The ANAO's
        recommendation included making non lodgement advices (NLAs)
        mandatory.

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13   ANAO Audit Report No. 17, 2005-06, p. 56.

7.26   The ATO advised the Committee that there are a relatively small number of funds which account for the majority of superfund members, with 500 funds accounting for approximately 95% of members. As at 30 June 2005, 310 funds, accounting for 92% of superfund members, were providing data to the LMR.[14]

7.27   Further, the ATO stated that if NLAs were made mandatory, an additional 8 450 funds would have an obligation to lodge, increasing their compliance costs but with minimal benefit to data holdings on the LMR. The Committee notes that the ATO was still to finalise its position on this recommendation at the time of the Committee's review.[15]

7.28   The second highest priority risk recognised by the SBL is the quality of data and a number of concerns have been identified, including:

- funds not reporting found or transferred members, resulting in members remaining on the LMR unnecessarily;

- as at 30 June 2005, almost 540,000 lost member accounts had a nil balance; and

- a number of providers lodge data with inaccurate name, TFN or contact details.[16].

7.29   The ANAO supports initiatives being undertaken by SBL to improve data quality, noting that providers have a vested interest in providing high quality data to the ATO as they indirectly contribute towards funding the operation of the LMR through financial sector levies.[17]

Unclaimed superannuation

7.30   Where a lost member reaches 65 years of age or has died their superannuation monies become payable. These are deemed to be unclaimed superannuation and a provider must transfer the entire amount to the state or territory revenue office in which its headquarters is located.[18]

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14   ATO submission, p. 3.
15   ATO submission, p. 3.
16   ANAO Audit Report No. 17, 2005-06, p. 61.
17   ANAO Audit Report No. 17, 2005-06, p. 63.
18   ANAO Audit Report No. 17, 2005-06, p. 64.

7.31   The Committee notes that as at July 2006, $6.3 million has been reported to
        the Tax Office by superannuation funds as transferred unclaimed
        monies.[19] This figure was $5.08 million as at 30 June 2005 and compared
        with $214.7 million of potentially unclaimed superannuation accounts
        based on the ANAO's assessment against lost member ages reported to
        the ATO.[20]

7.32   The ANAO recommended regularly sharing information with state or
        territory revenue offices to improve the ATO's understanding of the
        reasons behind this discrepancy.

7.33   The Committee is pleased that the ATO has addressed this
        recommendation and is currently determining the best means to provide
        this data and information to states and territories on an annual basis.[21]

Accessing the LMR

7.34   The ATO has adopted a number of strategies to improve member
        awareness of and access to the LMR.

Lost Members Week

7.35   Lost Members Week was conducted in October 2002 with industry
        groups. The ATO set up a number of information booths in shopping
        centres where the general public could directly access the LMR. Over
        69,000 enquiries resulted in $44.5 million worth of lost superannuation
        being found by 31 July 2003.

Letters Project

7.36   The Letters Project commenced in February 2005 and is designed to
        increase awareness of the LMR and motivate people to reclaim lost
        superannuation accounts. The ATO informed the Committee that it has
        written or will write to about 3.1 million people, who represent 4.5 million
        accounts or the 83 percent of the LMR records that have been matched to a

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19   ATO supplementary submission, p. 1.
20   ANAO Audit Report No. 17, 2005-06, p. 65.
21   ATO submission, p. 3.

tax file number.[22] The ATO received $10.7 million for 2004-05 to 2006-07 specifically to implement this project.[23]

7.37   The Committee concurs with the ANAO's comment that given the amount of funding received for the project, the ATO should assess how the project delivered against its key objectives. As discussed earlier, the ATO identified removing inactive (as opposed to lost) members as one objective during the hearing. The Committee therefore makes the following recommendation.

Recommendation 13

> **The Committee recommends that the ATO evaluate and report in its Annual Report on the effectiveness of the Letters Project in reuniting lost members with their superannuation and reducing the number of inactive members in the Lost Members Register.**

SuperMatch

7.38   SuperMatch was introduced in 2001 to enable authorised providers to search for lost superannuation on behalf of their members. This is achieved by matching members' details against those stored on the LMR. Searches are undertaken against TFN, member's name and date of birth. For any matches, the ATO transmits the account number, name of provider and contact details to the provider, who may then seek their members' permission to consolidate any lost accounts with their existing benefit.

7.39   The ANAO found that most of the matches using SuperMatch were name rather than TFN based and that during the 2004-05 financial year, use of SuperMatch fell by more than 60 percent largely due to poor processing times.

7.40   The Committee notes that while the ATO agreed with the ANAO's recommendations to improve the timeliness of SuperMatch, it also indicated that as this would involve system redevelopment work, it would not be implemented.[24]

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22   Ms Raelene Vivian, Australian Taxation Office, PROOF *Transcript of Evidence,* 23 June 2006, p. 7.

23   ANAO Audit Report No. 17, 2005-06, p. 41.

24   ANAO Audit Report No. 17, 2005-06, p. 74.

SuperSeeker

7.41   SuperSeeker was introduced in 2003 to enable members to directly access details stored on the LMR via either the internet or telephone. The ANAO found that it was difficult to gauge the effectiveness of SuperSeeker as the ATO does not measure how many enquiries result in a match. Again, while the ATO agreed with the ANAO's recommendation that it measure and report on the number of matches, it advised that as this would involve system redevelopment work, it would not be implemented.[25]

7.42   The Committee considers that it would be useful for the ATO to implement mechanisms to assess the effectiveness of this initiative.

Committee comment

7.43   As discussed earlier, the ATO has indicated that it is revisiting potential system changes as part of the government's simplification of superannuation. The Committee strongly encourages the ATO to reassess implementation of those ANAO recommendations that require system redevelopment work and have not been fully implemented to date.

Recommendation 14

The Committee recommends that the ATO reassess full implementation of the recommendations arising from this audit that require system redevelopment work within the context of broader superannuation system changes.

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25   ANAO Audit Report No. 17, 2005-06, p. 78.

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Information Technology

Audit Report No. 23, 2005-06, IT Security Management

Audit Report No. 45, 2005-06, Internet Security in Australian Government Agencies

Audit Report No. 29, 2005-06, Integrity of Electronic Customer Records

8.1   This chapter examines three ANAO reports considered by the Committee together because of their common information technology theme. Each report will be outlined individually and then common issues will be discussed.

Audit Report No 23, 2005-06: IT Security Management[1]

Background

8.2   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,[2]

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1   ANAO Audit Report No. 23 2005–06 *IT Security Management*, December 2005.

2   For the purposes of their report, the ANAO used the definition of 'agency' as provided by the *Protective Security Manual* 2005, which defines agency as including 'all Australian Government departments, authorities, agencies or other bodies established in relation to

and is necessary to protect the confidentiality, integrity, and availability of information systems and the information they hold.[3] Effective IT security management requires the development and implementation of an IT security control framework[4] designed to minimise the risk of harm to acceptable levels. Given the increasing reliance on the interconnectivity of Australian Government information systems, agencies have an additional responsibility to consider how their IT security environment may affect other government agencies as well as other parties with whom they share information.

8.3   The *Australian Government Protective Security Manual* (PSM) establishes the framework of policies, practices and procedures designed for Australian Government agencies to use in protecting Australian Government functions and official resources from sources of harm[5] that would weaken, compromise or destroy them. The PSM, which was re-issued prior to the report, in October 2005, identified the standards for protective security, and specified minimum requirements for the protection of Australian Government resources.

Audit scope and objective

8.4   This audit was a part of the ANAO's protective security audit coverage. The objective of this audit was to determine whether agencies audited had developed and implemented sound IT security management principles and practices supported by an IT security control framework, in accordance with Australian Government policies and guidelines.

8.5   The audit at each agency examined the framework for the effective management and control of IT security, including the management of IT operational security controls and, where applicable, was based on the Australian Government protective security and information and communications technology (ICT) security guidelines that were current at that time.

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public purpose, including departments and authorities staffed under the *Public Service Act 1999.'*

3   Confidentiality, integrity and availability are considered key objectives of IT security controls for protecting information.

4   An IT security control framework is the design of management processes and supporting policies and procedures, that together provide assurance that IT security management is operating effectively.

5   The PSM defines harm as being any negative consequence, such as a compromise of, damage to, or loss incurred by the Australian Government.

8.6   The eight agencies selected for review were:

- Australian Agency for International Development (AusAID);

- Australian Office of Financial Management;

- Bureau of Meteorology;

- ComSuper;

- Department of Education, Science and Training;

- Department of the Environment and Heritage;

- Department of Immigration and Multicultural and Indigenous Affairs; and

- Department of Transport and Regional Services.

Overall audit conclusion

8.7   Overall, the ANAO concluded that the audited agencies had identified relevant Australian Government policies, practices and procedures for the protection of information. However, most agencies had not implemented structured processes to ensure the effective alignment of the IT security policy objectives with organisational risk management processes and Australian Government policy, practices, and standards for the safeguarding of information resources.

8.8   The ANAO found that the majority of agencies audited had adequately identified relevant external compliance obligations, and IT personnel interviewed were aware of relevant legislation and the associated compliance requirements. However, only two agencies could demonstrate suitable processes to assess system compliance with their IT security policy and with government requirements, and processes for managing exceptions/variations.

8.9   The ANAO found that most agencies did not maintain key IT operational procedures and configuration documentation. This was particularly evident of agencies that had contracted to third-party service providers for the provision of IT and/or IT security services.

8.10   The audit identified a number of opportunities for further improvement in agencies' policies and procedures relating to IT security management practices. These included:

- improving the content and processes for developing and maintaining IT security policy alignment with organisational risk management processes;

- ensuring a regular process exists within the IT security control framework to identify gaps between an agency IT environment and Australian Government expectations. This will assist in determining whether systems are operating at an acceptable level of risk;

- ensuring policies clearly identify the physical and environmental security controls and standards for managing IT equipment;

- ensuring performance reporting of network security practices are designed to ensure that security controls are adequately addressing IT security risks; and

- ensuring standards exist and are applied for the use of audit trails.[6]

ANAO recommendations

8.11   The ANAO made five recommendations. The eight agencies examined in the audit agreed with the recommendations.

8.12   The recommendations are based on the findings of fieldwork at the audited agencies. The ANAO considers they are likely to be relevant to all agencies in the Australian Government sector.

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6   In computer security terms, an audit trail provides a chronological record of system resource usage. It is commonly referred to as logging. This includes user login, file access, other various activities, and whether any actual or attempted security violations occurred.

Table 8.1   ANAO recommendations, Audit Report No. 23, 2005-06- IT Security Management

IT security control framework	
1.	**IT security policy**
	The ANAO recommends that agencies incorporate into their information security management framework, an IT security policy that establishes an agency's IT security objectives and scope, and provides reference to supporting IT security plans, procedures and standards. In addition the policy should incorporate requirements of Australian Government policies, standards and guidelines for the safeguarding of information resources.
2.	**Compliance**
	The ANAO recommends that agencies strengthen IT security risk processes through the use of documented IT security risk assessments, plans and policies, and conduct periodic reviews to identify gaps between agencies' IT environments, ideal risk profile and relevant government policies, standards and guidelines.
IT operational security controls	
3.	**IT equipment security**
	The ANAO recommends that agencies improve IT equipment security practices by ensuring that physical and environmental security controls of computing resources are clearly stated as part of their IT security policy, and that responsibilities for protecting information resources are established and documented.
4.	**Network security management**
	The ANAO recommends that agencies, as a part of their IT governance arrangements, monitor the effectiveness of network security practices and controls by establishing performance measures and incorporating periodic reporting against these measures.
5.	**Logical access management**
	The ANAO recommends that agencies, as a part of their system access arrangements, establish standards for the logging of inappropriate or unauthorised activity and introduce routine processes for monitoring and reviewing system audit logs.

The Committee's review

8.13   The Committee held a public hearing on 23 June 2006 with witnesses from the Attorney-General's Department, the Australian Government Information Management Office, Defence Signals Directorate, Centrelink and the Australian National Audit Office, to examine both Audit Report 23, 2005-06 and Audit Report 29, 2005-06.

Responsibilities and roles

8.14   The main stakeholders in Australian Government IT Security include the Attorney-General's Department, the Department of Defence—Defence Signals Directorate and the Australian Government Information Management Office (AGIMO) within the Department of Finance and Administration.

Attorney-General's Department

8.15   The Attorney-General's Department provides expert support to the Government in the maintenance and improvement of Australia's system of law and justice, national security, and emergency management.[7]

Protective Security Coordination Centre

8.16   The Protective Security Coordination Centre (PSCC),[8] a division of the Attorney-General's Department, supports the Attorney-General by providing policy advice on protective security and delivering the various programs for which it is responsible.

8.17   PSCC manages the Australian Government's protective security responsibilities and performs a coordination role in marshalling resources in preventing, or responding to, threats to our national security.

Protective Security Policy and Training

8.18   The Protective Security Coordination Centre Policy & Services Branch is responsible for developing protective security policy.[9] The PSCC provides policy advice to the Government on protective security issues and is responsible for formulating government standards and guidelines to help Australian Government agencies create and foster a secure environment.

8.19   A major role of the PSCC is to develop and promulgate this protective security policy and to provide training in protective security. These functions are carried out by the Policy Secretariat and the PSCC Training Centre.

8.20   The Policy Secretariat develops and disseminates the *Protective Security Manual* (PSM); the principal means for disseminating Australian Government protective security policies, principles, standards and procedures.

8.21   The Policy Secretariat also provides an advisory service to Agency Security Advisers (ASAs) and Information Technology Security Advisers (ITSAs) on issues relating to protective security policy and

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7   http://www.ag.gov.au/

8   http://www.ag.gov.au/agd/WWW/protectivesecurityhome.nsf/Page/About_Us (accessed 1 August 2006, Last Modified: Thursday, 3 February 2005)

9   http://www.ag.gov.au/agd/www/Protectivesecurityhome.nsf/Page /RWP566A58776B765C10CA256BAE001C5CEC?OpenDocument (accessed 1 August 2006, Last Modified: Tuesday, 21 March 2006)

practices. The ASA/ITSA Forums are held on a quarterly basis to highlight issues of interest in the security field.

8.22 The Policy Secretariat provides secretariat and research services for the Protective Security Policy Committee (PSPC); a high-level interdepartmental consultative committee comprising senior executives from agencies with a strong interest in national and non-national security matters. The PSPC coordinates the development of Government protective security policy.

8.23 Basic information technology security training is provided in conjunction with the Defence Signals Directorate (DSD). The PSCC also offers security awareness training and customised protective security courses, on a fee-for-service basis. The content of all courses and seminars is based on the PSM and associated publications.

Defence Signals Directorate

8.24 DSD is Australia's national authority for signals intelligence and information security. DSD has two principal functions: one is to collect and disseminate foreign signals intelligence (known as Sigint); the other is to provide Information Security (Infosec) products and services to the Australian Government and its Defence Force.[10]

8.25 DSD's Information Security Group plays a key role in the protection of Australian official communications and information systems. For information that is processed, stored or communicated by electronic or similar means, the role of the Information Security Group is:[11]

- to provide material, advice and other assistance to Commonwealth and State authorities on matters relating to the security and integrity of information that is processed, stored or communicated by electronic or similar means; and
- to provide assistance to Commonwealth and State authorities in relation to cryptography and communications technologies.

Australian Government Information Management Office

8.26 The Australian Government Information Management Office (AGIMO) is a part of the Department of Finance and Administration. It provides strategic advice, activities and representation relating to

10   http://www.dsd.gov.au/ (accessed 1 August 2006, Last Modified 28/06/06)
11   http://www.dsd.gov.au/infosec/index.html (accessed 1 August 2006, Last Modified 28/06/06)

the application of Information and Communication Technology (ICT) to government administration, information and services.[12]

8.27   AGIMO's functions and responsibilities include:

- supporting the work of the Secretaries' Committee on ICT (SCICT), the Business Process Transformation Committee (BPTC) and the Chief Information Officer Committee (CIOC);

- identifying and promoting the development of ICT infrastructure necessary to implement emerging Australian whole-of-government strategies;

- managing the roll-out of the FedLink system, which enables secure online communications between government agencies;

- developing an e-Government Authentication Framework to assist people in verifying electronic communications; and

- managing Gatekeeper, the Government's accreditation system for certifying digital signatures.

8.28   The Committee was informed that the role of AGIMO was to encourage agencies in the effective and efficient implementation of ICT and to coordinate the implementation of the government's e-government strategy:

> 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.[13]

Security controls

8.29   The ANAO describes effective implementation and management of IT security as requiring both an IT security control framework and the implementation of IT operational security controls:

> The control framework provides a management structure designed to ensure that agencies take the necessary action to manage IT security risks. Operational security controls support implementation of the control framework through

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12   http://www.agimo.gov.au/about/ (accessed December 2006)

13   Mr Brian Stewart, AGIMO, Department of Finance and Administration, *Transcript of Evidence,* 23 June 2006, PA 46.

addressing objectives of confidentiality, availability and integrity of information or data stored or transmitted.[14]

8.30   The Committee was advised that for Australian Government agencies:

> 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.[15]

Protective Security Manual

8.31   The Attorney-General's Department issues the Australian Government's Protective Security Manual (PSM) as the:

> principal means for disseminating Australian Government protective security policies, principles, standards and procedures to be followed by all Australian Government agencies for the protection of official resources.[16]

8.32   The PSM is contained in a single manual of eight separate but cross-referenced parts. The eight parts include Protective Security Policy, Guidelines on Managing Security Risk and Information Security.

8.33   The PSCC periodically reviews parts of the PSM as appropriate, following consultation with the PSPC and other agencies.

Australian Government Information and Communications Technology Security Manual

8.34   The Australian Government Information and Communications Technology Security Manual (ACSI 33) was developed by DSD to provide policies and guidance to Australian Government agencies on how to protect their ICT systems. There are two versions of the manual; the SECURITY-IN-CONFIDENCE version and the UNCLASSIFIED version which only contains policies and guidance for classifications below the "highly protected" level. The requirement

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14   ANAO Audit Report No. 23 2005–06 *IT Security Management*, December 2005, p.22.

15   Mr Martin Studdert, Protective Security Coordination Centre, Attorney-General's Department, *Transcript of Evidence,* 23 June 2006, PA 45.

16   http://www.ag.gov.au/www/agd/agd.nsf/Page/RWPE30AA68A4D5313EACA257 1EE000AAF9F (Date Created Tuesday, 19 September 2006, Last Modified: Monday, 22 January 2007)

for agencies to comply with the manual is incorporated into the manual.

8.35   Australian Government agencies are also required by the PSM to comply with ACSI 33.

> Agencies must consider the security implications of their IT systems and devise policy and plans to ensure the systems are appropriately protected. … even unclassified systems with no special safety, mission critical, or financial implications should have some degree of protection if a reliable or accurate service is to be maintained.[17]

8.36   The manual is released up to twice a year, and is available for download from the DSD website.

8.37   Although the ANAO were not specifically looking for inadequacies in the policy, and did not find any, they did observe that not all agency staff dealing with IT necessarily understood those policies.

8.38   The Committee is pleased to note that the ANAO and DSD are working together to clarify communication of the policies in order to assist agencies in this area.

Representativeness of sample

8.39   There were eight agencies selected for review by the ANAO in relation to this report. The Committee is aware that this is only a sample of the agencies of interest in terms of public sector IT security management, but is concerned that the results of ANAO audit may be representative of the situation more broadly.

8.40   AGIMO explained to the Committee that it coordinates a Chief Information Officer Committee (CIOC) which covers all departments of state and the major service delivery agencies; a total of 27 members. In addition, the chief information officer forum picks up those Australia Government departments not formally on the CIOC. These governance forums have received presentations on this particular audit report and have been used to promote the results and recommendations.[18]

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17   http://www.dsd.gov.au/library/infosec/acsi33.html (Last Modified: 29/09/2006)

18   Mr Brian Stewart, AGIMO, Department of Finance and Administration, *Transcript of Evidence,* 23 June 2006, PA 46.

8.41   The Committee strongly supports the dissemination of the results and recommendations from this audit more widely, and considers the AGIMO Chief Information Officer Committee and Forum to be the most appropriate mechanisms for this.

8.42   Accordingly, the Committee makes the following recommendation:

Recommendation 15

8.43   **The Committee recommends that the AGIMO Chief Information Officer Committee and Forum formally disseminate the ANAO's recommendations from Audit Report 23, 2005-06 to appropriate agencies, including seeking updates on progress and implementation.**

Audit Report No 45, 2005-06: Internet Security in Australian Government Agencies[19]

Background

8.44   It is Australian Government policy that agencies use the internet to deliver all appropriate programmes and services.[20] This policy aims to improve government services for citizens, and to raise the efficiency and reduce the costs of these services.[21] This policy has led to government agencies significantly increasing the range, volume and complexity of services delivered via the internet.

8.45   While there are many benefits, use of the internet to provide information and services involves risks for government agencies to manage. These risks have become more acute and electronic attacks more sophisticated over the past few years, and are similar to the risks that private sector companies face in using the internet in business.

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19   ANAO Audit Report No. 45 2005–06 *Internet Security in Australian Government Agencies,* June 2006

20   National Office for the Information Economy, *Better Services, Better Government – The Federal Government's E-government strategy*, Canberra, November 2002, p. iii, available at <www.agimo.gov.au/_data/assets/pdf_file/35503/Better_Services-Better_Gov.pdf>.

21   Australian Government Information Management Office, *Responsive Government: A New Service Agenda*, Canberra, March 2005, available at <www.agimo.gov.au/publications/2006/march/introduction_to_responsive_government>.

8.46   Agencies can maintain internet security by developing and implementing Information and Communications Technology policies, plans and procedures that are derived from risk assessments, and which secure and protect their desktop and server computers.

8.47   The Attorney-General's Department *Australian Government Protective Security Manual* (PSM) 2005 details the minimum standards for the protection of Australian Government information. The PSM states:

> All information systems, whether they are paper based or information and communications technology (ICT) systems, used for the processing, storage or transmission of Australian Government official information require some protection to ensure the system's integrity and reliability. This is because, even when the information processed, stored or transmitted by the system is unclassified or authorised for public release, disruption or compromise of the system would prevent or hamper the agency carrying out its functions. The protection for ICT systems should be in accordance with ACSI 33.[22]

8.48   The PSM is supplemented by the *Australian Government Information and Communications Technology Security Manual* (ACSI 33), which is developed to assist government agencies to achieve an appropriate level of secure information technology. Defence Signals Directorate (DSD) first published the guidelines in 1989. The guidelines include both mandatory requirements and advice. The PSM and ACSI 33 document the Australian Government's protective security policy.

8.49   ACSI 33 states that agencies must have consistent security risk assessments, policies and plans for their ICT systems. Figure 1 illustrates ACSI 33 requirements of agencies for their ICT security documentation.

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22   Attorney-General's Department, *Commonwealth Protective Security Manual 2005*, Canberra 2005, Part C, Principle of effective information security practice, 2.6, C3.

Figure 1   ACSI 33 Information and Communications Technology (ICT) security document requirements
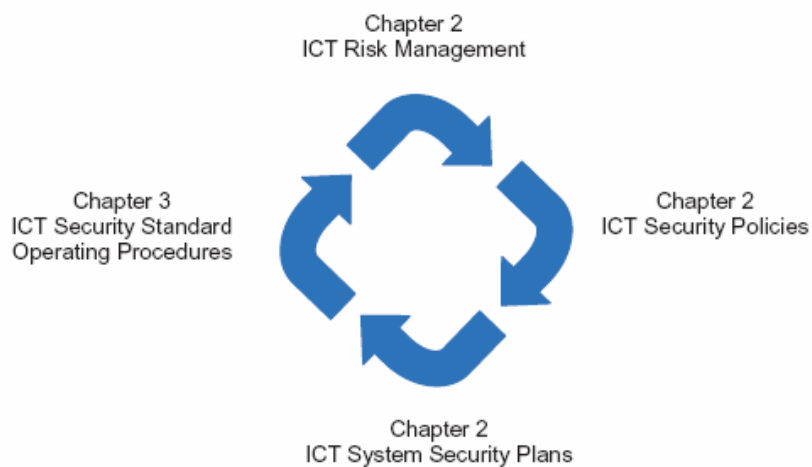
Source   *ANAO analysis taking into account the requirements of ACSI 33, showing required documentation and linkages between processes.*

Note   *ICT Risk Management and ICT Security Policies, presented in sequential steps, are developed in parallel.*

2001 performance audit

8.50   In 2001, the ANAO completed an audit of *Internet Security within Commonwealth Government Agencies.*[23]

8.51   The audit concluded that:

> security levels across the audited agencies varied significantly from very good to very poor. For the majority of agency websites in the audit, the current level of Internet security is insufficient, given the threat environment and vulnerabilities identified within a number of agency sites. Further, while some agencies had produced good threat and risk assessments and documentation generally, these were not always effectively administered. Overall, a number of agencies could improve performance in some key areas and all agencies could improve performance in one or more aspects of managing Internet security.

8.52   Following the 2001 performance audit, the Joint Committee of Public Accounts and Audit held an inquiry into the management and integrity of electronic information within the Australian

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23   ANAO Audit Report No.13 2001–2002, (2001), *Internet Security within Commonwealth Government Agencies*, ANAO, Canberra, available at <www.anao.gov.au>.

Government.[24] The Committee made nine recommendations further emphasising the importance of the security and integrity of electronic information within the Australian Government. The Committee's recommendations were for all Australian Government agencies.

2005 *IT Security Management* audit

8.53   In 2005, the ANAO completed an audit of *IT Security Management*. The JCPAA has also examined that report and the result is included earlier in this chapter. That audit concluded that:

> most agencies had not implemented structured processes to ensure the effective alignment of the IT security policy objectives with organisational risk management processes and Australian Government policy, practices, and standards for the safeguarding of information resources.[25]

8.54   The five recommendations made by the ANAO in that report for agencies to improve ICT security are relevant to this report.

Audit objective and scope

8.55   The audit objective was to form an opinion on the adequacy of a select group of Australian Government agencies' management of internet security, including following-up on agencies' implementation of recommendations from the ANAO's 2001 audit.

8.56   The agencies audited were Australian Customs Service (ACS), Australian Federal Police (AFP), Australian Radiation Protection and Nuclear Safety Agency (ARPANSA), Department of Employment and Workplace Relations (DEWR), Department of Industry, Tourism and Resources (DITR) and Medicare Australia. Factors considered in selecting agencies were agency size based on funding levels, whether the agency was included in ANAO's 2001 audit (ACS, ARPANSA, and DEWR), whether the agency's ICT was managed in-house or outsourced, and the nature of the agency's website (that is, general or restricted access).

8.57   The audit was conducted with the assistance of DSD and involved assessing the management of internet security through reviewing each agency's ICT:

24   Report 399, *Inquiry into the Management and Integrity of Electronic Information in the Commonwealth*, JCPAA, March 2004, Parliament of Australia, Canberra, available at <http://www.aph.gov.au/house/committee/jpaa/electronic_info/report.htm>.

25   ANAO Audit Report No. 23 2005–06 *IT Security Management*, December 2005.

- compliance with Australian Government minimum policy standards and any agency specific policy;

- business continuity and disaster recovery planning;

- contract management where an agency employed a firm or firms to provide ICT services; and

- desktop and server computer standard operating environments, and email filtering.

8.58   The audit assessed each agency's ICT security risk assessments and plans, policies and procedures that established the controls for securing an agency's internet services.

8.59   The audit also assessed whether ACS, ARPANSA and DEWR had implemented the recommendations from the 2001 audit relating to risk management, installation of security patches, regular review of system event logs, and keeping ICT documentation current.

8.60   The ANAO did not examine agency networks that communicated national security information.

8.61   An issues paper was presented to each participating agency assessing that agency's security management framework, risk management, policies, plans and procedures, desktop and server computer standard operating environments, and email filtering. The six issues papers contained 478 suggestions for improvement; 54 relating to ICT risk management, policies and plans, 112 relating to ICT security practices, and 312 relating to desktop and server computer standard operating environments and email filtering.

8.62   To safeguard the security of the information held by audited agencies, the ANAO report does not name agencies or present details of the ANAO's security findings. Rather, the report examines general issues affecting the security of agencies' use of the internet, and notes trends observed across agencies.

Overall audit conclusion

8.63   The ANAO found that since the 2001 performance audit on internet security, Australian Government agencies have significantly increased the services delivered by the internet, while ICT risks from within and outside agencies, and the number and sophistication of electronic attacks have grown rapidly. A major risk to internet security also comes from within agencies, where personnel have the potential to accidentally or deliberately change information.

8.64   This environment increases the importance of agencies complying with government policy in the PSM and ACSI 33.

8.65   Agencies not complying with the PSM and ACSI 33 increase the risks to the confidentiality, integrity and availability of government information, data and systems. Damage may range from embarrassment over website defacement, to unauthorised release of information, and use of a compromised computer to engage in criminal activity.

8.66   For the six agencies audited, the ANAO concluded that the current level of internet security was insufficient, given the risks and problems identified through the audit findings. In particular, none of the audited agencies fully complied with the PSM and ACSI 33. This is similar to the conclusion of the ANAO 2001 audit.

8.67   While the size of the ANAO's sample is relatively small, with ten agencies audited in 2001 and six in 2006, the similarity of the conclusions indicates that all Australian Government entities would benefit from a review of their compliance against the PSM and ACSI 33.

8.68   A key area in managing internet security is the administration of new technology, including wireless and voice technologies. Agencies are introducing new technology with the aim of improving productivity and service delivery. Agencies introducing or allowing staff to use new technology within the working environment would benefit from documenting how they balance the risks against the potential benefits. Ordinarily, these would be documented in a business case.

8.69   The ANAO noted that a number of agencies could improve performance in some key areas, particularly email filtering, and all agencies audited could improve performance in one or more aspects of managing internet security, such as the development of system security plans.

8.70   The ANAO made five recommendations based on the audit findings. Given the need for all agencies to effectively manage their use of the internet, and the similarity of the conclusion in 2001 with the conclusion in this audit, these recommendations are likely to have relevance to the management and operation of ICT security in all Australian Government agencies.

ANAO recommendations

8.71   The ANAO made five recommendations. The six agencies examined
        in the audit agreed with the recommendations.

8.72   Although the recommendations are based on the findings of
        fieldwork at the audited agencies, the ANAO considers they are likely
        to be relevant to all entities in the Australian Government.

Table 8.2   ANAO recommendations, Audit Report No. 45, 2005-06- Internet Security in
             Australian Government Agencies

1.	The ANAO recommends that agencies include coverage of their Internet services in their business continuity and disaster recovery plans.
2.	The ANAO recommends that agencies develop business cases for introducing new technology, and include how they balance potential benefits against potential risks.
3.	The ANAO recommends that agency Information and Communications Technology contracts include: (a) requirements for contractors to comply with Australian Government security policies, as defined in the Attorney-General's Department's and the Defence Signals Directorate's policy documentation; (b) agency's requirements for security reporting; (c) a statement as to who is responsible for developing and maintaining Information and Communications Technology security plans and procedures; and (d) reporting and performance measurement requirements.
4.	The ANAO recommends that agencies review their compliance with the *Australian Government Protective Security Manual* and the *Australian Government Information and Communications Technology Security Manual.*
5.	The ANAO recommends that agencies develop and implement policies that permit them to block potentially malicious emails.

The Committee's review

8.73   The Committee received a private briefing on 6 September 2006 with
        witnesses from the Department of Defence, Defence Signals
        Directorate and the Australian National Audit Office.

8.74   As previously stated, in 2001, the ANAO completed an audit of
        Internet Security within Commonwealth Government Agencies[26] which
        concluded that security levels across the audited agencies varied
        significantly from very good to very poor. For the majority of agency
        websites in the audit, the level of internet security was found to be
        insufficient, given the threat environment and vulnerabilities
        identified within a number of agency sites.

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26 ANAO Audit Report No.13 2001–2002, (2001), *Internet Security within Commonwealth
    Government Agencies*, ANAO, Canberra.

8.75   The ANAO's objective with Audit Report 45, 2005-06 was to form an opinion on the adequacy of the management of internet security by a select group of Australian government agencies; including following up on the earlier report and subsequent JCPAA inquiry into the management and integrity of electronic information within the Australian Government.[27] The previous report looked at 10 agencies compared to the six agencies reviewed more recently. Three of the agencies were common to both audits. This enabled the ANAO to assess how well those agencies had addressed the recommendations of the earlier performance audit.

8.76   The audit assessed government agencies' activity against Commonwealth government policy. Commonwealth government policy is expressed in two key documents, the Australian *Protective Security Manual*, put out by the Attorney-General's Department, and 'ACSI 33'; the *Australian Government Information and Communications Technology Security Manual*. These documents are described in more detail later in this chapter. The audit looked at management documentation of approaches to internet security; public websites and some non-public internet connections in two places.

8.77   DSD has two roles: as the national foreign signals intelligence collection agency and the national information security agency. These two roles are complementary in that the intelligence collection side informs the information security side.

8.78   DSD does not normally look at non nationally classified systems, but can do if invited to provide advice and assistance. DSD participation in this audit enabled them to track the status of security over time to get a feel for the situation within the agencies reviewed.

8.79   The ANAO found non-compliance with government policy and guidelines in a number of areas, including weaknesses in contract management. The ANAO also found that the management of agencies' desktop computer standard operating environments could be improved and that in all cases the email filtering in agencies was considered to be inadequate.

8.80   The two major implications arising from these findings were the risk of unauthorised access to personal information, leading to privacy concerns and loss of public confidence; and the possibility of

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27   Report 399, *Inquiry into the Management and Integrity of Electronic Information in the Commonwealth*, JCPAA, March 2004, Parliament of Australia, Canberra, available at <http://www.aph.gov.au/house/committee/jpaa/electronic_info/report.htm>.

embarrassment and reduced public confidence in the agencies from any of these risks emerging.

8.81   The ANAO noted that some agencies in the sample believed that they were in compliance with government policy, when in effect they were not. The ANAO suggested that agencies need to give more attention to determining their compliance with government policy.

8.82   The Committee is disappointed to note the audit office findings that:

> For the six agencies audited, … the current level of Internet security was insufficient, given the risks and problems identified through the audit findings. In particular, none of the audited agencies fully complied with the PSM and ACSI 33. This is similar to the conclusion of the ANAO 2001 audit[28]

8.83   The Committee is concerned that this result may be indicative of similar circumstances in other Commonwealth agencies. With that in mind the JCPAA wishes to emphasise and more formally extend the ANAO's recommendation to cover all Commonwealth agencies.

8.84   The Committee therefore recommends:

Recommendation 16

8.85   **The Committee recommends that all Commonwealth agencies, as a matter of urgency, review their compliance with the *Australian Government Protective Security Manual* and the *Australian Government Information and Communications Technology Security Manual*.**

8.86   The move to deliver services over the internet has exposed government agencies to a much greater level of risk. This is due to the fact that when connected to the internet, an avenue has been provided for access to the systems, and this is not always for legitimate reasons.

8.87   A problem described by DSD is that it is often difficult for CEOs to understand fully the importance of IT security. Non-professionals run government agencies and departments, and IT professionals must be

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28   ANAO Audit Report No. 45 2005–06 *Internet Security in Australian Government Agencies,* June 2006, p. 15.

able to articulate their business requirements, and the risks, to busy CEOs under pressure and with resource constraints.

8.88 Although this audit looked at one particular aspect of security, the Committee recognises that managing the security environment is a multifaceted task. When examining internet security, a department needs to consider its people, internal practices, policies, contract management and the internet connection. This is not a simple task.

8.89 The Committee therefore makes the following recommendation:

Recommendation 17

8.90 **The Committee recommends that AGIMO provide greater assistance to Chief Executives of departments and agencies to ensure that they have the required knowledge to be fully compliant with PSM and ACSI 33 requirements.**

Trends over time

8.91 The Committee is interested in how Australian Government agencies have altered over time in terms of their approach to internet security.

8.92 The Committee was informed that agencies are increasingly using the internet to achieve two main governmental objectives: better quality client service at a lower cost.

8.93 DSD informed the Committee that over the preceding five years, government agencies had not been static. Rather they have been systematically improving their activity, including raising their level of activity to address security issues. However, they operate in an environment which is increasingly more hostile and the risks and threats are more obvious.

8.94 As government systems have increasingly become connected and interconnected, the risks have increased. Therefore the gap between agency activity and increasing risks has remained fairly stable, despite the efforts made.

ISIDRAS

8.95   Internet security is a subset of information technology security; which is concerned with the security of electronic systems, including computers, voice and data networks. Agencies using the internet to provide information and services are faced with a range of risks that must be managed to ensure the confidentiality, integrity and availability of Australian Government information.

> Risks to the security of government agency websites have become more acute over the past few years. …For Australian Government agencies to maintain Internet security, they need to continue to develop, improve, and review their ICT security management.[29]

8.96   Internet security risks come from inside and outside government agencies, with the main threats to agencies using the internet being:

- infection of information and systems by malicious code;[30]

- use or alteration of information and systems by unauthorised users.[31]

8.97   The Information Security Incident Detection, Reporting and Analysis Scheme (ISIDRAS) collects information on security incidents which affect the security or functionality of Australian Commonwealth Government computer and communication systems.[32] This allows for high-level analysis of Information Security incidents, with the ultimate aim of improving knowledge of both threats and vulnerabilities to Australian Government Information Systems and how to protect these systems more effectively.

8.98   The types of incidents that the Commonwealth agencies are asked to report include:

- unauthorised intrusion into an IT system (hacking);

- any compromise or corruption of information;

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29   ANAO Audit Report No. 45 2005–06 *Internet Security in Australian Government Agencies,* June 2006, p. 27.

30   Malicious code is software designed to damage data, steal information or compromise the ability to use a computer. Department of Communications, Information Technology and the Arts, *Internet Security Essentials For Small Businesses*, Australian Government, 2005, Canberra, p. 11, available at www.dcita.gov.au/e-security.

31   Unauthorised access is where a person who has not been given permission to access information does so.

32   http://www.dsd.gov.au/infosec/assistance_services/incident.html (accessed October 2006, Last Modified: 6 May 2004)

- intentional or accidental introduction of viruses to a network; and

- intentional or accidental disruption to service or damage to or loss of equipment.

8.99 The scheme uses the concept of Security Incident Categories, graded from 1 to 4, to indicate the increasing scale of severity and effect on the security and operations of a Commonwealth agency. The Protective Security Manual requires that agencies must report category 3 and 4 incidents, while reporting of category 2 incidents is optional.

8.100 Table 1.1 in the ANAO's report summarises four years' reporting of internet security incidents by Government agencies. That table is reproduced below as Table 8.3.

Table 8.3   Australian Government agencies' reporting of Internet security incidents to DSD, 2001–02 to 2004–05[33]

Security incidents	2001–02	2002–03	2003–04	2004–05	Total
Category 1 incidents (minor)					
Email scams[34]	0	1	1	3	**5**
Category 2 incidents					
Attempted unauthorised access	3	0	16	41	**60**
Attempted denial-of-service attack	2	5	1	0	**8**
Virus infection	19	11	23	12	**65**
Category 3 incidents					
Unauthorised access	5	9	10	1	**25**
Website defacement	2	5	10	7	**24**
Denial-of-service attack	0	14	1	3	**18**
Virus infection	0	0	5	4	**9**
Category 4 incidents (major)					
Virus infection	0	0	3	0	**3**
Total	**31**	**45**	**70**	**71**	**217**

Source: DSD data provided December 2005.

8.101 DSD advised the ANAO that the data in Table 1.1 under-represents government internet security incidents due to agencies under-reporting.[35]

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33 ANAO Audit Report No. 45 2005–06 *Internet Security in Australian Government Agencies,* June 2006, p 29.

34 Email scams are an attempt to sell products or services via email where such goods or services do not exist.

35 ANAO Audit Report No. 45 2005–06 *Internet Security in Australian Government Agencies,* June 2006, p. 29.

8.102   The Committee is concerned about the under-reporting by agencies and believes that more reliable data should be available to DSD so that they can appropriately monitor the risks.

8.103   The Committee therefore makes the following recommendation:

Recommendation 18

8.104   **The Committee recommends that DSD formally remind all agencies of their responsibility to comply with ISIDRAS reporting as required by the Protective Security Manual.**

Contracts

8.105   The Committee noted that ANAO recommendation number 3, relating to agency ICT contracts, included information which generally should be considered as standard requirements.

8.106   The ANAO said that this was necessary due to some of the contracts that they examined showing problems in those areas.

8.107   DSD indicated that they were already working with AGIMO to ensure that this information was being included in standard contracts. In addition, the question of who has responsibility when the service is outsourced was being examined in order to lessen the confusion in this area.

8.108   Ultimately it is the responsibility of the CEO who receives the information on internet security. The ANAO are working with DSD to raise the priority of this issue.

Audit Report No 29, 2005-06: Integrity of Electronic Customer Records[36]

Background

8.109   Like most Australian Government agencies involved in service delivery in the 21st century, Centrelink relies on large and complex information technology systems to support its extensive business

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36   ANAO Audit Report No. 29 2005–06 *Integrity of Electronic Customer Records*, February 2006.

operations. The heart of Centrelink's IT systems is ISIS—the Income Security Integrated System— Centrelink's main customer database.

8.110   In 2004–05, Centrelink's IT systems performed more than 5.2 billion electronic computations and processed some $63 billion of social security payments to over six million customers. Centrelink grants approximately 2.8 million new claims each year. At September 2005, the ISIS database held information on over 23 million customers— recording details of customers' identity, circumstances and eligibility for benefits under various social security programmes. Approximately 6.2 million of the 23 million records relate to customers with a current benefit determination.[37]

8.111   In order to distinguish between customer records, a unique identifier is assigned to each record—the Centrelink Reference Number, or CRN. The information in ISIS is organised around the CRN, which links customer information in various parts of the database. For example, the CRN links information on a customer's circumstances and benefit determinations with that in the payments file.

8.112   Customer information is spread across eleven networked computing environments, with each environment, essentially, servicing a region, state or territory within Australia.[38] Centrelink's data holdings are growing at a rate of approximately 30 percent each year, and at September 2005, the ISIS database held information in over 440 billion fields, with an average of 21 000 fields of information per customer.

Audit approach

8.113   The ANAO audit examined aspects of the integrity and management of customer data stored on ISIS. In particular, the audit considered measures of data accuracy, completeness and reliability. The scope of the audit also extended to aspects of Centrelink's IT control environment—in particular, controls over data entry.

8.114   The ANAO considered Centrelink's processes and procedures for entering customer data into ISIS, including the controls surrounding customer registration and the validation of customer data. ANAO also examined Centrelink's existing data integrity error detection and reporting system.

37   Other records include historical records for customers previously in payment, along with records for organisations and children.

38   One of the computing environments stores information on Centrelink customers residing outside Australia.

8.115   Centrelink provided data extracts from all 23 million ISIS records. The ANAO tested the contents of a number of mandatory fields to ensure these conformed to Centrelink's business rules and specifications. The ANAO's analysis also included a check of logical relationships between various fields.[39] Centrelink customers are required to prove their identity when claiming a pension, benefit, or allowance from Centrelink. The ANAO examined details of Proof of Identity (POI) documents recorded on ISIS.

8.116   A substantial part of the ANAO's analysis involved testing the integrity of the primary key[40] of the database—the CRN. ANAO checked for the existence of duplicate CRNs—whether any given value for a CRN was associated with more than one customer—and for multiple CRNs—where an individual customer had been assigned more than one CRN.[41]

8.117   Fieldwork for the audit was primarily undertaken during April 2005 to October 2005. The ANAO acquired over 8 million lines of data, extracted from the agency's data integrity error detection system on 12 July 2005. On 13 September 2005, Centrelink provided ANAO with over 23 million lines of data extracted from the main ISIS database, in accordance with the ANAO's specifications.

Overall audit conclusion

8.118   Centrelink's customer database, ISIS, constitutes one of the largest and most complex Australian Government databases holding information about Australian citizens and residents. With over 23 million records in total, some 6.2 million records support a current benefit determination, and in most cases, payment to a customer by Centrelink.

8.119   This audit found that Centrelink could significantly improve the accuracy and integrity of data stored on ISIS. In particular, Centrelink could improve the integrity of the primary key used in ISIS, and reduce the risks associated with fragmenting customer information across multiple records. Centrelink should also remove training records and obsolete customer records from the production

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39   For example, that a customer's recorded date of death did not precede his or her recorded date of birth, or that a customer's marital status (single or partnered) aligned with the payment rate for a benefit that was paid at either a single or partnered rate.

40   The primary key is a means of uniquely identifying each record within the database and a mechanism to link data across various elements of the database.

41   And, therefore, had multiple records in the database.

environment of its database. The ANAO also found that Centrelink should improve the effectiveness of its existing data integrity checking system.

8.120   The audit found that up to 30 percent of customer 'proof of identity' (POI) information recorded on ISIS was insufficient or unreliable in terms of uniquely identifying or substantiating the identity of customers. While much of this information related to historical records, the ANAO also found that this information is still relied upon to process new claims associated with those historical records. The ANAO noted that Centrelink has tightened some of the controls around POI data entry and that the quality of recently entered POI information appears to be considerably improved.

8.121   While this audit has highlighted a number of business risks arising from these data integrity issues, including the risk of duplicate or inappropriate payments to customers, the ANAO also found that Centrelink had in place a number of other controls designed to prevent inappropriate payments. Accordingly, the audit found that, while these risks exist, duplicate payments had only occurred in a small number of cases.

8.122   Therefore, given the scale and complexity of Centrelink's IT operations, and considering the information examined in the scope of this audit, the ANAO concluded that Centrelink's electronic customer records are, generally, sufficiently accurate and complete to support the effective administration of the range of social security programmes for which Centrelink is responsible.

8.123   The ANAO also recognised that Centrelink responded promptly to the matters raised during the course of this audit, and commenced a number of initiatives to address specific data integrity issues identified by the ANAO, and to generally improve the quality of data in ISIS. Key among these initiatives were projects to analyse and correct the identification of false positive results in the agency's existing data integrity error checking system, the establishment of a Data Quality Team to develop a long term strategy to improve and maintain data quality and work to comprehensively describe the effects of data integrity errors. Centrelink also undertook to review the operation of the priority rating system for data integrity errors.

8.124   In addition, Centrelink acted quickly to review cases of potential duplicate payment of customers, and to commit to resolving cases of duplicate and multiple CRNs.

ANAO recommendations

8.125   The ANAO made five recommendations, which were all agreed by Centrelink.

Table 8.4   ANAO recommendations, Audit Report No. 29, 2005-06 - Integrity of Electronic Customer Records

1.	The ANAO recommends that Centrelink improve the usefulness and effectiveness of its data integrity (DI) reporting system by:
	(e) ensuring the timely inclusion of new or revised DI checks whenever new software applications are released, so that the system is always checking data against current business rules; and
	(f) enabling the system to clearly identify DI errors associated with current customers.
	Centrelink's response: Agreed
2.	ANAO recommends that Centrelink, in order to provide programme managers with the capacity to determine the relevant priority of DI issues, including those requiring urgent or immediate attention, revise its priority rating system for DI errors, with a view to:
	(a) comprehensively and accurately describing the likely effects of DI errors;
	(b) resolving inconsistencies between the stated effects of some errors and the criteria for ascribing particular priority ratings; and
	(c) clearly identifying DI errors that pose the greatest risk to the efficient and effective administration of programmes and payments.
	Centrelink's response: Agreed
3.	ANAO recommends that, in order to address the range of data quality issues identified by this audit, Centrelink conducts a thorough data cleansing exercise within the ISIS database, with a view to:
	(a) removing training records and spurious customer records from the production environment;
	(b) removing or otherwise inactivating records for deceased customers from the production environment, where there is no continuing business need to retain the records
	(c) improving the accuracy of customers' personal information, particularly in recording the various elements of customers' name and address
	(d) enforcing existing business rules surrounding the use of defined legal values with certain ISIS fields
	(e) resolving possible anomalies in the recorded dates of birth and death for Centrelink customers identified during this audit; and
	(f) resolving possible anomalies in the recorded Tax File Numbers for Centrelink customers identified during this audit.
	Centrelink's response: Agreed
4.	ANAO recommends that Centrelink:
	(a) continues to monitor the operation of its Proof of Identity policy and the quality of POI information recorded in ISIS; and
	(b) progressively replaces spurious or inaccurate POI information currently recorded in ISIS with accurate information, when processing new claims or undertaking major of reviews of eligibility for existing customers.
	Centrelink's response: Agreed

5.	ANAO recommends that, in order to improve the integrity of the CRN, the primary key for ISIS, Centrelink takes action to resolve:
	(a) all duplicate CRNs — instances where **different** customers have been allocated the same CRN and instances where the **same** customer has a current benefit determination on two or more Centrelink computing environments;
	(b) all multiple CRNs — instances where the same customer has been registered under two or more different CRNs; and; and
	(c) all instances of records where a date of death has been recorded against one of a customer's duplicate or multiple records, but not the other(s).
	Centrelink's response: Agreed

The Committee's review

8.126   The Committee held a public hearing on 23 June 2006 with witnesses from the AG's Department, AGIMO, DSD, Centrelink and the ANAO, to examine both Audit Report 23 and Audit Report 29, 2005-06.

Data integrity errors

8.127   As Centrelink described, the audit focussed on data integrity errors within Centrelink's customer database:

> 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.[42]

8.128   Centrelink notes that the audit has given data integrity a higher profile in Centrelink, which was a good outcome.

8.129   As a result of the audit, Centrelink has in place a full-time data quality team to undertake data quality runs to identify these sorts of errors. Centrelink described the main errors identified by the audit as duplicate records, multiple records, archiving, proof of identity and the tax file number issue. This involved 182,000 records which were returned requiring remediation.

8.130   At the time of the hearing, the data quality team had checked through the returned records and from the 8.2 million data integrity errors mentioned in the report Centrelink had reduced this figure to about 3.1 million. The target was to check the remaining records by February 2007, potentially requiring going back to the base documents or even contacting the customers.[43]

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42   Mr John Wadeson, Centrelink, *Transcript of Evidence,* 23 June 2006, PA 40.

43   Mr John Wadeson, Centrelink, *Transcript of Evidence,* 23 June 2006, PA 43.

8.131   The Committee was concerned at the large number of errors identified in the audit. However it was pleased to note the progress being made to rectify these errors.

Inactive records

8.132   Another issue raised in the audit dealt with inactive records. Centrelink acknowledged that many of these records which existed in the major production systems were for deceased customers however used the term 'inactive' records to include those such as training records which were no longer active for other reasons.

8.133   The ANAO recommended removing or otherwise inactivating such records from the production environment, where there is no continuing business need to retain the records.

8.134   Centrelink responded to the suggestion to move the records "to environments where they would be less involved in mainstream production", by stating that this would require quite complicated IT and would be "quite a difficult thing architecturally". Centrelink stated it was investigating options relating to this issue.[44]

8.135   The Committee understands that the ANAO recommendation relating to inactive records is not a simple one to implement, however we agree with the audit office that "the existence of these records gives rise to an unnecessary risk to the integrity of Centrelink payments".[45] The Committee therefore strongly endorses the recommendation and Centrelink's prompt examination of options to address this risk.

8.136   Therefore the Committee makes the following recommendation:

Recommendation 19

8.137   **The Committee recommends Centrelink's prompt examination of options to address the risk posed by inactive records within Centrelink's major production systems.**

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44   Mr John Wadeson, Centrelink, *Transcript of Evidence,* 23 June 2006, PA 43.
45   ANAO Audit Report No. 29 2005–06 *Integrity of Electronic Customer Records*, February 2006, p.19

8.138   Centrelink informed the Committee that there is an audit monitoring system in place to physically follow-up each audit office recommendation to ensure they are "embedded and in place".[46]

8.139   The Committee commends Centrelink for the close involvement with ANAO throughout the audit process, for addressing some recommendations as they were flagged by the audit office, and for their general approach to the recommendations.

Common issues

Whole of government perspective

8.140   The Committee raised the question of whether a single agency with the whole-of-government responsibility for IT issues, including internet security, might improve coordination in this area. DSD stated that the involvement of multiple agencies in setting the standards is not conducive to standardised policy and process. Additionally, using DSD to police levels of compliance was not considered to be an appropriate use of resources.

8.141   Instead, DSD supported the current model, whereby the protective security manual and ACSI 33 provide policy and advice, which it is then up to agency and department heads to follow. Once the policy and the standards have been set, and an audit function is in place, DSD can then assist departments to understand where problems exist and how to meet their obligations.

Unauthorised staff access of information

8.142   The ANAO reported that:

> A major risk to Internet security also comes from within agencies, where personnel have the potential to accidentally or deliberately change information.[47]

8.143   The Committee raised concerns regarding the unauthorised access issues within Centrelink[48] and the ATO[49] which had recently been discussed in the media. These were cases of staff that were authorised

46   Mr Bob McDonald, Centrelink, *Transcript of Evidence,* 23 June 2006, PA 43.

47   ANAO Audit Report No. 45 2005–06 *Internet Security in Australian Government Agencies,* June 2006, p. 15.

48   Welfare workers axed for spying, The *Australian*, Wednesday 23rd August 2006.

49   Tax office sacks 'spies', The *Australian*, Tuesday 29th August 2006.

to use the system, but were inappropriately accessing records (as distinct from unauthorised access of records).

8.144   DSD advised that the only available data on this is that which has been reported under ISIDRAS, as can be seen in table 8.3. After detection of such cases, it is up to the agency to decide what action is to be taken.

8.145   DSD advised that routine and effective internal audits will catch people engaging in unauthorised access activities. Rather than being focussed on catching people out, security was described as making it harder for people to access networks inappropriately and about maintaining appropriate configurations.

The access card

8.146   At the time of the Committee's review the Australian Government was proposing to introduce a single card for people to use government health and social services.[50] The card was planned to replace up to 17 existing cards, including Medicare cards, Centrelink benefit and concession cards and Veterans' cards.

8.147   While since overtaken by events, the agencies responded to questions relating to the proposed introduction of the access card. DSD representatives stated that they would be involved throughout the Access Card development process, working very closely with AGIMO and other departments in relation to the security of that database. DSD stated that there was a broad understanding of what the access card means.

8.148   AGIMO described its role in relation to the access card as;

> "about setting a whole-of-government framework for smartcards"… 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.

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50   http://www.accesscard.gov.au/ (accessed December 2006)

> Our role is very much about awareness raising, best practice and frameworks.[51]

8.149   AGIMO observed that "Whether or not to implement a smartcard is a question for the government".[52]

Levels of risk

8.150   The Committee was interested in the security control framework and its aim of minimising the risk of harm to acceptable levels, and what levels were considered "acceptable", particularly for agencies which may be considered critical due to the personal data held by them (eg. Centrelink, the Health Insurance Commission).

8.151   The ANAO explained how their audits looked at risk 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 [that] the systems are virtually always up and available. So the levels of risk that are acceptable will vary depending on what the services support.[53]

8.152   Centrelink explained that the minimum level of risk is determined after long and fairly detailed risk assessments have been done.

> 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.[54]

8.153   The Committee is satisfied that for the agencies which appeared before the Committee, reasonable effort was expended in determining what constituted "appropriate" levels of risk for IT security.

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51   Mr Brian Stewart, AGIMO, Department of Finance and Administration, *Transcript of Evidence,* 23 June 2006, PA 46.

52   Mr Brian Stewart, AGIMO, Department of Finance and Administration, *Transcript of Evidence,* 23 June 2006, PA 47.

53   Mr Greg Mazzone, ANAO, *Transcript of Evidence,* 23 June 2006, PA 41.

54   Mr John Wadeson, Centrelink, *Transcript of Evidence,* 23 June 2006, PA 40.

8.154   The Committee encourages all agencies to re-examine their
determination of minimum IT security risk levels, to ensure that
detailed risk assessments have been undertaken and a security
framework is in place so that the levels are in fact appropriate.

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Audit Report No. 21, 2005-06, Audit of Financial Statements of Australian Government Entities for the Period Ended 30 June 2005

Background

9.1   At the close of each financial year the Government prepares two key financial reports: the Consolidated Financial Statements of the Australian Government (CFS); and the Final Budget Outcome Report (FBO Report) – required by the *Charter of Budget Honesty Act 1998*.

9.2   Under the *Financial Management and Accountability Act 1997* (FMA Act), the Auditor-General is required to report each year to the relevant Minister(s) whether government entities' financial statements give a true and fair view of the matters required by applicable legislation, Accounting Standards and other mandatory financial reporting requirements in Australia. This is one of the key responsibilities of the Auditor-General.

9.3   Audit Report No. 21, 2005/06 provides a summary of the results of the ANAO's audits of the financial statements of all Australian government reporting entities, including the Consolidated Financial Statements of the Australian Government.

9.4   Audit Report No. 21 is the second report on these audits for the financial year ended 30 June 2005, and complements Audit Report No.56 2004-2005. The latter outlined audit findings relating to government departments' control structures, including governance arrangements, information

systems and control procedures, which supported the reporting of public sector financial performance and accountability, through to March 2005.

9.5   The ANAO is responsible for the audit of the financial statements of 252 government entities. For 2004-05, the ANAO issued the following opinions:

- 213 'clear' opinions;

- 4 'qualified' opinions;

- 3 containing an 'emphasis of matter'; and

- 18 containing 'other statutory matters'.

9.6   The four qualified audit reports were those of the Consolidated Financial Statements (outlined further below); the Department of Defence (ongoing from 2003-04); and Centrum Insurance Brokers Pty Old and Northern Insurance Brokers Pty Ltd (as a result of uncertainties over opening balances).

9.7   The three audits containing an 'emphasis of matter' were those of Adelaide Symphony Orchestra, Queensland Orchestra, and Symphony Australia Holdings Pty Ltd. Each of these entities disclosed a significant uncertainty surrounding their ability to continue as a going concern.[1]

9.8   Audit reports containing 'statutory matters' largely related to breaches of Section 48 of the FMA Act[2], and agencies' compliance failures on Net Appropriation agreements (examined further in Chapter 10 of this report).

Audit risk scale

9.9   The ANAO rates its audit findings according to a risk scale. Audit findings which pose a significant business or financial risk to the entity and which must be addressed as a matter of urgency, are rated as 'A'. Issues that pose a moderate business or financial risk are rated as 'B'. Issues that are procedural in nature, or reflect relatively minor administrative shortcomings are rated as 'C'.

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1   ANAO Audit Report No. 21, 2005-06: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*; Commonwealth of Australia; 21 December 2005.

2   Section 48 o the FMA Act states that: (1) A Chief Executive must ensure that accounts and records of the agency are kept as required by the Finance Minister's Orders; and (2) The Finance Minister is entitled to full and free access to the accounts and records kept under subsection (1). However, the Finance Minister's access is subject to any law that prohibits disclosure of particular information.

9.10   The following agencies attracted the highest number of A and B category
        audit findings, and were invited to a public hearing to explain their
        actions to address the audit findings:

- Department of Environment and Heritage (DEH);

- Department of Families, Community Services and Indigenous Affairs
  (FaCSIA); and

- Australian Taxation Office (ATO).

9.11   The Department of Finance and Administration (Finance) and the
        Australian National Audit Office (ANAO) were also witnesses at the
        hearing.

Qualification of whole-of-government statements

9.12   The Consolidated Financial Statements of the Australian Government
        were signed by the Minister on 8 December 2005, and were issued on
        12 December 2005. The ANAO's audit opinion indicated that the financial
        statements were true and fair, except for qualifications relating to six
        material issues. Four of these were related to the scope limitations on
        Defence financial information. These matters were examined by the
        JCPAA as part of its inquiry into financial management and equipment
        acquisition at the Department of Defence and Defence Materiel
        Organisation (DMO).[3] The other two qualifications were in relation to
        underestimates of taxation revenue (discussed below).

GST and related Grants expense

9.13   As in the previous year, the 2004-05 CFS did not recognise the Goods and
        Services Tax (GST) as a revenue of the Australian Government. The then
        Government's reason for not recognising GST revenue, and associated
        grants payment to the States and Territories, was based on the view that
        the GST is a State tax collected by the Australian Government in an agency
        capacity.[4] The 2006-07 Budget Papers explain the Government's position:

> Australian Accounting Standards would suggest the gross amount
> of goods and services tax (GST) be included in the Australian
> Government's financial statements. However, under the

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3   See inquiry website: http://www.aph.gov.au/house/committee/jpaa/defence/index.htm.
4   ANAO Audit Report No. 21, 2005-06, p. 30.

> *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations,* GST is collected by the Australian Taxation Office as an agent for the States and Territories (the States), and appropriated to the States. Therefore, accrued GST revenues and associated payments to the States are not recorded in the financial statements.[5]

9.14   However, the ANAO argued that in substance, and from an accounting perspective, the GST is a revenue of the Australian Government, because:

■ it is imposed under Australian Government legislation – the decision to enter into an agreement to pass on the GST revenue to the State and Territories is a separate transaction; and

■ the GST revenue is distributed based on population share adjusted by a relativity factor, determined by the Treasurer.

9.15   According to the ANAO, the effect of not recognising the GST revenue was to understate the net result at year end by $35.8 billion for revenue, and $35.5 billion for expenses, and hence the Net Result (surplus) of $0.3 billion.[6]

9.16   The ANAO also points out that individual Commonwealth agencies report the GST as an Australian Government tax (ATO) and as grant expenses (Treasury).

9.17   The Committee notes that the GST has subsequently been recognised by the Australian Government as a Commonwealth tax.

Taxation revenue

9.18   Since 1998-99 the ANAO has qualified its audit opinion on the CFS based on a belief that the taxation revenue in the financial statements should be measured using the Economic Transaction Method (ETM). For the 2004-05 statements, taxation revenue was measured on a Tax Liability Method (TLM), which recognised taxation revenue the earlier of when an assessment of tax liability is made, or payment is received by the ATO or the Australian Customs Service.[7]

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5   Budget 2006-07 Budget Paper No. 1, Statement 10: *Australian Accounting Standards Financial Statements*, available at: http://www.budget.gov.au/2006%2D07/bp1/html/bp1_bst10-01.htm; accessed September 2006.

6   ANAO Audit Report No. 21, 2005-06, p. 31.

7   ANAO Audit Report No. 21, 2005-06, p. 32.

9.19   Under the ETM, taxation revenue would be recognised when the Government, through the application of legislation to taxable and other relevant activities, gains control of the future economic benefits that flow from taxes and other statutory charges.

9.20   Due to the ongoing disagreement over treatment of GST revenue, the ANAO and the Department of Finance and Administration (Finance) reviewed the methods of recognising taxation revenue. However, the two agencies could not come to an agreement. The Government asked the ANAO and Finance to conduct another review, with the aim of resolving the matter and incorporating any changes into the 2006-07 Budget year and the forward years – flowing onto future budget outcomes and the CFS.[8]

9.21   The Committee asked for an update on this review and was told that the ANAO and Finance had agreed to move to adopt the fuller accrual method favoured by the ANAO, except for certain items which would remain on the old methodology because they are not accurately available in the accrual methodology.[9]

9.22   The new accounting method, and its exclusions, is further explained in the 2006-07 Budget Papers:

> Australian Accounting Standards [AAS] seeks to recognise tax revenue when the economic event giving rise to the taxpayer's liability occurs. The budget and related outcomes adopt this treatment for measuring and recognising revenue of all categories of taxation [*Committee note: this is the ANAO's preferred methodology*].
>
> For individuals, company and superannuation revenue, such an estimation method is unreliable and tax revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Taxation Office or the Australian Customs Service. This method is permitted under AAS when there is an inability to reliably measure taxation revenues at the time the underlying transaction or event occurs. Accordingly, for these categories of taxation revenue, there is a short lag between the time at which the underlying economic activity giving rise to the tax liability occurs and when the revenue is recognised.

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8   ANAO Audit Report No. 21, 2005-06, p. 33.

9   Ms Anne Hazell, Department of Finance and Administration, *Transcript of Evidence* 2 June 2006, p. 6.

> Longer lags occur for some elements of company and superannuation funds taxation.[10]

Financial statement preparation

9.23   Under the *Charter of Budget Honesty Act 1998*, the Final Budget Outcome (FBO) must be published within three months of the end of the financial year (i.e. 30 September). Given the Commonwealth's move to an accrual budgeting and reporting framework in 1999-2000, Final Budget Outcome reports now incorporate audit cleared accrual based revenue and expenses, balance sheet and cash flow information. This information is obtained from the annual process of compilation of the Consolidated Financial Statements.[11] In practice, the imposition of the 30 September deadline for the FBO has tightened the timeframe for preparation of agency financial statements (even though they are not due to be tabled until 30 November each year), as audited financial statements are required to complete the FBO.

9.24   Under Section 55 of the FMA Act, the Finance Minister must present the CFS to the Auditor-General for audit as soon as practicable after the end of the financial year. If, after five months (ie 30 November), the CFS have still not been provided to the Auditor-General, the Finance Minister must table an explanation in both Houses of Parliament.[12]

9.25   In recent years, the CFS have not been provided to the Auditor-General by the 30 November deadline, because of late submission of audit-cleared material by 'key agencies' (including Defence).[13]

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10   Budget 2006-07 Budget Paper No. 1, Statement 10: *Australian Accounting Standards Financial Statements*, available at: http://www.budget.gov.au/2006%2D07/bp1/html/bp1_bst10-01.htm, accessed September 2006.

11   Department of Finance and Administration, *Annual Financial Reporting*, available at: http://www.finance.gov.au/budgetgroup/Annual_and_Monthly_Reporting_P/annual_financial_reporting.html, accessed August 2006.

12   *Financial Management and Accountability Act 1997*, available at CommLaw: http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/7FE7DA07542D4C39CA257156000A3646?OpenDocument, accessed August 2006.

13   See Department of Finance and Administration Annual Reports 2003-04 and 2004-05, available at: http://www.finance.gov.au/Publications/Annual_Reports.html, accessed August 2006.

9.26   Under guidelines issued by Finance in 2002, all government entities are
        required to provide audit-cleared financial statements[14] to Finance by
        20 July. For the financial year ending 30 June 2005, Finance revised this
        date back to 30 July. The ANAO strongly supported this move, given the
        imposition of new Australian Equivalents to International Financial
        Reporting Standards (AEIFRS), and other resource pressures on entities.

9.27   However, despite the 10-day reprieve, the ANAO noted that for the 2004-
        05 financial year only 76 percent of general government sector entities
        were able to provide audit cleared statements to Finance by 30 July. This
        represented a deterioration from the previous year.

9.28   The ANAO noted that a key driver in an effective financial statement
        preparation process is project management. [15] The tight timeframe allows
        little 'fat' in the management process, and factors such as staff shortages or
        lack of experienced staff, exacerbates any existing problems.

9.29   To assist in better project management of the financial statements process,
        in April 2006 the ANAO released a *Better Practice Guide* on preparation of
        financial statements. The Committee has reviewed this Guide and
        commends the Audit Office on its publication. The Guide provides
        agencies with a comprehensive document outlining the financial
        framework and the essential steps in preparing financial statements,
        including checklists and examples. [16]

9.30   Finance also produces guidance in the form of its A-Model better practice
        guides – these are dummy statements to guide agencies in presentation of
        information.[17]

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14   The term 'audit cleared' means that although the ANAO has not issued an audit report, the
     audit of material balances has not disclosed any reasons that would prevent Finance from
     consolidating financial information for the purpose of preparing the FBO and CFS.

15   ANAO Audit Report No. 21, 2005-06, p. 53.

16   ANAO: *Preparation of Financial Statements by Public Sector Entities*, 13 April 2006, available at:
     http://www.anao.gov.au/WebSite.nsf/ViewPubs!ReadForm&View=BetterPracticeGuidesBy
     Date&Title=Better%20Practice%20Guides%20by%20Date%20(Latest%20First)&Cat=&Start=1&
     Count=10, accessed August 2006.

17   A-Model guides available at: http://www.finance.gov.au/ace/amodel_2005-2006.html,
     accessed August 2006.

Implementation of AEIFRS

9.31   As the Committee has heard in its Defence inquiry, the implementation of the Australian Equivalents to International Financial Reporting Standards has placed a significant burden on public sector entities. The Australian Accounting Standards Board (AASB) mandated that AEIFRS must be introduced from 1 January 2005. For most government entities, this means that 2005-06 was the first year of reporting under these new standards.

9.32   However, the AASB required that the financial statements for 2004-05 explain how the transition to AEIFRS was being managed, the key differences in accounting policy arising from the transition, and any impact on the reporting process. In addition, to ensure that government agencies were progressing with implementation of AEIFRS, Finance required agencies to produce a range of AEIFRS compliant data, to provide comparative data for the 30 June 2006 financial year.

9.33   The ANAO was unable to comment on the full impact of AEIFRS on Australian Government financial statements, but did surmise that the new requirements would result in more volatility in the results reported on an accrual basis, particularly because AEIFRS recognises more rights and obligations in financial statements, and requires the measurement of the present value of long-term liabilities. The ANAO also noted the particular compliance difficulties that would be encountered by the Department of Defence, given the previous year's statements were subject to a 'no opinion' audit finding.[18]

Specific agency findings

9.34   The financial statements audit revealed a number of agencies with audit qualifications in the A or B categories. The Committee selected three of these agencies, with a higher number of significant findings, for closer examination.

Department of Environment and Heritage

9.35   During 2004-05 there were two significant changes to DEH – the transfer of some indigenous programs from the then Department of Immigration and Multicultural and Indigenous Affairs, following the abolition of ATSIC; and the incorporation of the Australian Greenhouse Office and the

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18   ANAO Audit Report No. 21, 2005-06, p. 25.

National Oceans Office into the department. These changes, together with increased staff and superannuation expenses, resulted in an increase in DEH's expenses in 2004-05.

9.36   There were no Category A findings for DEH.

Category B findings

9.37   The ANAO identified eight Category B audit findings at its interim Audit (April 2005). Only one was resolved by DEH at the close of the financial statements period.[19] These issues were:

- deficiencies in the financial statement preparation process;

- the reconciliation of leave balances – DEH could not reconcile recreation and long service leave balances between its HR and financial systems;

- reconciliation of financial records – there were some issues in reconciling DEH's financial records to bank accounts, and to Finance records;

- reconciliation of special accounts – DEH had not been reconciling special account ledgers to the bank account and Finance records;

- access management – ANAO identified weaknesses in key systems' security controls;

- Fraud Control Plan – at March 2005 DEH did not have a current Fraud Control Plan. By August 2005 DEH was finalising a plan;

- Business Continuity Plan – DEH did not have a formally established, department-wide business continuity management plan. Some work had been completed, but testing and final endorsement was yet to occur.

9.38   A further four Category B issues were identified during the final phase of the audit:

- management of grants and suppliers – there were several instances where grants and suppliers were expensed and a liability recorded prior to the obligation arising (ie the work being undertaken);

- use of accounts – accounts used for grants, suppliers, payroll and bank transactions were not being reviewed in a timely or correct manner;

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19   ANAO Audit Report No. 21, 2005-06, p. 144.

- recognition of restitution costs under international treaties – under the Antarctic Treaty, Australia must provide for restitution of the Antarctic base, under certain circumstances. Under current accounting standards, these 'make good' costs must be reflected as a provision in the accounts. DEH was unable to provide an estimate of these costs for 2004-05;

- non-financial assets management – the Australian Antarctic Division manages a significant balance of DEH's non-financial assets, using a separate asset register. The department did not provide complete information to the independent valuer engaged to value these assets, and also had some problems with some of the independent valuer's findings. The ANAO recommended that DEH closely monitor the information provided to valuers.

9.39   In July 2006 the Committee wrote to DEH asking for an update on the status of the above audit issues. The department replied that it was hopeful, subject to ANAO auditing, of achieving a 'clean sheet' against each of the 2004-05 audit issues in the 2005-06 financial statements. The department's financial management team had been bolstered by new recruitment, and other audit issues were being managed via detailed project plans and use of greater resources where needed.[20] The Committee notes that DEH resolved all these issues in the 2005-06 financial statements.[21]

Legislative breach

9.40   The Committee notes that although the ANAO report identified that DEH had overdrawn on a number of its bank accounts, the DEH submission argued that this had now been identified as erroneous.[22]

9.41   The ANAO argued that the agreements in place still did not provide for an overdraft. However, given improvements in controls over cash management, and the fact that the level and number of instances of overdraft had significantly reduced, the breach was no longer reported in subsequent audit reports.[23]

20   DEH, submission No. 7 [letter dated 27 July 06].
21   ANAO Audit Report No. 15, 2005-06, p. 140.
22   DEH, submission No. 7, p. 1.
23   Correspondence from the ANAO, 20 September 2006, p. 1.

Department of Family and Community Services[24]

9.42   The ANAO identified 12 Category B audit findings in its interim review (March 2005). By the end of the audit, the ANAO was satisfied that six of these issues had been fully addressed, and reasonable progress had been made against the remaining, which were:

- review of audit trail logs and privileged accounts;

- shortcomings in accounts payable process;

- adequate monitoring of expenditure per outcome;

- correct classification of departmental/administered payments;

- currency of financial policies and procedures; and

- unrecorded prior employment service.

9.43   However, a further eight new audit issues were identified in the final phase of the financial statements audit, outlined below. [25]

Problems with the Financial Management Information System (FMIS)

9.44   The ANAO identified significant control weaknesses in the FMIS. ANAO acknowledged that FaCS was undertaking follow-up action, which would reduce the risks.

- FMIS system account passwords – a specific problem with the FMIS was that there were four default privileged user accounts with commonly known passwords. These accounts had powerful access rights and could allow unauthorised access to the system. FaCS was in the process of changing the passwords.

- Monitoring of privileged system access – there was a lack of monitoring of privileged system access to the FMIS, increasing risk of unauthorised or inappropriate system access.

- Security access – an audit of access to the FMIS revealed that some users had inappropriate access, excessive access or access not required to perform their duties. This increases the risk of unauthorised access, resulting in changes to the system that cannot be detected.

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24   Following the changes announced by the Prime Minister on 24 January 2006, the Family and Community Services (FaCS) portfolio was expanded to form the new Families, Community Services and Indigenous Affairs portfolio (FaCSIA). FaCS will continue to be used in this section as that was the departmental name at the time of the audit.

25   ANAO Audit Report No. 21, 2005-06, p. 154.

Reporting of commitments

9.45   Commitments are undertakings or future payments under a contract that will result in liabilities in future periods. The FaCS reporting system at the time of the audit not fully identify and report on future commitments, exposing FaCS to the risk of incomplete and inaccurate year-end figures.

IT security

9.46   The ANAO found that there was a lack of formal definition of roles within FaCS, increasing the risk that critical IT security activities may not performed, or will be duplicated. Ownership of different business and application systems needed to be formally allocated to business managers, to ensure accountability and responsibility.

9.47   The ANAO also found that FaCS did not regularly review the effectiveness of IT controls in place in an outsourcer's environment. There had been no independent audit of the IT control framework. FaCS was in the process of developing a compliance and audit program for its own and outside IT operations.

Business/disaster planning

9.48   The ANAO found that there could be improvements in the linkages between the FaCS Business Continuity Plan and its risk assessment/management strategy. There was no Disaster Recovery Plan in place, although one was under development.

Legislative breaches

9.49   Under Section 8 of the FMA Act, an entity must enter into an agreement for an overdraft on its official accounts, if the overdraft is for more than 30 days. One FaCS account was in overdraft from 1 July 2004 to 31 January 2005, for amounts ranging from $910,779 to $8,235,372.

9.50   The ANAO found that FaCS had breached Section 31 of the FMA Act, and accordingly Section 83 of the Constitution, by holding an ineffective Section 31 Agreement (Net Appropriation Agreement). The agreement was ineffective because either the Finance or FaCS official who signed the agreement did not have an express authorisation or delegation from their Minister to do so. A separate ANAO performance audit has identified this as a common problem across a number of agencies (reviewed at a separate public hearing).

Australian Taxation Office

9.51   The ANAO reported that the ATO had initiated a number of projects to clear the audit qualifications raised in the 2003-04 financial statements audit. The ANAO was satisfied that this progress provided reasonable assurance that the 2004-05 financial statement balances were materially correct.

9.52   However, the 2004-05 audit highlighted key issues relating to the need for improved accounting over processing of significant financial transactions. This resulted in four Category A and 15 Category B audit findings for the 2004-05 financial statements. These are outlined below.

Category A Findings

Preparation of the administered financial statements

9.53   The ANAO noted that the financial statements preparation process was streamlined for the 2004-05 statements. As a result of the new processes, adjustments of some $6.79 billion were made to the ATO financial statements, in response to ANAO representations. $3 billion of these adjustments occurred very late in the preparation process. The ANAO commented that this raises governance issues in regard to the ATO being able to deliver a complete set of financial statements within the required timeframe:

> The level of adjustments highlighted the need for a complete understanding by the preparers together with active involvement by management over quality assurance and analysis in the financial statement preparation process. There is also scope to improve the timing, quality and level of supporting documentation.[26]

9.54   The Committee followed up on this issue at the public hearing, asking the ATO to explain why nearly $7 billion in adjustments were made late in the preparation process. The ATO explained that as part of the new process, realised that it had to produce full accrual estimates on a number of administered expenses, such as the diesel fuel rebate, the baby bonus and the super co-contribution, in the financial statements. The 2004-05 statements were the first in which these items were reported as full accrual estimates. The ATO told the Committee that the adjustments, in particular the $3 billion in late adjustments, were a result of the complexities in

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26   ANAO Audit Report No. 21, 2005-06, p. 224.

implementing the new accounting treatment, and the time pressures involved in meeting the financial statements deadlines:

> We were preparing numbers and the auditors were auditing them at the same time, so we did not have time to put in some of the quality control processes that we would have liked. All of those things came together and…[the auditors] identified that, in changing the accounting treatment, we had not necessarily got all of that right.[27]

9.55   The Committee sought reassurance that the ATO now has systems in place to cope with the accounting changes. The ATO replied that as there were no new accounting practices for the 2005-06 financial statements they expected more stability in producing the reports. The ATO also reported that they have worked on estimation and preparation processes to have 'better clarity about what the numbers are, how they are being produced and what they mean.'[28]

9.56   While the Committee understands that the implementation of a new accounting system or preparation process causes difficulties, it is worrisome that the ANAO picked up such large discrepancies in the ATO's calculations for 2004-05.

9.57   The Committee observed the Auditor-General's assessment of the ATO 2005-06 financial statements to satisfy concerns that similar major accounting flaws were not repeated in the 2005-06 financial year's statements. The Committee noted that the preparation of financial statements issue had not been resolved in the 2005-06 financial statements, but had been reclassified as a moderate risk matter. However, the Committee is concerned that the ANAO found two new significant risk issues in the 2005-06 financial statements.[29]

Calculation and posting of the General Interest Charge to client accounts

9.58   In the 2003-04 financial statement audit the ANAO identified a problem with the General Interest Charge (GIC) not being applied to all taxpayer accounts for companies and superannuation funds, in respect of outstanding annual income tax payments. The ATO provided an estimate of the revenue impact of this omission, however the ANAO found that it was unable to form an opinion on the estimated GIC revenue and therefore issued a qualification on that line in the accounts.

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27   Ms Madonna Moody, Australian Taxation Office, *Transcript of Evidence* 2 June 2006, p. 3.

28   Ms Madonna Moody, Australian Taxation Office, *Transcript of Evidence* 2 June 2006, p. 4.

29   ANAO Audit Report No. 15, 2005-06, p.216.

9.59   The ANAO noted that for the 2004-05 financial statements the ATO had
        made system changes to rectify the problem, and a reliable calculation
        could be determined for the 2004-05 financial statements.[30] The ATO has
        reported to the Committee that at 30 June 2006 that the following
        percentages of taxpayer accounts had been reviewed and GIC (and
        remission if appropriate, see below) had been posted to their accounts:

        ■ 98.8 percent of companies and superannuation funds;

        ■ 99.9 percent of individual and trust accounts; and

        ■ 99.4 percent of Fringe Benefits Tax (FBT) accounts.[31]

9.60   The Committee asked if, once the error in calculating and charging the
        GIC was discovered, the GIC had been applied to taxpayer accounts
        retrospectively. The ATO replied that the GIC had been applied
        retrospectively to such accounts. However, the charge was remitted for
        accounts that had accrued over a substantial period of time, where the
        taxpayer had paid off their account balance but had not been notified of
        the accruing GIC liability.[32]

Supporting documentation

9.61   The ANAO found that the documentation of key elements of the ATO's
        financial reporting needed improvement, particularly in relation to the
        adequacy, validity and completeness of supporting documentation and to
        demonstrate that quality assurance checks have been performed. In
        particular, the ANAO was concerned about the parameters used to extract
        information from a data warehouse, and also the trail used to identify the
        data source which was supporting the financial statement balances, which
        was only provided at the ANAO's request.[33]

9.62   The Committee asked for an update on the ATO's steps to improve
        supporting documentation for the financial statements process. The ATO
        replied that improvements included the development of a template and
        procedures, agreed to by the ANAO, in advance of the financial
        statements 2005-06 process; and that the department had implemented a
        four-way management review and sign-off process.[34]

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30 ANAO Audit Report No. 21, 2004-05, p. 224.
31 ATO, submission No. 4.2, p. 2.
32 ATO, submission No. 4.2, p. 2.
33 ANAO Audit report No. 21, 2004-05, p. 224.
34 ATO, submission No. 4.2, p. 3.

Management analysis of the estimation process

9.63   The ATO financial statements are prepared using estimates of the revenues to be accrued each year. The ANAO found that the estimation of accrued revenues is based on various economic models. However, there was no evidence of management review of the analysis by the ATO specialists over the economic models and the supporting documentation. An ANAO review of the approach used by the ATO led to the development of more robust disciplines for estimating a number of balances, such as fuel subsidies, family tax benefits and super co-contribution.[35]

9.64   The ATO reported that it has strengthened its management review processes. The economic models are developed by the ATO's review analysis area, and the corporate finance area is responsible for the preparation of the financial statements. The estimates methodology is now signed off by: a senior executive in the review analysis area; a senior executive in the corporate finance area; the Deputy Commissioner responsible for the revenue or expense product; and the Chief Finance Officer.[36]

Category B Findings

9.65   At the end of the financial statement period the ATO attracted a number of Category B findings. The new findings were in relation to:

- the superannuation surcharge;

- the Superannuation Guarantee Charge;

- the control self assessment framework;

- the Certificate of Compliance – Payment of public money; and

- SAP security.

9.66   The Committee sought an update on each of these findings and was satisfied with the ATO's progress towards resolving these issues (see ATO submission 4.2 for further detail).

9.67   Outstanding Category B findings from the audit included:

- agreements for the provision and receipt of services between the ATO and other Australian Government entities;

- costing of internally developed software;

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35   ANAO Audit report No. 21, 2004-05, p. 224.
36   ATO, submission No. 4.2, p. 3.

- user access to payroll and recruitment functions;

- system for making emergency fixes during processing of transactions;

- finalising Business Continuity Plans;

- consolidating reconciliations for superannuation and FBT;

- management of special accounts; and

- the Certificate of Compliance process relating to Excise,
  Superannuation business systems, Higher Education Contribution
  Scheme, Legacy systems and third party refunds.

9.68   The ATO reported that at the time of the Committee's review (August
        2006), the ANAO was still completing its audit of the 2005-06 financial
        statements and therefore the status of these audit findings was yet to be
        finalised. In the ensuing 2005-06 report, the ANAO found that the ATO
        had only resolved half of the 2004-05 Category B findings prior to August
        2006. The 2005-06 financial statements audit also identified four new
        Category B findings, which included the downgrading of two 2004-05
        Category A findings the ANAO had assessed the ATO to have
        significantly addressed but not rectified.[37]

Committee comment

9.69   The Consolidated Financial Statements, audited by the ANAO, provide an
        important accountability mechanism. This ANAO report on its audit of
        Government entities' financial statements for 2004-05 notes that a number
        of agencies have appeared to struggle to meet the financial reporting
        timeframes and to adjust to the new reporting requirements under the
        Australian Equivalent of the International Finance Reporting Standards.
        These issues were noted by the Committee in its review of equipment
        acquisition and financial management at the Department of Defence.

9.70   Some common themes emerged in the audits of the three agencies under
        specific review by this Committee:

- business planning – better management of financial statements process;
  a lack of current or integrated fraud control plans, business continuity
  plans;

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37   ANAO Audit Report No. 15, 2005-06, p. 220.

- IT Security/governance; and

- legislative compliance – special accounts (ATO); overdrawn accounts (DEH and FaCSIA).

Audit Report No. 28, 2005-06, Management of Net Appropriation Agreements

Background

10.1   An appropriation is an authorisation by the Parliament to spend an amount from the Consolidated Revenue Fund (CRF) for a particular purpose. Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth[1] except under an appropriation made by law.[2]

10.2   In this context, net appropriation arrangements are a longstanding feature of the Commonwealth's financial framework. They provide a means by which an agency's appropriation item in the annual Appropriation Acts can be increased for amounts received from non-appropriation sources. This may include payments from the public, employees, private sector entities, other agencies or other governments – for example, through user charging fees. A net appropriation agreement provides the agency with the appropriation authority to retain and spend those amounts.

10.3   Net appropriation agreements are made under Section 31 of the *Financial Management and Accountability Act 1997* (FMA Act). The FMA Act requires that an agreement be made between the Finance Minister and the Minister responsible for the appropriation item or, in the case of items for which

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1   In this context, the Treasury of the Commonwealth refers to the CRF.

2   Australian National Audit Office, Audit Report No. 28 2005–06, *Management of Net Appropriation Agreements,* Commonwealth of Australia, January 2006.

the Finance Minister is responsible, with the Chief Executive of the agency for which the appropriation is made.

Audit objective and scope

10.4   The objective of the performance audit was to assess agencies' financial management of, and accountability for, the use of net appropriation agreements to increase their appropriations.

10.5   Six FMA Act agencies were selected for detailed examination: Australian Agency for International Development (AusAID); Bureau of Meteorology (BoM); Department of Defence; Department of Industry, Tourism and Resources (DITR); Department of Immigration and Multicultural and Indigenous Affairs (DIMIA);[3] and Department of Finance and Administration (Finance).

10.6   The ANAO also examined 231 agreements made in respect of FMA Act agencies between 1 January 1998 and 30 June 2005,[4] and agencies' financial reporting of the use of Section 31 to increase their appropriations.

Overall conclusion

10.7   Overall, the audit revealed widespread shortcomings in the administration of net appropriation arrangements. In particular, there had been inadequate attention by a number of agencies to their responsibility to have Section 31 agreements in place. Other agencies were found to have agreements in place, but some of these agreements were found to be 'ineffective' or 'in doubt' because agencies could not demonstrate that the signatories to the agreements had the appropriate delegation from the Minister. The ANAO found that given the fundamental importance of appropriations to Parliamentary control over expenditure, improvements are necessary to secure proper management of net appropriation arrangements.

10.8   The ANAO believed that two recent Finance Circulars issued by the Department of Finance and Administration would assist in improving management of net appropriation agreements, as would changes to Finance's practices in negotiating and executing agreements on behalf of

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3   Following changes announced by the Prime Minister on 24 January 2006, the Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) was altered to form the new Department of Immigration and Multicultural Affairs (DIMA). DIMIA will continue to be used in this section as that was the departmental name at the time of the audit.

4   These agreements had been made in respect to 79 agencies. The least number of agreements made in respect to an individual agency in that period was one (including five agencies that had been created since 1 July 2003) and the most was eight (for Finance).

the Finance Minister. Nevertheless, in terms of appropriation management, individual agencies are directly responsible for ensuring that an appropriation is available before spending funds from the CRF.

10.9   Accountability to the Parliament for the use of Section 31 arrangements is expected to occur through reporting in budget papers and agency financial statements. However, the ANAO found that the current presentation of budget estimates does not assist readers of agency Portfolio Budget Statements (PBS) with a clear understanding of how much 'extra' money will be available to the agency through amounts collected under net appropriation agreements.[5] Further, the ANAO found that agency financial statements have not accurately reflected the use of Section 31 arrangements.

10.10   The ANAO found that a measure implemented by Finance to require agency Chief Executives to provide an annual statement of compliance with the legislative and policy elements of the financial management framework, introduced in 2006–07, should assist in ensuring a stronger agency focus on compliance issues.

Committee inquiry

10.11   The Committee held a public hearing on Audit Report No. 28, 2005-06 on 29 May 2006. Submissions were received from the Clerk of the Senate and from the Department of Finance and Administration (in answer to questions on notice arising from the public hearing).

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5   The Portfolio Budget Statements are targeted towards providing the Parliament with information regarding the proposed allocation of resources to Government outcomes. Information is provided to Parliament regarding 'Other receipts available to be used', which is the estimated amount of receipts that are available to the agency for expenditure to contribute to the relevant outcome.

ANAO recommendations

Table 10.1   ANAO recommendations, Audit Report No. 28, 2005-06- Net Appropriation Agreements

1.	In order to provide certainty as to the capacity of amounts debited from internally managed Special Accounts to be captured by agencies' Section 31 agreements, ANAO *recommends* that the Department of Finance and Administration take the necessary steps to align the provisions relating to notional transactions in the annual Appropriation Acts with those set out in Section 6 of the *Financial Management and Accountability Act 1997.*
	Finance agreed with qualification. All other agencies that responded to this recommendation agreed.
2.	ANAO *recommends* that, before entering into future Section 31 agreements:
	all signatories establish the capacity in which they may legitimately sign the agreement, and correctly identify that capacity in the agreement;
	where it is intended that an official will be entering into the agreement, rather than the holder of the statutory power, agencies take steps to obtain written authorisations or delegations (where available) from the responsible Minister (or, for Finance portfolio agencies, Chief Executive); and
	delegates of the Finance Minister satisfy themselves that the agreement has been signed by the responsible Minister or an agency official who holds a current authorisation or delegation, as appropriate, from the responsible Minister (or, for Finance portfolio agencies, Chief Executive).
	All agencies that responded to this recommendation agreed to relevant parts.
3.	In the interests of an effective and accountable financial framework for the management of appropriations, ANAO *recommends* that:
	as part of their financial controls and in accordance with Commonwealth recordkeeping requirements, all agencies maintain adequate records of Section 31 authorisations and delegations provided by Ministers (and, where relevant, Chief Executives), together with records of which official(s) held the power when Section 31 agreements were signed; and
	the Department of Finance and Administration examine possible administrative and/or legislative changes that could limit the opportunity for agencies to rely upon a 'presumption of regularity' when increasing their appropriations through Section 31 arrangements.
	All agencies that responded to this recommendation agreed to relevant parts.
4.	ANAO *recommends* that, as part of its responsibilities for developing and maintaining the Commonwealth financial framework, the Department of Finance and Administration consider the merits of including greater specificity in the relevant legislative provisions regarding the conditions under which net appropriation agreements may be applied retrospectively to amounts previously received by an agency.
	BoM agreed with qualification. All other agencies that responded to this recommendation agreed.
5.	ANAO *recommends* that, as part of its current work examining opportunities to simplify the financial framework, the Department of Finance and Administration examine options to improve the framework for net appropriation arrangements, including the merits of specifying the relevant terms and conditions (including common eligible receipts) in the annual Appropriation Acts, rather than through delegated legislation (Section 31 agreements).
	All agencies that responded to this recommendation agreed.

Audit findings on net appropriation agreements

Pre-requisites for retaining and spending from non-appropriation sources

10.12   The ANAO report explained that for an agency to receive an
appropriation authorising it to retain and spend amounts received from
non-appropriation sources, each of the following arrangements must be in
place:

- there must be a relevant appropriation item for the agency in an annual
Appropriation Act that has been marked 'net appropriation';

- there must be an effectively executed Section 31 Agreement in place
that applies to that appropriation item; and

- the amount received must be of a kind that is specified as being an
eligible receipt for the purposes of the agreement, and therefore, for the
purposes of the annual Appropriation Acts.

10.13   In its examination of net appropriation agreements, the ANAO found
problems in each of the above areas.

Increasing use of net appropriation agreements

10.14   The extent to which agencies have used net appropriation arrangements to
increase their available appropriation has grown considerably over time.
During the course of the 1990s, net appropriation agreements became
more widespread amongst agencies, in part reflecting public sector
management reforms introduced at the time, such as an increased use of
user charging and cost-recovery.[6]

10.15   On 1 January 1998, the Audit Act was replaced with the FMA Act and
associated legislation. Under the revised arrangements, it is Section 31 of
the FMA Act that provides the power for Ministers to enter into net
appropriation agreements. Further, the annual Appropriation Acts no
longer specify the types of receipts that can be retained as net
appropriations. Instead the relevant sections of the annual Appropriation
Acts provide that the amount specified in an appropriation item is taken
to be increased in accordance with, and on the conditions set out in, the
Section 31 agreement applying to that item.[7]

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6   Department of Finance and Administration Submission to ANAO, *Management of Net
Appropriation agreements*, 10 February 2005.

7   This and following three paragraphs taken from ANAO Audit Report No.28, 2005-06, pp.
39-40.

10.16   A further significant change was that an agreement made under Section 31 need not relate to a particular Appropriation Act and could be made for any period, including a period longer than a financial year.

10.17   There has continued to be growth in the use of net appropriations since the commencement of the FMA Act. In 1996–97, the last full financial year prior to the Act commencing, agencies reported net appropriation receipts totalling $831 million. In 2003–04, 68 FMA Act agencies collectively reported receipts totalling $1.55 billion as having been added to their respective annual appropriations by operation of Section 31 agreements. In 2004–05, 67 agencies reported Section 31 receipts totalling $1.46 billion.[8]

10.18   However, while the total dollar amount has increased, the amount of net appropriation revenue as a proportion of departments' (running costs) appropriations has decreased, from 6.1 percent in 1996-97 to 4.4 percent in 2004-05.

Roles and responsibilities

10.19   Under the FMA Act, responsibility for the financial management and accountability of government agencies is devolved to chief executives. Each agency is accountable to their minister and to the parliament, through the chief executive, for their financial management. Finance defines its role as to 'develop, implement, train and advise on a framework that allows [agencies] to ensure that the framework does allow them to do that.'[9]

10.20   Specifically in regard to net appropriation agreements, Finance advised the ANAO that its role comprises:

  ■ negotiating all agreements with the relevant agency;

  ■ signing each agreement as the delegate of the Finance Minister. Finance advised ANAO that, as a signatory to Section 31 agreements, it is responsible for assessing the types of receipts identified by agencies in the proposed agreement, to ensure that they are appropriate; and

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8   The $99 million reduction in Section 31 receipts reported in 2004–05 compared to 2003–04 is consistent with increased actual Section 31 receipts, combined with corrections made by agencies in 2004–05, in response to issues raised in the ANAO performance audit, to exclude amounts previously incorrectly disclosed as Section 31 receipts. See Audit Report 28, 2005-06, footnote 40 and paragraphs 4.45 to 4.54 for more detail regarding those issues.

9   Ms Kathryn Campbell, Finance, *Transcript of Evidence*, 29 May 2006, p. 12.

- providing guidance and advice to agencies on appropriation management generally and more specifically on Section 31 agreements.[10]

10.21   In its 2004-05 Annual Report, Finance noted that a number of audit reports have identified scope for improvements in the financial framework, predominantly in agencies' application of the framework.[11] In this context, Finance undertook an examination of Section 31 of the FMA Act. The culmination of this work was the issuing, on 11 August 2004, of Finance Circular No. 2004/09, *Net appropriation agreements (Section 31 Agreements)*.

10.22   Finance Circular 2004/09 included a revised template for the preparation of Section 31 agreements. Associated with the Circular, Finance required all agencies to make a new agreement. By 30 June 2005, all agencies had executed a revised agreement using the new template.

10.23   The template was further revised on 30 June 2005, when Finance Circular No. 2004/09 was replaced by Finance Circular No. 2005/07, *Net appropriation agreements (Section 31 Agreements)*. This Circular, including the agreement template, can be found at: http://www.finance.gov.au/finframework/docs/FC_2005.07___attachments.pdf

Requirements for an effective net appropriation agreement

10.24   In order to comply with the provisions of the FMA Act, a net appropriation agreement must be made between the Finance Minister (as the whole-of-government representative) and the Minister responsible for the relevant agency or, for most Finance portfolio agencies, the agency Chief Executive. Accordingly, there are two signatories to a Section 31 agreement. Both signatories must have the necessary authority in order for an agreement to be effectively executed in accordance with the legislative requirements.

10.25   In almost all instances, a Finance official signs the whole-of-government side of Section 31 agreements, as delegate of the Finance Minister. Finance officials must hold a written delegation from the Finance Minister in order to enter into these agreements.[12]

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10   ANAO Audit Report No. 28, 2005-06, p. 44.

11   Department of Finance and Administration, *2004–05 Annual Report*, October 2005, pp. 22 and 34

12   In accordance with the requirements of Sections 62 and 53 of the FMA Act.

10.26   Similarly, the significant majority of agreements made to 30 June 2005 were signed by an official of the relevant agency, rather than the responsible Minister or, for Finance portfolio agencies, Chief Executive.[13]

ANAO findings on net appropriation agreements

10.27   The ANAO examined 231 Section 31 agreements made between the commencement of the FMA Act on 1 January 1998, and 30 June 2005. The ANAO was looking for evidence from Finance and each agency to prove that the agreements had been effectively executed by both signatories. The assessment was conducted using a decision tree that reflected a series of legal advices provided to Finance and ANAO by the Australian Government Solicitor (AGS) regarding assessment of Section 31 agreements, including the application of a 'presumption of regularity'.

10.28   Of the agreements examined, 157 (68 percent) were assessed as having been effectively executed. The remainder (32 percent) of agreements were assessed as 'ineffective'; 'in doubt'; or having 'no agreement'. These findings are briefly outlined below.

Effective agreements

10.29   Where the agencies could demonstrate that the Section 31 agreements were signed by the responsible Minister or their Chief Executive (or an official acting in that capacity), they were deemed to have an effective agreement. In a number of cases, officials at levels below the Chief Executive had signed the agency side of the agreement. The ANAO deemed these agreements to be effective if the agencies could provide evidence to show that the official had been expressly authorised or delegated by the responsible Minister or Chief Executive to carry out this function. The ANAO also found that Finance was able to demonstrate appropriate delegations from the Finance Minister for all their officers who had signed Section 31 agreements.[14]

Ineffective agreements

10.30   In total, the ANAO found that 42 agreements (18 percent) across 23 agencies were 'ineffective'. The agencies could not provide sufficient evidence to prove that the signatories to the agreements had the appropriate delegation from their Minister. A finding that an agreement was ineffective meant that the affected agencies had not obtained the appropriation authority for the amounts collected under those

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13   ANAO Audit Report No. 28, 2005-06, p. 17.
14   ANAO Audit Report No. 28, 2005-06, p. 21.

agreements. Any money spent had been in breach of Section 83 of the Constitution.[15]

10.31   To address the issue of 'ineffective' agreements, on 24 June 2005 the Finance Secretary made two instruments under subsection 31(4) of the FMA Act. They were:

■   an instrument to cancel all agreements made on or before 30 June 2004; and

■   an instrument (the Variation Instrument) to vary all agreements made between 1 July 2004 and 30 June 2005 to include, as eligible receipts, amounts retained by the agency in reliance on prior, 'ineffective' agreements.

10.32   The Variation Instrument provided a basis for agencies to capture retrospectively all receipts that were subject to an 'ineffective' agreement. An appropriation for the affected receipts was made available to agencies as at 30 June 2005, which would allow any unspent amounts to be lawfully spent. This action could not, however, remove past breaches of Section 83 of the Constitution that occurred due to agencies spending money collected under an 'ineffective' Section 31 agreement.[16]

10.33   The Variation Instrument applied in respect to receipts totalling $1.76 billion across 19 agencies. Of those receipts, a total of $1.16 billion was disclosed by the relevant agencies as having been spent without appropriation between 1997–98 and 2004–05, in contravention of Section 83 of the Constitution.[17]

'In doubt' agreements

10.34   A number of agencies were unable to provide evidence to demonstrate the effectiveness of their agreements – that is, there was no evidence that the official/s who signed the Section 31 agreements were authorised or delegated to do so. However, the agencies relied on advice from the AGS

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15   The agencies found to have ineffective Section 31 agreements were: AusAID; Australian Bureau of Statistics; Australian Competition and Consumer Commission; Australian Electoral Commission; Australian Federal Police; Australian Radiation Protection and Nuclear Safety Agency; Australian Security Intelligence Organisation; Department of Family and Community Services; Department of Finance and Administration; Department of Health and Ageing; Department of Transport and Regional Services; Federal Court of Australia; National Competition Council; Office of Asset Sales and IT Outsourcing; Office of Film and Literature Classification; and Office of National Assessments.

16   ANAO Audit Report No. 28, 2005-06, p. 110.

17   ANAO Audit Report No. 28, p. 2005-06, p. 112.

regarding a 'presumption of regularity' to argue that the Section 31 agreements were valid.

10.35 The AGS advice was that:

> It may be that an agreement signed by an official other than the Chief Executive is presumptively valid in circumstances where:
>
> ■ the officer signed the agreement 'for and on behalf of the Minister' or in some other way which indicated that the officer understood himself or herself to be acting under an authorisation from the Minister; and
>
> ■ there is no evidence to support the view that the officer was not expressly authorised to enter into Section 31 agreements on behalf of the Minister.[18]

10.36 The AGS further advised the ANAO and Finance that, where the two above requirements were satisfied, it was unlikely that a court would declare that expenditure in accordance with the agreement was invalid because of a breach of Section 83 of the Constitution.[19]

10.37 However, the ANAO sought its own legal advice on the matter. The ANAO's advice was that the 'presumption of regularity' is for the protection of those who are entitled to assume, because they cannot know, that the person with whom they deal has the authority that is claimed. For example, 'the person in the street' who cannot know whether a government official with whom he or she deals has the authority to undertake a particular function. Based on this advice, the ANAO argued:

> Relying on a 'resumption of regularity' in this context inevitably leaves doubt as to the effectiveness of the agreement and, therefore, the amount of the appropriation that was legally available to the relevant agency. This does not reflect sound administrative practice, the ANAO's view.[20]

10.38 The agencies which relied on the 'presumption of regularity' argument to demonstrate that their Section 31 agreements were valid disclosed this doubt in their 2004-05 statements. The ANAO reports that a total of $4.8 billion was added to agencies' annual appropriations up to 30 June 2005, under 'in doubt' agreements. At 30 June 2005, $2.86 billion had been spent.[21]

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18 Australian Government Solicitor, quoted in ANAO Audit Report No. 28, 2005-06, p. 93.

19 ANAO Audit Report No. 28, 2005-06, p. 94.

20 ANAO Audit Report No. 28, 2005-06, p. 22.

21 ANAO Audit Report No. 28, 2005-06, p. 94. The eleven agencies which had 'in doubt' agreements were: Australian Greenhouse Office; Australian Public Service Commission; Australian Taxation Office; Department of Agriculture, Fisheries and Forestry; Department of

10.39   Following the ANAO findings on 'in doubt' agreements, the ANAO and Finance agreed that agencies should obtain a written authorisation from the responsible Minister before entering into Section 31 agreements on the Minister's behalf. The Circulars issued by Finance in August 2004 and June 2005 advocate this approach as best practice.[22]

'No agreement'

10.40   The ANAO identified 14 agencies that had reported income that at no time was captured by a Section 31 agreement, or had spent income prior to having an agreement in place. These agencies were assessed as having 'no agreement' in place.[23]

10.41   Where money had been spent without appropriation, Section 83 of the Constitution was contravened. This was disclosed by the relevant agencies in their financial statements. Where the Section 83 breach was a result of the agency signatory to an agreement not being authorised or the agency not having an agreement, a corresponding breach of Section 48 of the FMA Act was also required to be reported, given the specific obligations placed on agency Chief Executives under that Section to keep proper accounts and records.[24]

10.42   To give the agencies found with 'no agreement' an appropriation authority in respect of any amounts still held, in October 2005 the Finance Secretary executed two further Variation Instruments under the FMA Act. As with the previous Variation Instrument, this would not remove past breaches of Section 83 of the Constitution that occurred due to agencies spending receipts not covered by a Section 31 agreement.

10.43   A further two agencies, the Bureau of Meteorology (BoM) and Centrelink, were identified as having spent amounts totalling $1.59 billion prior to having a Section 31 agreement (and, for BoM, other necessary

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Defence, Department of Education, Science and Training; Department of the Environment and Heritage; Department of Industry, Tourism and Resources; Department of the Treasury; Office of the Commonwealth Ombudsman; and the Productivity Commission.

22   ANAO Audit Report No. 28, 2005-06, p. 22.

23   The agencies found to have 'no agreement' for appropriations received were: Australia-Japan Foundation; Australian Bureau of Statistics; Department of Education, Science and Training; Department of Foreign Affairs and Trade; Department of the Parliamentary Library; Federal Court of Australia; Joint House Department; National Oceans Office; and Office of the Renewable Energy Regulator. The following five agencies relied on an inoperative agreement (ie the agreement had expired on 1 July 1999): Administrative Appeals Tribunal; AUSTRAC; National Native Title Tribunal; Office of Parliamentary Counsel; and Office of the Commonwealth Director of Public Prosecutions.

24   ANAO Audit Report No. 28, 2005-06, pp. 19-20.

arrangements relating to appropriations) in place to provide them with appropriation authority.[25] Consequently, each contravened Section 83 of the Constitution and Section 48 of the FMA Act. The agreements subsequently executed for both agencies provided for the retrospective capture of all receipts collected during the period each did not have an agreement. Accordingly, neither agency was included in Variation Instruments 2 & 3 relating to 'no agreement' periods. Both agencies disclosed this issue in their 2004–05 financial statements.[26]

ANAO Recommendations

10.44   The ANAO recommended that for future Section 31 Agreements, agencies should ensure that signatories are able to legitimately sign the agreement, by obtaining written authorisations or delegations from their Minister, and that Finance should verify that the agency signatories are appropriately authorised or delegated to sign the agreement (ANAO recommendation 2). All agencies agreed to the recommendation.

10.45   The ANAO also recommended that agencies ensure that their record-keeping for Section 31 agreements is adequate (recommendation 3).

10.46   The Committee asked Finance if, as a result of the audit, FMA agencies are now taking the requirements for effective net appropriation agreements more seriously. Finance responded:

> The Section 31 Agreements…are taken far more seriously. We in Finance have implemented a number of procedures to ensure that the agreements are appropriately signed. We sight the delegation from the other party, for want of a better term, before it is signed off. Internally we ensure that the appropriate delegate only is able to sign off. We do not encourage, if that delegate were on leave, the person stepping into that position to sign off; we ask for it to be escalated to the general manager of budget group, for example. The Financial Management Group checks these agreements to ensure that they have been executed in an appropriate manner.[27]

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25   The bulk of the funds spent without appropriation relates to $1.56 billion received by Centrelink in 1998–99 from other Commonwealth agencies for the delivery of services.

26   ANAO Audit Report No. 28, 2005-06, p. 25.

27   Ms Kathryn Campbell, Finance, Transcript of Evidence 29 May 2006, p. 8.

Committee comment

10.47   The Committee was disappointed to learn that the audit revealed many agencies did not have effective net appropriation agreements in place, primarily because they had not covered the basic requirement of ensuring that signatories to the agreements had the proper delegation or authorisation to sign the document.

10.48   The Committee accepts that most or all of these 'ineffective' and 'in doubt' agreements have now been cancelled and replaced with effective agreements. However, the lack of attention to the legislative requirements for proper delegation of authority is a worrying issue. This is an issue that agency audit committees should be paying attention to, not just for net appropriation agreements but for all delegated signatories.

Eligible receipts

10.49   The FMA Act does not provide guidance as to the type of receipts that may be included in Section 31 agreements. This was a change from the Audit Act, which specified the type of receipts allowable.

10.50   Legal advice to agencies has been that the only express restrictions on the terms and operation of an agreement in relation to the amounts that may be applied to increase an appropriation item are:

- that the agreement must specify the receipts that are eligible receipts for the purposes of the agreement; and

- the increase in the appropriation item cannot be greater than the amount of those specified receipts that is received.[28]

10.51   However, the ANAO argued that the extent to which agencies' adherence to these requirements could be monitored was limited by the broad and inclusive manner in which eligible receipts were defined in individual agreements, using a category based approach. This issue was resolved when Finance issued the two Finance Circulars in 2004 and 2005, which more specifically defined the receipts that an agency is entitled to retain.[29]

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28   ANAO Audit Report No. 28, 2005-06, p. 25.

29   The template provided in Finance Circular 2005-07 details the types of receipts eligible for inclusion in Section 31 Agreements: http://www.finance.gov.au/finframework/docs/FC_2005.07_Att_A.pdf, accessed August 2006.

10.52   The ANAO also raised concerns about some agencies' use of Section 31 agreements to increase their annual appropriation for amounts debited from internally managed Special Accounts. For example, the Department of Environment and Heritage told the ANAO that the majority of its Section 31 receipts for 1998-99 (estimated at $11.7 million) related to payments from the Natural Heritage Trust.[30]

10.53   The ANAO argued that there had been an absence of clarity about if and how this can occur. The ANAO also found that there was ongoing uncertainty as to whether these internal transactions were relevant receipts for the purposes of the net appropriation provisions of the annual Appropriation Acts:

> The uncertainty in respect to these transactions does not contribute to the orderly management and governance of appropriations. This is particularly the case in light of the significant amounts that are involved in some agencies.[31]

10.54   Accordingly, the ANAO recommended that Finance take the necessary steps to remove such uncertainty.[32] Finance responded that it would give policy consideration to the recommendation and to whether such transactions should be included in Section 31 Agreements. The Committee notes that a Finance Circular released in August 2006, addressing this issue, states:

> If an agency is receiving a notional payment, which it intends to retain and spend, including from a Special Account, the agency should seek advice from Finance as to whether that kind of payment should be listed in the agreement as a relevant receipt.[33]

Accountability to the Government and the Parliament

10.55   The financial framework requires accountability for agency use of net appropriation arrangements in three primary ways, as follows:

- since 1 January 2005, Section 31 agreements have been required to be registered on a publicly available register, Federal Register of

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30   ANAO, Audit Report No. 28, 2005-06, p. 67 (footnote 79). Other agencies identified as transferring funds from Special Accounts into appropriation accounts include: Australia-Japan Foundation; DAFF; DCITA; DoTaRS; Treasury; PM&C; and Finance.

31   ANAO Audit Report No. 28, 2005-06, p. 72.

32   ANAO Audit Report No. 28, 2005-06, p. 25

33   Finance Circular 2006/04, p. 4.

Legislative Instruments, enabling the Parliament to be aware of what agreements have been made since that date and their terms and conditions;

- disclosure in PBS and Portfolio Additional Estimates Statements (PAES) of receipts estimated to be collected by the relevant agency under authority of a Section 31 agreement; and

- disclosure in annual financial statements of the actual increase in the agency's annual appropriation under authority of Section 31.

10.56   The ANAO found that improvements could be made in respect of each of these accountability mechanisms, to assist in providing the Parliament with a complete and accurate record of the use of Section 31 arrangements.

Registration of legislative instruments

10.57   The *Legislative Instruments Act 2003* established a comprehensive regime for the registration, tabling, scrutiny and sunsetting (or automatic repeal) of Commonwealth legislative instruments. Under the Act, instruments made on or after 1 January 2005 must be lodged in electronic form with the Attorney-General's Department as soon as practicable. Members of the public can view the Federal Register of Legislative Instruments (FRLI) on the internet at www.comlaw.gov.au.[34]

10.58   The ANAO found that there had been delays of some months between the signing of Section 31 agreements and their registration on the FRLI. The ANAO argued that to improve the benefits obtained from the registration of Section 31 agreements on FRLI, such registration should be timely.[35]

Reporting on the use of Section 31 agreements

PBS/PAES

10.59   As part of their annual Portfolio Budget Statement (PBS) and Portfolio Additional Estimates Statements (PAES) reporting, agencies are required to disclose estimates of the receipts from non-appropriation sources that will be available for expenditure in the coming year.

10.60   The ANAO found that the current presentation of those estimates for Section 31 agreements is not clear enough. Specifically, agencies may bundle Section 31 receipts under a heading which also includes receipts from any CAC Act bodies within the portfolio, receipts to Special

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34   Attorney-General's Department website: www.comlaw.gov.au; accessed August 2006.

35   ANAO Audit Report No. 28, 2005-06, p. 26.

Accounts from non-appropriation sources, and resources received free of charge. Finance advised the ANAO:

> …Specific receipt items are identified by agencies where they are considered significant. Less significant items, which in some cases may include Section 31 receipts, are aggregated in 'other' to achieve a balance between the level of detail and significance in presentation.[36]

Financial statements

10.61   As part of their annual financial reporting to the Parliament, FMA agencies are required to account for the appropriations available to them; the extent to which payments were made from the CRF under authority of those appropriations; and for appropriations with a financial limit, the amount of appropriation still available as at 30 June.[37]

10.62   The ANAO identified a number of cases where agencies had mis-reported their Section 31 receipts in their annual financial statements. In particular, the Department of Industry, Tourism and Resources, (DITR), Department of Health and Ageing, the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) and the Australian Centre for International Agricultural Research (ACIAR) had incorrectly consolidated debits, credits and balances of departmental Special Accounts into their Section 31 agreement amount.[38] There were also problems with reporting on repaid amounts, and in calculating the actual amounts of appropriations received under Section 31 Agreements.[39]

10.63   The ANAO noted that accurate reporting is one of the responsibilities of agency chief executives, under Section 48 of the FMA Act. In this context, the ANAO argued, there is a need for improvement in agencies' reporting of Section 31 appropriations, both PBS, PAES, and financial statements. The ANAO did note that number of agencies had made changes in their 2004-05 financial statements to address reporting problems that were identified by the ANAO during the course of the audit.

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36   Finance advice to ANAO, Audit Report No. 28, 2005-06, p. 123.

37   ANAO Audit Report No. 28, 2005-06, p. 126. These requirements are spelt out under the Financial Management Orders made under Section 63 of the FMA Act and Section 48 of the CAC Act.

38   ANAO Audit Report No. 28, 2005-06, p. 129.

39   ANAO Audit Report No. 28, 2005-06, pp. 130 and 132.

Compliance certificate

10.64   At the hearing, Finance noted that the Government had introduced a
compliance certificate, to be signed off by each FMA agency's chief
executive at the end of each financial year and submitted to their Minister.
The compliance certificate will state that the chief executive has put in
place controls and mechanisms to ensure compliance with the FMA Act.[40]
Each agency's compliance certificate will also be copied to the Finance
Minister for review. Finance stated:

> We believe those compliance certificates will allow us to identify
> where there are either systematic problems or agency specific
> problems and be able to assist the agency in overcoming those
> problems.[41]

10.65   Since the hearing Finance has altered the status of the Compliance
Certificates. They were introduced on a 'trial basis' for 2005-06, with
completion and lodgement with each agency's Minister to be compulsory
in 2006-07.[42]

Financial framework enhancement opportunities

10.66   Many of the findings of this performance audit relate to agencies'
understanding of, and compliance with, the financial framework. Clearly
agencies need to focus more clearly on their responsibilities under the
FMA Act (discussed further below). As well as identifying problems with
the current system for making and reporting on net appropriation
agreements, the ANAO identified scope for enhancing certain aspects of
the financial framework as it operates in respect to net appropriations.

Retrospective application of Section 31 agreements

10.67   It has been a common practice for agencies to enter into Section 31
agreements some time after the commencement of the period to which the
agreement is then purported to apply. The ANAO found that nearly half
of the agreements made to 30 June 2005 had been applied retrospectively
to amounts received by the agency prior to the agreement being
executed.[43]

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40   Ms Kathryn Campbell, Finance, Transcript of Evidence 29 May 2006, p. 7.
41   Ms Kathryn Campbell, Finance, Transcript of Evidence 29 May 2006, p. 13.
42   Discussions between Committee Secretariat and Finance, 23 August 2006.
43   ANAO Audit Report No. 28, 2005-06, p. 134.

10.68   In several pieces of legal advice to Finance, the AGS has stated that while there is a general presumption against the powers of Acts being applied retrospectively, the language of Section 31 of the FMA Act is broad, and there seems to be no compelling reason to read it as preventing the capture of previous receipts if the Finance Minister considers it appropriate.[44] However, the ANAO notes, the AGS has consistently advised agencies that it is not possible to retrospectively provide an appropriation to cover moneys already spent.

10.69   The ANAO expressed concern that while retrospective net appropriation agreements may be legal, they do not represent best practice:

> While administratively convenient, applying net appropriation agreements to amounts received at some earlier time does not promote discipline by agencies in complying with their financial management requirements and Constitutional obligations.[45]

10.70   Therefore the ANAO recommended a tightening in the legislation to limit the circumstances in which past receipts can be captured by Section 31 agreements. The ANAO noted that the Government had other authority through which it could provide agencies with appropriation authority to spend amounts received into the CRF, if required.

10.71   Finance agreed with this recommendation and stated that it had developed a policy setting out the circumstances in which agreements can be applied to past receipts of an agency. Finance also agreed to examine the issue further in its review of the operation of Section 31 of the FMA Act, in accordance with its response to the ANAO's recommendation number five of the audit report.

Role of Section 31 agreements

10.72   As outlined earlier, prior to the implementation of the FMA Act, the annual Appropriation Acts specified the sources from which net appropriations could be received. The agreements made under those arrangements identified, in a Schedule, the types of receipts an agency would be able to collect under the broad sources specified in the Appropriation Acts, and the quantum of such receipts expected to be collected in the relevant financial year. Under the FMA Act, the receipts each agency may use to increase its annual appropriation are established by the terms of its particular Section 31 agreement.[46]

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44   ANAO Audit Report No. 28, 2005-06, p. 136.

45   ANAO Audit Report No. 28, 2005-06, p. 140.

46   ANAO Audit Report No. 28, 2005-06, p. 142.

10.73   As has been demonstrated in this audit, many agencies have had difficulties in managing this new responsibility under the FMA Act. Many agencies did not ensure that the signatories to Section 31 Agreements were correctly authorised or delegated to sign the document. Many agencies also did not ensure that appropriate Section 31 agreements were in place for monies received and spent.

10.74   Because of these difficulties, the ANAO has raised the option of returning the central role in net appropriations from individual agency agreements back to the annual Appropriation Acts. Under this approach, the annual Appropriation Acts would list all the types of receipts that would be eligible for all agencies for the purposes of net appropriations. The ANAO states that this would allow for the removal of individual agency agreements in all or most circumstances.[47]

10.75   The ANAO pointed out that most agencies follow the template provided by Finance in 2005, which has a standard list of eligible receipts for inclusion in net appropriation agreements. Therefore this list could easily be included in the annual Appropriation Acts, capturing most agencies' needs. Individual agreements could be made on an exception basis, where an agency required an agreement for a specific receipt which was not included in the generic list.

10.76   The submission from the Department of the Senate criticised the financial framework to the extent that it may allow large amounts of money to be expended with little or no Parliamentary oversight. The Senate suggests that

> …the problems identified [in this and previous ANAO audit reports], which might be described as neglect of legal requirements and unsatisfactory management and accounting, have arisen partly from a system which encourages those attributes by having those multiple jam jars and hollow logs and complex flows of funds. While this system may give maximum flexibility to agencies, it is not conducive to respect for legality and good management and accounting, nor to parliamentary accountability.[48]

10.77   At the hearing the Clerk of the Senate acknowledged that to go back to a more centralised system of financial management would be a reversal of the system of decentralisation of financial management introduced a decade ago –

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47   ANAO Audit Report No. 28, 2005-06, p. 144.

48   Department of the Senate, submission No. 1, p. 2.

> That, from a parliamentary perspective, would be no bad thing. If you know that the central department has a greater role in laying down compulsory procedures which must be complied with from the point of view of financial control, then probably you would get fewer audit reports of the kind that you are looking at now, and few problems that you have to inquire into later.[49]

10.78   At the hearing Finance told the Committee:

> …we are currently considering whether the FMA Act is a little too complex; whether, for example, with Section 31 there are easier ways in which to achieve the objectives without setting up a mechanism such as agreement making, which, in this case, has clearly identified a number of issues in the late nineties.[50]

10.79   The Committee encourages this re-examination of the best management practice for net appropriation agreements, and notes major reviews of the appropriations system more generally conducted subsequent to this review, including an inquiry by the Senate Finance and Public Administration Committee and a review being conducted by former Senator (and JCPAA member) Andrew Murray, under the auspices of the Government's "Operation Sunlight".

Committee comment: financial management in APS agencies

10.80   This audit report on *Management of Net Appropriation Agreements* was the fourth performance audit on financial management in FMA Act agencies examined by the Committee in three years.[51] As in the previous three reports, this audit revealed systemic problems in accountability and transparency in expenditure of taxpayers' money. The ANAO has found that a number of agencies have breached the Constitution and sections of the FMA Act. Monies have been spent without the correct Parliamentary appropriation, and legislated reporting requirements have not been met,

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49   Mr Harry Evans, Clerk of the Senate, Transcript of Evidence 29 May 2006, p. 9.

50   Ms Kathryn Campbell, Finance, Transcript of Evidence 29 May 2006, p. 5.

51   Audit Report No. 24, 2003-04: *Agency Management of Special Accounts*; was reviewed in JCPAA Report 402, tabled August 2004. Audit Report No. 15, 2004-05: *Financial Management of Special Appropriations*; was reviewed in JCPAA Report 404, tabled in November 2005. Audit Report No. 22, 2004-05: *Investment of Public Funds*, was reviewed in JCPAA Report 407, tabled September 2006.

or reporting could be significantly improved. Alarmingly, many of these faults have only come to light during an audit by the ANAO.

10.81   In evidence to the Committee the ANAO stated its concern about the pattern emerging from its audits on FMA management issues within APS agencies:

> …we are already covering off a rather large portion of the outlays that come through appropriations, and we have found shortcomings in each of those audits. It would be fair to say that we do not have a great deal of confidence that agencies have actually been discharging their responsibilities, in the broad, across how they are spending money from the consolidated revenue fund.[52]

10.82   At the hearing, the Clerk of the Senate also commented that the ANAO has uncovered an ongoing pattern of problems with financial management:

> You have had a series of reports by the Audit Office saying there has been non-compliance, illegalities and problems of that sort. You have an underlying problem, and the Audit Office cannot report on everything all the time.[53]

10.83   Finance acknowledged the series of audit reports which have found problems in financial management and compliance with the FMA Act. Finance argued that the compliance certificate, which will require agency chief executives to formally assure their Minister and the Finance Minister that they have complied with the appropriate legislation, will assist in improving compliance with the Act.[54] The Committee acknowledges that agencies have made improvements to their management of net appropriation agreements as a result of the ANAO audit findings.

10.84   In the Audit Report, the ANAO flagged that it will take an increased focus on legislative compliance in its future financial statement audit coverage. This will involve confirming the presence of key documents or authorities, and sample testing of relevant transactions to confirm agencies' compliance with the legislative requirements on annual appropriations, special appropriations, annotated appropriations (through Section 31 agreements) and special accounts.[55]

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52   Mr Brian Boyd, ANAO, Transcript of Evidence 29 May 2006, p. 14.
53   Mr Harry Evans, Clerk of the Senate, Transcript of Evidence 29 May 2006, p. 12.
54   Ms Kathryn Campbell, Finance, Transcript of Evidence, 29 May 2006, p. 13.
55   ANAO Audit Report No. 28, 2005-06, p. 133.

10.85   The Committee strongly supports this approach by the Audit Office and hopes that agencies have taken heed of the Audit Office's warning that compliance on these matters will be audited. This Committee will be reviewing the Audit Office's findings on this matter and may decide to pursue individual agencies further if financial statements audits or performance audits reveal ongoing compliance issues.

11

Audit Report No. 31, 2005-2006, Roads to Recovery

Introduction

11.1   The Roads to Recovery (R2R) Program is the largest investment in local roads ever undertaken by an Australian Government. In total, over eight years (March 2001 – June 2009), $2.737 billion is to be paid to local government for expenditure on the construction, upgrade and maintenance of roads under the R2R Program.[1]

11.2   There have been two Roads to Recovery Programs. The initial Program served as intervention to address the problem that a significant amount of local government road infrastructure was about to reach the end of its economic life and its replacement was beyond the capacity of local government. A total of $1.2 billion was paid to more than 730 Local Government Authorities (LGAs) between March 2001 and June 2005.[2]

11.3   The second four-year Program commenced in July 2005, as part of the Auslink land transport initiative. Total funding to be appropriated under this second Program is $1.23 billion. In May 2006 the Australian Government announced that a further $307.5 million would be provided in 2005-06 as a supplement to the R2R program.[3]

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1   DOTARS internet site, http://www.auslink.gov.au/funding/r2r/index.aspx, accessed 18 October 2006.

2   ANAO Audit Report No. 3, 2005-06, *Roads to Recovery*, p. 41.

3   Warren Truss, the then Minister for Transport and Regional Services, *Media Release: $307.5 million funding boost for Australia's local roads,* 9 May 2006.

11.4   Both R2R Programs are administered by the Department of Transport and Regional Services (DOTARS) which advised ANAO that the R2R Act was framed around the following Program delivery decisions made by the Government:

- funds were to be paid directly to LGAs;

- project priorities were the choice of LGAs; and

- the process by which grants were paid to the LGAs was to be simple, with appropriate audit and accountability systems and arrangements put in place to ensure that there is due recognition by LGAs of the Commonwealth's contribution to local road projects.[4]

Audit scope and objective

11.5   The audit scope covered development of the R2R Program, management of the initial R2R Program and changes made to the Program funding conditions and administrative guidance for Auslink Roads to Recovery. The scope did not include management of Auslink Roads to Recovery.

11.6   The audit objectives were to:

- assess the efficiency and effectiveness of the management of the initial R2R Program; and

- identify any opportunities for improvements to management of the Program.[5]

11.7   A key part of the audit involved examination of the use of, and accountability for, R2R funds by a representative sample of 93 LGAs (representing more than one in eight funding recipients) from around Australia. This work included site inspections of more than 400 projects funded under the Program, analysis of financial and other reports provided by the 93 LGAs to DOTARS, and substantiation of the amounts charged to the R2R Program for selected projects.

Audit conclusions

11.8   The ANAO observed that the government considered LGAs best placed to make decisions on road investment at the local level. The R2R Program reflected this by giving LGAs the freedom to use the funds as they wished, as long as it was for expenditure on roads.

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4   ANAO Audit Report No. 31, 2005-06, p. 17.
5   ANAO Audit Report No. 31, 2005-06, p. 18.

11.9   The funding provided under the R2R Act was to be additional to existing road funding. Accordingly, provisions were included in the Act, the R2R Funding Conditions and the R2R Administrative Guidelines aimed at ensuring that LGAs were not cost shifting by substituting Australian Government funding for their own in constructing, upgrading and maintaining local roads. However, more than 60 percent of the individual LGAs examined by ANAO had not maintained their expenditure at the required level (that is, at or above the average for the period 1998–99 to 2000–01) in at least one year between 2000–01 and 2003–04. Some had not maintained their own expenditure in any year. Furthermore, having regard to the fundamental importance to the R2R Program that funds provided by the Australian Government be additional to existing road funding, the ANAO considered there was merit in DOTARS undertaking periodic assessments of whether aggregate local government spending on roads had been maintained.[6]

11.10   The ANAO concluded that the payment of funds direct to local government (rather than through the States and Territories) placed an onus on DOTARS to ensure the funds are spent on roads, and that the funds were properly accounted for. This was seen to represent a new and substantial area of responsibility for DOTARS to be managed within its existing administrative resource base (no additional funding was provided to administer the initial R2R Program).

11.11   The grant payment and acquittal processes were, by design and in accordance with the Government's intention, simple. Nevertheless, a significant amount of useful information was required by the Funding Conditions and Administrative Guidelines to be provided to DOTARS by LGAs. However, the ANAO found that over the duration of the Program, insufficient use was made by DOTARS of this information. The ANAO concluded that thorough and timely analysis of the information provided to DOTARS by LGAs would have provided DOTARS with practical insights into the delivery of the R2R Program by LGAs.

11.12   The ANAO concluded that the audit demonstrated the importance of program management and accountability mechanisms – these are critical in the achievement of outcomes which the government and community expects.[7]

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6   ANAO Audit Report No. 31, 2005-06, p. 19.

7   ANAO Audit Report No. 31, 2005-06, pp. 18-19.

ANAO recommendations

Table 11.1   ANAO recommendations, Audit Report No. 31, 2005-06- Roads to Recovery

1.	ANAO recommends that, to assist to inform consideration of any further extension to the Roads to Recovery Program, prior to the end of the Auslink Roads to Recovery Program DOTARS conduct a benefit cost analysis of a representative sample of projects funded by the Australian Government.
	DOTARS Response: Agreed
2.	ANAO recommends that, having regard to the fundamental importance to the Roads to Recovery Program that funds provided by the Commonwealth be additional to existing road funding, DOTARS undertake periodic assessments of whether aggregate local government spending on roads has been maintained.
	DOTARS Response: Agreed
3.	ANAO recommends that DOTARS limit Auslink Roads to Recovery payments to the amounts supported by actual and forecast expenditure included in Quarterly Reports submitted by Local Government Authorities.
	DOTARS Response: Agreed
4.	ANAO recommends that DOTARS instigate measures to promote, at an early stage of the Auslink Roads to Recovery Program, a shared understanding with Local Government Authorities on the extent to which administrative costs may be charged to the Program, and what may be included as part of these costs.
	DOTARS Response: Agreed
5.	ANAO recommends that DOTARS improve the accuracy and usefulness of works schedules by: (a) analysing works schedules submitted by Local Government Authorities in order to promote a consistent minimum standard of works identification and specification; (b) providing Local Government Authorities with clear rules on the specification of start and completion dates to be included in works schedules; and (c) implementing a risk-based program of site inspections that, among other things, carefully scrutinises the accuracy and completeness of works schedule data relied upon when funding Auslink Roads to Recovery projects.
	DOTARS Response: Agreed
6.	ANAO recommends that, to promote equity and transparency, DOTARS document and provide to Local Government Authorities the criteria that are to be used in exercising any Departmental discretion in reallocating any underspent Auslink Roads to Recovery annual allocations between Local Government Authorities.
	DOTARS Response: Agreed
7.	ANAO recommends that, where Local Government Authorities have received their final Auslink Roads to Recovery payment, DOTARS promote the achievement of Program outcomes and protect the Commonwealth's financial interests by: (a) implementing effective follow-up procedures where reports on the use of Roads to Recovery funds are not provided in a timely manner, or not provided at all; and (b) considering the merits of recovering some or all of the funding where the funds have not been spent within the prescribed period of time.
	DOTARS Response: Agreed

8.	ANAO recommends that DOTARS address the risks and costs of paying Local Government Authorities in advance of their needs, or of funds not being used by Local Government Authorities in a timely manner, by:

(a) introducing systems and procedures for the efficient and timely analysis of all Quarterly Reports and R2R Annual Reports submitted by each Local Government Authority prior to making Auslink Roads to Recovery payments so as to better match payments to Local Government Authority cash flow needs; and
(b) amending the Auslink Roads to Recovery Funding Conditions so that local government is neither penalised nor receives a financial advantage from legitimate delays in using Roads to Recovery funds by requiring Local Government Authorities to either:

    (i) calculate interest from the date of receipt until funds are spent using a predetermined interest rate, with this amount required to be spent on roadworks; or
    (ii) deposit the funds in a separate bank account until used with all interest earned required to be spent on roadworks.

DOTARS Response: Agreed

9.	ANAO recommends that DOTARS develop and implement effective binding funding conditions for Auslink Roads to Recovery projects funded and accounted for through an intermediary (as opposed to direct with a Local Government Authority) including:

(a) more closely aligning payments to expenditure on road works; and
(b) clearer lines of accountability for reporting on the use of funds and the outcomes achieved.

DOTARS Response: Agreed

10.	ANAO recommends that DOTARS enhance accountability and address risks relating to Local Government Authorities not undertaking Auslink Roads to Recovery Special Projects, or using the funds on other works, by:

(a) requiring Local Government Authorities that receive funds for Special Projects to clearly identify in their works schedules and Quarterly Reports that the project is being funded by a tied grant so as to discriminate these projects from those chosen by LGAs using their untied funds;
(b) analysing works schedules, Roads to Recovery Quarterly Reports and Annual Reports to identify any Local Government Authorities that have not undertaken, or do not propose to undertake, one or more Special Projects approved by the Australian Government;
(c) reducing the total Auslink Roads to Recovery payments made to relevant Local Government Authorities by the amount of any approved Special Project where the relevant Local Government Authority has not undertaken, or does not propose to undertake, one or more Special Projects;
(d) requiring transparent accounting for Special Project funds that are paid to Local Government Authorities including, as appropriate, holding these amounts separate to other funds; and
(e) when assessing any future requests from Local Government Authorities to reallocate unspent Special Project funds to other works, identifying any other Local Government Authorities that have insufficient funds available to complete their Special Projects and giving consideration to the merits of surplus Special Project funds being reallocated to complete work on other Special Projects.

DOTARS Response: Agreed to parts (a), (b), (c) and (e); agreed with qualification to part (d)

Committee review

11.13   The Committee held a public hearing on 23 June 2006 with witnesses from the DOTARS, the Australian Local Government Association (ALGA) and the ANAO.

11.14   At the public hearing, the main issues addressed by the Committee included:

- program accountability;

- financial management;

- recognition of Australian government funding; and

- administrative responsibility.

11.15   DOTARS also made a submission to the inquiry with answers to questions arising at the hearing.

Program accountability

Maintaining local government expenditure

11.16   In developing the R2R Program, the Australian Government was concerned to address cost shifting; that is, LGAs substituting Australian Government funds for their own expenditure on roads. Accordingly, provisions were included in the R2R Act, Funding Conditions and Administrative Guidelines requiring LGAs to maintain their own source expenditure at the required level (that is, at or above the average for the period 1998–99 to 2000–01), rather than substituting Commonwealth funding for their own, in constructing, upgrading and maintaining roads.

11.17   However, the ANAO found that in its administration of the R2R Program DOTARS did not attempt to assess whether or not, in aggregate, local government spending on roads had been maintained since the introduction of the R2R Program.

11.18   The R2R Funding Conditions stated that each LGA must maintain the level of roads expenditure which it funded otherwise than under the R2R Act, and provide a statement to DOTARS that it had done so. In order for DOTARS to rely on the LGA certifications, it was important that LGAs had analysed whether they had maintained their own source expenditure prior to certifying. However, in the course of the audit, a number of LGAs

advised ANAO that they had not undertaken their own analyses of their roads expenditure in order to give proper consideration to the whether they had maintained their own expenditure prior to certifying that they had. This raised the possibility that a number of the certifications provided to DOTARS by LGAs had been made in error, as the financial analysis necessary to substantiate the certifications had not been undertaken.

11.19   The ANAO found that 52 of the 83 LGAs for which ANAO was able to obtain sufficient financial data had not maintained their own source expenditure in at least one year between 2000–01 and 2003–04.

11.20   At the hearing DOTARS stated it proposed to undertake financial audits of 15-25 councils during 2006-07.[8] In 2005-06 DOTARS implemented an independent financial audit by Ernst and Young of seven councils. The findings of the audit included:

- one in seven councils knew that there were expenditure maintenance requirements under previous program;

- three in seven knew that there were these requirements under the present program; and

- many council officers had never read the program documentation.[9]

11.21   While this is a small sample, the Committee believes these findings demonstrate that LGAs were not fully aware of their obligations under the R2R program to maintain their own aggregate expenditure.

11.22   ALGA stated that it is committed to making sure that cost shifting does not occur between any levels of government and they have reiterated to LGAs that R2R is additional funding on top of the funding they currently spend.[10]

11.23   ALGA also noted that local governments spend around $3.8 billion a year on roads which is 10 times the amount of money provided by the Australian government. The vast majority of that money comes from rates.[11]

11.24   The Committee is concerned that some LGAs had provided certifications in error, or without proper analysis of their expenditure. This means it is possible that some LGAs had not maintained their own expenditure on

8   DOTARS, *Submission No. 9*, pp. 2-3.

9   Leslie Riggs, DOTARS, *Roads to Recovery*, Presentation to National Local Roads Congress 2006, (http://www.alga.asn.au/policy/transport/congress/2006/ppt/, accessed 18 October 2006).

10   ALGA, *Transcript of Evidence*, 23 June 2006, p. 6.

11   ALGA, *Transcript of Evidence*, 23 June 2006, p. 17.

roads and had not spent R2R funds appropriately on the roads as advised to DOTARS.

11.25   The Committee notes a number of changes have been made to the expenditure maintenance requirements for the Auslink Roads to Recovery Program. A key change has been that the LGA certification has been expanded to require LGAs to specify the amount spent using its own sources in each year together with the reference average amount. A further significant change involved providing greater flexibility in the expenditure maintenance requirement so as to take account of the fluctuating nature of LGA expenditure. These changes should assist DOTARS to monitor compliance by LGAs with their expenditure maintenance obligation.

Annual statements and quarterly reporting

11.26   LGAs were required by the R2R Funding Conditions to submit Annual Reports to DOTARS covering their use of R2R funds by no later than 30 September each year. DOTARS payment procedures required Departmental officers to satisfy themselves as to whether a satisfactory Annual Report had been received prior to making further payments to an LGA. The ANAO found that although payments were generally not made unless an Annual Report had been submitted, this did not mean that the Annual Reports were satisfactory. In this respect, DOTARS did not develop and document criteria by which it would assess whether or not Annual Reports submitted by LGAs were 'satisfactory'. Analysis of R2R Annual Reports submitted by ANAO's sample of LGAs found 43 percent of Annual Reports contained errors of varying significance.[12]

11.27   The works schedules, submitted quarterly, were relied upon by DOTARS in making payments to LGAs. Specifically they provided details to enable DOTARS to assess whether proposed works were eligible under the R2R Act. They also provided start and completion dates that could be used by DOTARS to ensure payments were not made more than three months prior to works being carried out. ANAO's examination of 93 LGAs revealed that, in many instances, the works schedules did not reflect the required information, or were inaccurate.[13]

11.28   The ANAO stated that there were inconsistencies between the quarterly reports and the signed certifications, therefore it was difficult to say how many had not spent the money and they could not determine how many

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12   ANAO Audit Report No. 31, 2005-06, p. 24.
13   ANAO Audit Report No. 31, 2005-06, p. 26.

other councils had provided certifications but had also not spent the money.[14] The ANAO described its concerns:

> 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.[15]

11.29   The ANAO found that there were two LGAs that were paid less than their gazetted allocation. The first involved a LGA in Queensland that had not provided an R2R Annual Report for 2003–04 and, as a result, was not paid the remainder of its allocation. The other instance involved a LGA that had insufficient expenditure and forecast expenditure to support payment of the full allocation. In this respect, ANAO found that there were 13 LGAs in a sample of 93 that also had insufficient forecast and actual expenditure to justify payment of their full allocation. However, these 13 LGAs were each paid their full allocation, demonstrating an inconsistent adoption of the principle that payments be supported by actual and forecast expenditure on eligible roads projects.[16]

11.30   At the hearing DOTARS stated that, of the original R2R money up to the end of June 2005, eight councils had still not provided certification that they had spent all that money appropriately in roads. It was also possible that additional councils signed off in the certification that they had spent the funds, despite not doing so. [17]

11.31   DOTARS maintained that they are being more assiduous in checking annual reports and quarterly reports to make sure councils are maintaining their expenditure and that they do not contain obvious errors and where they do, will go back to the councils. DOTARS described its monitoring processes:

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14   ANAO, *Transcript of Evidence*, 23 June 2006, p. 23.
15   ANAO, *Transcript of Evidence*, 23 June 2006, p. 25.
16   ANAO Audit Report No. 31, 2005-06, p. 25.
17   DOTARS, *Transcript of Evidence*, 23 June 2006, pp. 21-22.

> 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.[18]

11.32   ANAO's examination of DOTARS' management of the wind-up of the R2R Program revealed that DOTARS has begun applying greater scrutiny to R2R Annual Reports and, where errors have been detected, requiring a corrected report to be submitted.[19]

11.33   DOTARS, in conjunction with ALGA, was also conducting educative work with councils in order to highlight to LGAs their responsibilities in terms of accountability requirements.[20]

11.34   ALGA has taken responsibility to engage with its constituency to draw attention to the findings of the audit report and to encourage a close relationship with DOTARS to ensure LGAs meet the accountability requirements of R2R. Learnings from the audit report are being conveyed to all councils requirements in terms of their accountability.[21]

11.35   The ANAO noted that during the audit they saw some evidence of councils undertaking internal auditing to address their own reporting and accountability issues and to tighten up internal systems.[22]

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18   DOTARS, *Transcript of Evidence*, 23 June 2006, pp. 4-5.
19   ANAO Audit Report No. 31, 2005-06, p. 24.
20   DOTARS, *Transcript of Evidence*, 23 June 2006, p. 5
21   ALGA, *Transcript of Evidence*, 23 June 2006, p. 4.
22   ANAO, *Transcript of evidence*, 23 June 2006, p. 8.

Accountability of special purpose projects

11.36   DOTARS supported all the recommendations of the ANAO, except recommendation No. 9(d) which was agreed to 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, DOTARS considered that R2R funds can be clearly identified within a bank account without the need for councils to create separate bank accounts. DOTARS explained that the R2R program sought to implement the objectives that funds would be paid directly to councils and the administrative processes were to be simple, with appropriate audit and accountability arrangements in place.[23]

11.37   The Committee is satisfied with this approach.

Financial management

11.38   DOTARS recognised that it was important to make time payments to LGAs so that they could undertake R2R works without transferring funds from their normal road activities. At the same time, DOTARS recognised that payments should not be made too far in advance of need as this would incur a cost to the Commonwealth, as well as adversely impacting on accountability.[24]

11.39   After the initial payment to LGAs, the practice that was adopted involved paying LGAs in advance, based on Quarterly Reports that included data on expenditure to date as well as forecast expenditure for the next quarter. This meant that, by design, the Program included allowance for LGAs to hold funds for up to three months before being used. This approach meant that LGAs were not financially disadvantaged.[25]

11.40   However, the ANAO found insufficient steps were taken to ensure that LGAs did not receive a financial advantage. The ANAO's examination of a sample of LGAs revealed many instances of LGAs being paid more than three months in advance of the expenditure of R2R funds. The reasons for this were:

■   hardship payments were made in advance of need;

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23   DOTARS, *Transcript of evidence*, 23 June 2006, p. 3.

24   ANAO Audit Report No. 31, 2005-06, p. 27.

25   ANAO Audit Report No. 31, 2005-06, p. 28.

- accelerated funding was insufficiently matched to LGA cash flow needs;

- actual expenditure was overstated in LGA Quarterly Reports submitted to DOTARS; and

- unreliable expenditure forecasts were included in LGA Quarterly Reports.[26]

11.41   ANAO calculated that the cost to the Commonwealth of payments being made more than three months in advance of need to the 93 LGAs in ANAO's sample was between $1.4 million and $3.3 million. Extrapolating the interest cost to the full $1.2 billion paid under the Program results in an estimated cost to the Commonwealth of between $8.4 million and $19.4 million.[27]

11.42   A number of changes have been made in the Auslink Roads to Recovery Payment Conditions and Notes on Administration to address the timely expenditure of Auslink Roads to Recovery funds. Specifically, the Funding Conditions state that:

- funding recipients must ensure that Auslink Roads to Recovery payments are spent within six months of receipt of the payment;

- funding recipients must spend all Auslink Roads to Recovery payments by 31 December 2009; and

- if a funding recipient receives an amount as interest in respect of an Auslink Roads to Recovery payment, the recipient must spend an amount equal to that amount on the construction or maintenance of roads.[28]

11.43   DOTARS stated at the hearing that LGAs must now certify that they spent all interest on roads. Furthermore, if a LGA can not prove they have spent funding within six months of receipt, DOTARS does not make another payment until they can confirm they have spent those previous funds.[29]

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26   ANAO Audit Report No. 31, 2005-06, pp. 28-29.
27   ANAO Audit Report No. 31, 2005-06, p. 29.
28   ANAO Audit Report No. 31, 2005-06, p. 30.
29   DOTARS, *Transcript of evidence*, 23 June 2006, p. 7.

Recognition of Australian Government funding

11.44   In terms of recognising the Australian government funding of road works undertaken by local government, the R2R Funding Conditions stated as follows:

> An LGA must ensure that the Commonwealth receives appropriate recognition for its contribution to the road works concerned. Each LGA must erect signs acknowledging the Commonwealth's role in respect of all works funded under the Act and cooperate with the Commonwealth in informing the public of the Commonwealth's role, in accordance with the Guidelines.[30]

11.45   The importance of the signage requirements was emphasised to LGAs in July 2004 in advice from DOTARS. LGAs were also informed that 'councils not meeting the signage requirements are non-complying and will receive no more funds until evidence is provided to show that the deficiencies have been rectified.' The required signs were not in place for 45 percent of projects inspected by ANAO.[31]

11.46   DOTARS visited 156 councils in 2005-06 and found 37 percent were fully complying with signage. Of the 1 550 projects inspected 83 percent were complying with signage. All councils were asked to address non compliance.[32]

11.47   At the hearing ALGA stated it had reinforced with councils the need to meet the requirements of signage.[33]

11.48   There were some practical issues raised by councils which have been addressed in the AusLink R2R Program. For example, signs are not required on projects costing less than $10 000 and cul-de-sacs only require one sign. The size of the sign has been reduced to 1,200 millimetres high by 900 millimetres wide, with the councils acknowledged on the bottom at 230 millimetres high.[34]

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31   ANAO Audit Report No. 31, 2005-06, p. 21.

32   DOTARS, Submission No. 9, p. 4.

33   ALGA, *Transcript of evidence*, 23 June 2006, p. 27.

34   DOTARS, *Transcript of Evidence*, 23 June 2006, p. 28.

Administrative responsibility

11.49   Both R2R Programs are administered by DOTARS, by (at the time of the
         Committee's review) a team of five in the Auslink Systems and Regional
         Investment Branch within the Canberra offices. DOTARS advised ANAO
         in December 2005 that the small number of staff reflected the
         Government's policy of 'arms length' administration of the Program.[35]
         DOTARS reiterated at the hearing that 'as far as possible this is a program
         in the council's control and obligations are on them to do the right thing'.[36]

11.50   Further, the Executive Director of Auslink in DOTARS stated that the
         number of staff was 'about right' and she would be more comfortable once
         IT systems were in place, as these would enable routine checks to be
         automated. [37]

11.51   The team of five look at every formal return that comes from a council.
         They also visit about five councils each year, which was at "about the right
         level" according to DOTARS. [38]

11.52   DOTARS explained that anyone in the team could handle a query from a
         council or undertake appropriate follow-up were that necessary. Some
         council officials get to know a DOTARS staff member and that person
         would be their first point of contact. [39]

Committee conclusions

11.53   The Auslink Roads to Recovery Program had an increased emphasis on
         funding recipient accountability and reporting. The Funding Conditions
         established as part of Auslink Roads to Recovery were strengthened to
         take into account issues raised during the course of the ANAO
         performance audit.

11.54   LGAs have continued to provide feedback that the R2R program is a
         success, both in terms of the direct funding from the Australian
         government to local government and the positive impact the funds are
         having on Australia's roads and infrastructure.

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35   ANAO Audit Report No. 31, 2005-06, p. 41.
36   DOTARS, *Transcript of Evidence*, 23 June 2006, p. 11.
37   DOTARS, *Transcript of Evidence*, 23 June 2006, p. 5.
38   DOTARS, *Transcript of Evidence*, 23 June 2006, p. 7.
39   DOTARS, *Transcript of Evidence*, 23 June 2006, pp. 8-9.

11.55   However, some LGAs were not meeting their very basic reporting requirements. It is also not clear whether LGAs were spending their funds appropriately. As referred to earlier, some LGAs were failing to: maintain their own expenditure on roads; report adequately on their funding expenditure; spend payments within three months; and recognise Australian government funding.

11.56   The Committee accepts that the vast majority of LGAs were attempting to meet their accountability requirements under the R2R program. Some LGAs, however, were not, through a lack of care or a lack of understanding in their obligations under the R2R program.

11.57   The Committee considers that the reporting requirements are simple and LGAs, as an arm of government, should be meeting their requirements appropriately and in a timely manner. In some circumstances further education and information from DOTARS and ALGA may be required.

11.58   The Committee believes DOTARS should be more closely monitoring LGAs in terms of their accountability under the R2R program. The team within DOTARS may require further resources to perform these tasks.

Recommendation 20

The Committee recommends that the Department of Infrastructure, Transport, Regional Development and Local Government assess whether the staffing and resources, including the new IT systems, of teams supporting R2R and future such programs are adequate to perform their monitoring and information functions.

12

Audit Report No. 32, 2005-06, Management of the Tender Process for the Detention Services Contract

Background

12.1   The Department of Immigration and Multicultural Affairs (DIMA)[1] administers immigration detention under the Migration Act. In February 1998, the provision of detention services was formally contracted to Australian Correctional Services Pty Ltd (ACS) through a ten year general agreement that established a broad framework for the provision of services. At the time, it was envisaged that the contract would operate at a cost of $14 million per year and serve approximately 700 detainees.

12.2   Under the umbrella of the general agreement, ACS entered into specific Detention Services Contracts for individual facilities, which were managed through a sub-contract to ACS's operational company Australasian Correctional Management (ACM).

12.3   There was a ten fold increase in the number of unauthorised arrivals seeking asylum in 1999 and 2000 compared with the early 1990s, resulting in over 3000 people in detention in early 2001.

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1   At the time of the audit, the Department was the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA). Following machinery of government changes announced on 27 January 2006, its name changed to the Department of Immigration and Multicultural Affairs (DIMA). It is referred to as DIMA throughout this chapter.

12.4   DIMA decided to re-tender the contract for detention services in April 2001 as it considered it could not be certain the contract with ACM represented 'best value for money'.

12.5   GSL Australia Pty Ltd (GSL) was announced as the successful tenderer in December 2002. Contract negotiations subsequently took place until 27 August 2003, when the contract was signed.

Audit objective and scope

12.6   This audit was the third in a series of audits into the management of immigration detention within DIMA. The objective of the audit was to assess DIMA's management of the tender, evaluation and contract negotiation processes for the Detention Centre Contract. It specifically included:

- the evaluation of the Request for Tender, including the announcement of the preferred tenderer;

- negotiations with the successful and unsuccessful tenderers; and

- management of the liability, indemnity and insurance provisions of the tender.

Other detention reviews

12.7   Since this audit commenced, the Palmer[2] and Comrie[3] reports have been published, leading to substantial administrative reform in DIMA led by a new executive management team.

12.8   The Committee notes that the Joint Standing Committee on Migration also tabled a report into its review of Audit Report No. 1, 2005-6, *Management of the Detention Centre Contracts – Part B* on 5 December 2005.

Overall audit conclusion

12.9   The ANAO found that DIMA had initially established a sound evaluation process for the tender for detention services that took into account the value for money requirements of the Commonwealth Procurement Guidelines. The evaluation process provided a method to discriminate

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2   *Inquiry into the Circumstances of the Immigration Detention of Cornelia Rau,* Report, July 2005.

3   Commonwealth Ombudsman, Report No. 03/2005, *Inquiry into the Circumstances of the Vivian Alvarez Matter,* September 2005.

between tenderers on the basis of the quality of detention services being proposed, as well as the price being offered.

12.10   However, DIMA failed to effectively follow the process it established and was unable to demonstrate that it took into account the value for money requirements of the Commonwealth Procurement Guidelines at key stages of the procurement.

12.11   The main shortcomings identified by the audit were:

- ambiguity in DIMA's management of the roles and responsibilities of key advisers and personnel;

- deficient recordkeeping, impacting on DIMA's ability to demonstrate accountability and transparency in this procurement;

- weaknesses in the conduct and documentation of contract negotiations; and

- deficiencies in the assessment of tender bids against the value for money criteria.

12.12   The ANAO found that after the selection of GSL as the preferred tenderer, contract negotiations became protracted, largely because DIMA had not ensured GSL's tender was fully compliant with the insurance, liability and indemnity provisions of the Request for Tender before GSL was recommended as the preferred tenderer.

12.13   GSL also asked to amend its tendered prices. DIMA's specialist advisers identified that accepting pricing changes would alter the value for money rankings. They suggested that DIMA re-visit GSL's offer and asses whether the department should have entered into parallel negotiations with GSL and ACM, who were within less than one percent of each other in DIMA's value for money rating.

12.14   DIMA did not bring this process to a conclusion and the ANAO found that there was a lack of transparency in the decision making process. The ANAO considered that DIMA did not systematically monitor value for money throughout the entire procurement process.

12.15   Although it was intended that ACM's tender bid should be kept open until contract negotiations were concluded, this was allowed to lapse. At the time that the bid expired, $32.6 million had been added to GSL's tendered price.

12.16   The ANAO found that the steering committee did not follow the approved evaluation method at important stages of the process, leading to errors and omissions in the evaluation and contract negotiation processes. Errors made at the evaluation stage compromised negotiation of the contract.

12.17   The ANAO concluded that the procurement practices employed by DIMA to acquire detention services fell well short of the standard expected by the Commonwealth Procurement Guidelines.

ANAO recommendations

The ANAO made five recommendations, which were all agreed by DIMA.

Table 12.1   ANAO recommendations, Audit Report No. 32, 2005-06

1.	The ANAO recommends that DIMA ensure that consultancy agreements developed for the provision of probity auditing and/or advising services in future tenders stipulate: • that a comprehensive probity plan is finalised before the commencement of the tender process and monitored to ensure that any changes in probity requirements are managed; and • that the scope of any probity auditor's services includes provision of a sign-off to the decision maker that specifies the level of assurance provided by the audit engagement. *DIMA response: Agreed*
2.	The ANAO recommends that for future procurements, the roles and responsibilities of key personnel should be clearly defined with particular attention given to the separation of people and functions to ensure that conflicts (actual or perceived) do not develop. *DIMA response: Agreed*
3.	The ANAO recommends that, as part of DIMA's review of recordkeeping systems, procedures for the documentation of tender processes be developed, to facilitate accountability and transparency in outsourcing and to ensure compliance with the Commonwealth Procurement Guidelines. *DIMA response: Agreed*
4.	The ANAO recommends that, in future tenders, DIMA ensures that a brief confirming full compliance with the Commonwealth Procurement Guidelines is provided to the delegate in support of any recommendation to enter into a contract. *DIMA response: Agreed*
5.	The ANAO recommends that in future tenders, DIMA develop procedures for the conduct and documentation of the processes followed in negotiating contracts. Such procedures should be directed towards assisting those advising the delegate to manage and monitor the tender over the whole procurement cycle, particularly in regard to the transparent assessment of tenders against value for money evaluation criteria. *DIMA response: Agreed*

The Committee's review

12.18   The Committee held a public hearing on 2 June 2006 with witnesses from the Department of Immigration and Multicultural Affairs and Australian National Audit Office.

12.19   At the public hearing, the main issues addressed by the Committee
         included: governance, inadequate separation of roles and responsibilities,
         contract negotiation, record keeping, and the provision of advice to the
         Minister. The Committee also discussed changes to the department's
         administrative practice that have been made in anticipation of the re-
         tender of the detention services contract.

Governance arrangements

12.20   The Commonwealth Procurement Guidelines state that value for money is
         the core principle underpinning Australian Government procurement. In
         addition, probity is a key consideration throughout the entire
         procurement process.

12.21   For the purposes of this procurement project, this was reinforced by the
         1998 General Agreement between DIMA and ACS, which states that the
         Commonwealth will use the service provider that provides the best value
         for money for the Commonwealth.[4]

12.22   The ANAO found that the plans developed by DIMA to guide the
         procurement, including a risk analysis and risk action plan, a tender
         evaluation plan, a probity plan and a communications strategy, were all
         individually sound. The plans reflected the requirements of the FMA Act
         and the specific legal and other specialist advice that had been obtained by
         DIMA. DIMA also utilised financial, legal and probity advisers to progress
         the project.

12.23   The ANAO report highlights a range of issues that arose in the execution
         of these plans. DIMA has acknowledged these issues and recognised that
         errors in administration occurred.[5] The Committee was pleased to note
         that DIMA fully accepted and was implementing the ANAO's
         recommendations in the re-tender of the detention services contract, and
         that it had sought advice from the ANAO to assist it with governance
         arrangements for the tender.

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4   ANAO Audit Report No. 32, 2005-06, p. 52.
5   Mr Bob Correll, Department of Immigration and Multicultural Affairs, *Transcript of Evidence*, 2
     June 2006, p. 3.

Roles and responsibilities

12.24   The ANAO found a lack of clarity around the roles and responsibilities of the various committees involved in the tender process and individual members of these committees.[6]

12.25   In particular, the ANAO found a lack of clarity regarding the role of the probity adviser in the tender process, which was compounded when the probity adviser was engaged to deliver additional services relating to the tender evaluation. The probity adviser also had primary responsibility for the development of much of DIMA's tender documentation, including the risk plans and tender evaluation plans.[7] These additional responsibilities compromised the independence of this adviser.

12.26   The Committee was concerned by the failure of the department to clearly define roles and responsibilities during this procurement process and to ensure the separation and independence of advisers. At the hearing, it questioned DIMA as to what processes the department has put in place to ensure that this separation occurs in future. DIMA advised that the framework for the next purchasing process for the detention services contract has been clearly defined. Further, as part of the organisational changes following the Palmer and Comrie reports, the department was establishing a purchasing assurance committee with an independent external chair that would have a key role in oversighting all purchasing processes within the department.[8]

Probity auditor

12.27   The ANAO found that the probity audit reports provided a low level of assurance over the probity process as the probity auditor was unable to independently determine the nature, timing and extent of audit procedures. The probity auditor also had limited access to documents and decision makers.

12.28   In addition, although the probity auditor was expected to provide 'real-time' probity audit review of the evaluation and negotiation process, the contract engaging the auditor was not signed until 28 October 2002. The Expression of Interest for the detention services contract had been issued in December 2001.

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6   ANAO Audit Report No. 32, 2005-06, p. 61.

7   ANAO Audit Report No. 32, 2005-06, p. 63.

8   Mr Bob Correll, Department of Immigration and Multicultural Affairs, *Transcript of Evidence*, 2 June 2006, p. 5.

12.29   The roles and responsibilities of the probity adviser and probity auditor
         were not clearly articulated. The probity plan was not revised following
         the appointment of the probity auditor and that the probity auditor and
         probity adviser did not discuss their individual responsibilities with each
         other. The ANAO's first recommendation is directed towards remedying
         this situation in the future.[9]

12.30   The Committee questioned DIMA about the circumstances surrounding
         the engagement and the subsequent role of the probity auditor, and
         particularly why a probity auditor was only engaged halfway through the
         evaluation process. DIMA's response was that it was only through the
         course of the process that the decision was made to engage a probity
         auditor in addition to a probity adviser.[10] DIMA's steering committee for
         the project did not initially consider that a probity auditor was required.[11]

12.31   The department indicated at the hearing that in the project plan for the
         next tendering process there would be full recognition of the distinct roles
         of each type of adviser. The department stated it would also monitor any
         conflict of interest that may develop through that process.[12] The
         Committee concurs with the ANAO that it is important that the key
         personnel involved in procurement projects be selected with a view to
         avoiding potential or actual conflicts of interest. The role of each adviser
         also needs to be clearly defined and their independence assured.

Evaluation of the tender bids

12.32   DIMA assessed three tenderers on the basis of technical and financial
         evaluations, which were then combined to establish value for money.
         DIMA developed a benchmark scenario against which the tenders were
         assessed, which reflected DIMA's best estimate of detainee population
         levels in the future.

12.33   The draft value for money analysis showed that GSL offered the best value
         for money, ahead of ACM, which was clearly ahead in the technical
         evaluation. The difference between the first two tenderers was calculated
         and reported to the delegate as 4.42 percent. The ANAO later determined

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9   ANAO Audit Report No. 32, 2005-06, p. 67.

10   Mr Bob Correll, Department of Immigration and Multicultural Affairs, *Transcript of Evidence,* 2
     June 2006, p. 6.

11   Mr Stephen Lack, Australian National Audit Office, *Transcript of Evidence,* 2 June 2006, p. 6.

12   Mr Simon Schiwy, Department of Immigration and Multicultural Affairs, *Transcript of
     Evidence,* 2 June 2006, p. 12.

that the difference was actually 0.56 percent. This error remained undetected throughout the procurement process.

12.34   In developing the financial evaluation report, DIMA's probity adviser and financial adviser both identified that GSL was significantly cheaper than the other two tenderers in remote locations and recommended that all tenderers be invited to clarify their pricing for remote locations. The Committee notes that there is no documentation to indicate whether all tenderers were invited to clarify their pricing for remote locations at this time.[13]

12.35   The steering committee also decided not to request a 'best and final offer' from GSL and ACM to separate these tenderers, although this was provided for in the Tender Evaluation Plan.

12.36   On 13 November 2002, GSL wrote to DIMA stating it had discovered a significant error in its tender spreadsheets and submitting a request to amend its pricing for remote locations. The steering committee agreed to this request, which the ANAO found added $11.57 million to the price of GSL's tender. The ANAO notes that it is not possible to determine whether the steering committee considered the effect on value for money arising from this decision.[14]

12.37   The delegate agreed to the steering committee's recommendation that GSL be selected as the preferred tenderer. Given the closeness of the two final tenderers, the delegate also decided that ACM should be invited to keep its tender offer open until contract negotiations were finalised.[15]

12.38   The Committee is concerned that the ANAO found a number of errors and omissions from the report to the delegate. This included deficiencies in a number of key areas:

- the delegate was not advised that the RFT provided discretion to enter negotiations with more than one tenderer, including the option to request a 'best and final offer';

- the delegate was not advised that the requirement under the Commonwealth Procurement Guidelines to assess Industry Development Criteria had not been met;

13   Mr Greg Watson, Australian National Audit Office, *Transcript of Evidence,* 2 June 2006, p. 8.

14   ANAO Audit Report No. 32, 2005-06, p. 79.

15   ANAO Audit Report No. 32, 2005-06, p. 80.

- while the delegate was advised that the assessment of the technical
  worth scores was based on a number of factors, including discussions
  with nominated referees, he was not advised that:

  ⇒ ACM did not nominate DIMA as a referee;

  ⇒ the probity adviser had recommended that the chair of the steering
    committee should not provide a reference for ACM because of
    potential conflict of interest;

  ⇒ the steering committee decided to nominate DIMA as a referee and
    the chair of the steering committee provided the reference; and

- the value for money index calculation, as noted earlier, was incorrectly
  reported as 4.42 percent not 0.56 percent.

12.39   Other omissions from the final report meant that not all relevant
         information about the tender evaluation was placed before the delegate at
         the time he was asked to make a final decision.

12.40   The Committee considers that the ANAO's findings demonstrate a
         significant failure on the part of the steering committee to fulfil its
         responsibilities to the delegate. It is also concerning that the steering
         committee decided not to accept the advice of its specialist advisers on
         more than one occasion.

Contract negotiation

12.41   Contract negotiations commenced with GSL in January 2003 and by
         February 2003 GSL had requested a number of changes to the draft
         contract, upon which DIMA sought advice from its legal, financial and
         probity advisers. The Committee noted during the hearing that GSL
         sought to adjust its bid with increases to workers compensation insurance,
         overhead fixed costs, and reamortisation of start-up costs. Financial
         analysis demonstrated that the overall impact of accepting these changes
         would be an increase of $19.634 million to GSL's bid. The Committee
         questioned whether other tenderers were given the opportunity to adjust
         their bid according to changed factors, such as the closure of the Woomera
         and Christmas Island centres. DIMA indicated in response that these
         changes took place during the final contract negotiations with GSL, so
         other tenderers were not given an opportunity to adjust their bids.

12.42   The probity adviser assessed that the effect of these changes was an
         overall decrease in value for money for GSL in the order of 6 to 8 percent,
         which had the effect of putting ACM ahead by a narrow margin. The other
         key issues identified by the ANAO were:

- the closure of the Woomera and Christmas Island centres impacted upon the benchmark scenario DIMA had used for the tender evaluation. The ANAO found no evidence that DIMA considered GSL's request against the probity and legal implications of a change to the evaluation criteria and original RFT requirements;

- the impact of accepting GSL's pricing change for remote locations, which increased its bid by $15.5 million over four years, was that comparisons could no longer be made with ACM's bid as the modified criteria were not applied to their tendered prices. The ANAO found no evidence that the value for money index calculation was revisited, nor that the change to the scenario used for evaluation and its impact upon tenderers was addressed in advice to the delegate; and

- GSL requested a change in its start-up costs as it had amortised its costs over a period of seven years on the assumption that it would hold the contract for the initial four years plus the three year extension period. Again, the ANAO found that there was no evidence that the steering committee requested or was provided with an updated value for money index calculation.[16] DIMA's advisers also expressed concern about accepting this change as they considered DIMA was being asked to compensate for unreasonable assumptions on GSL's part.

12.43   The probity adviser concluded that DIMA should enter parallel negotiations with both tenderers.[17] The ANAO concurred with this view and stated that DIMA had a responsibility 'to closely monitor and manage the margin between the final two tenderers'.[18] At the hearing, the ANAO reiterated that it would have been prudent for the department to keep its options open by entering into parallel negotiations.[19] The steering committee decided against this option, however, at a meeting on 26 November 2002.

12.44   The Committee is disturbed by the ANAO's findings that the steering committee decided at its meeting on 18 February 2003 that 'the definition of value for money is no longer the sole guide as to whether negotiations have been successfully concluded'.[20] This was a significant departure from not only the Commonwealth Procurement Guidelines, but also the 1998 General Agreement that was still in force.

16   ANAO Audit Report No. 32, 2005-06, p. 102.
17   ANAO Audit Report No. 32, 2005-06, pp. 92-93.
18   ANAO Audit Report No. 32, 2005-06, p. 93.
19   Mr Stephen Lack, Australian National Audit Office, *Transcript of Evidence,* 2 June 2006, p. 7.
20   ANAO Audit Report No. 32, 2005-06, p. 93.

12.45   The Commonwealth Procurement Guidelines stipulate that value for
        money is the essential test against which agencies must justify any
        procurement outcome.[21] The steering committee introduced an additional
        and subjective element into the evaluation methodology, when it stated
        that DIMA should also be ensuring a sound relationship with the Services
        Provider.[22]

12.46   In light of the ANAO's findings, the Committee considers it essential that
        the department ensures its assessment processes for the forthcoming
        retender of the detention services contract are fully compliant with the
        Commonwealth Procurement Guidelines. The Committee concurs with
        the ANAO's recommendation that a brief be provided to the delegate for
        future contracts confirming full compliance.

12.47   Officials also need to be cognisant of the provisions of the 1998 General
        Agreement while that agreement remains in force.

Overall reconciliation of changes in relative value for money

12.48   The Committee notes that contract negotiations were protracted and many
        of the adjustments made to GSL's tendered prices were not finalised until
        very late in the negotiation phase.[23] At the time these changes were
        accepted, DIMA's own analysis showed that the relative position of the
        tenderers in DIMA's value for money index had changed.

12.49   Overall, the ANAO found that there was a lack of transparency in the
        decision making process in the acceptance of increased prices in the
        preferred tenderer's bid, particularly in the later stages of the tender. The
        ANAO found that the steering committee did not bring to a conclusion the
        'step-by-step' process it set for itself at the meeting of 18 February 2003
        and did not reconcile legal and financial advice that differed from probity
        advice into an overall DIMA position. Accordingly, there was no
        systematic basis for reviewing the value for money index system as
        envisaged by the steering committee.[24]

12.50   ANAO analysis shows that the cumulative effective of the pricing changes
        accepted between 26 November 2002 and 2 May 2003 (when ACM's
        tender bid expired) added $32.6 million to the price of GSL's bid.

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21   ANAO Audit Report No. 32, 2005-06, p. 94.
22   ANAO Audit Report No. 32, 2005-06, p. 93.
23   ANAO Audit Report No. 32, 2005-06, p. 103.
24   ANAO Audit Report No. 32, 2005-06, p. 105.

Elimination of ACM from the tender process

12.51   The ANAO found that DIMA allowed ACM's tender offer to lapse on 2 May 2003, although there was no formal decision taken by the steering committee. This was contrary to the specific instructions of the delegate to keep the tender offer open until contract negotiations were finalised and altered the Commonwealth's negotiating position.

12.52   At the hearing, the Committee expressed its concern about the circumstances that led to ACM's bid being allowed to expire, and particularly that there was no evidence to suggest that a letter from ACM outlining conditions for the extension of its tender was responded to by the department. This omission is further compounded by the failure to bring ACM's letter to the attention of the delegate. The ANAO found no evidence that the delegate was informed that ACM's tender offer had expired, nor any documentation as to the rationale for elimination of ACM.

Completion payment

12.53   The ANAO noted that the General Agreement made no provision for completion payments, except where the contract was terminated for convenience. It also found that DIMA was unable to provide evidence of the criteria it used to determine that it would pay ACM $5.7 million in contract completion payments. The payments were made under the 'out of scope' provisions of the contract with ACM, which the ANAO considered a 'doubtful' basis for these payments. [25]

12.54   In addition, DIMA was unable to provide the ANAO with substantive evidence that any action was taken to consider and/or evaluate the potential impact that this payment would have upon achieving a value for money outcome for the Commonwealth. [26]

12.55   The Committee asked DIMA at the hearing about the circumstances surrounding this payment and what arrangements are in place for transition to the new contract. The Committee considers that this is an issue that should be clearly addressed in future contracts, rather than relying upon out of scope provisions so that the costs to the Commonwealth are clear. The Committee notes that the contract included a transition process to be followed and provision for a fee to be paid at the successful completion of the transition. Further, the value of this fee was specified in the contract.

25   ANAO Audit Report No. 32, 2005-06, p. 31.
26   ANAO Audit Report No. 32, 2005-06, p. 108.

Record keeping

12.56   The ANAO identified a number of issues relating to recordkeeping for this
        project, including:

- no version control for any of the project documents;

- multiple versions of meeting records;

- important discussions were held where both the agenda and outcomes
  from the meeting only record 'oral presentation' or discussion;

- requests made of the department's advisers were not documented;

- meeting agendas and meeting records for the steering committee were
  extremely brief and practically non-existent for the tender support
  team; and

- there are no records of meetings held between 15 May and 21 August
  2003. A range of important issues were managed through this period
  including settlement of the insurance, liability and indemnity regime
  and a change in the health services sub-contractor.

12.57   The Committee finds it very concerning that there is a recurring comment
        throughout the audit report about the lack of documentation to support
        key decisions. It is also disturbed by the ANAO's statement that it
        experienced difficulty locating sufficient evidence to form an opinion
        about aspects of the procurement during various stages of the audit.

12.58   The Committee notes the commitment given by the current Secretary of
        the department to improve record keeping systems, foreshadowing
        expenditure of $10 million over five years to fund necessary
        improvements.[27] The Committee also notes that the National Archives of
        Australia has undertaken a comprehensive records management review
        and the department is implementing a major records management
        improvement program.[28] The Committee is pleased to see that the project
        summary tabled by DIMA at the hearing identifies responsibilities for
        ensuring proper documentation of all decisions in the forthcoming
        tender.[29]

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27   Audit Report No. 32, 2005-06, p. 72.
28   Mr Bob Correll, Department of Immigration and Multicultural Affairs, *Transcript of Evidence,* 2
     June 2006, p. 11.
29   Department of Immigration and Multicultural Affairs, *Detention Services Tender Project: Project
     Summary,* 18 May 2006, p. 5.

Management of liability, indemnity and insurance

12.59   The ANAO identified a number of issues surrounding DIMA's management of the insurance, liability and indemnity issues associated with this tender. This included failure to:

- undertake a risk analysis of the insurance, liability and indemnity regime established as part of the Request for Tender;

- consider the need for the Finance Minister to approve the offered indemnities; and

- assess the costs and benefits of the individual tender responses.

12.60   DIMA was also unable to demonstrate to the ANAO how the tender responses were evaluated against the requirements of the Request for Tender. The ANAO concluded that there was limited understanding within the steering committee about the indemnities being offered, the mechanism for determining liability for detainee damage, and the strengths and weaknesses of the tender bids and proposals provided.[30]

12.61   DIMA also failed to ensure that GSL had finalised its insurance arrangements before announcement of the preferred tenderer. At the hearing, the Committee established that one of the reasons for the protracted delay in contract negotiations arose from the need to establish who would bear the risk for detainee damage.[31] Liability caps on detainee damage had not been settled prior to selection of GSL as the preferred tenderer. DIMA also failed to agree the overall insurance, liability and indemnity position with Comcover until after the preferred tenderer had been announced.

12.62   The ANAO considered that DIMA had an obligation to initiate a process of consultation with relevant agencies and between Ministers, as appropriate, and to adequately and accurately identify Commonwealth insurance risks and exposures before the selection of a preferred tenderer.

12.63   The ANAO also found that GSL's tender response was non compliant with the terms of the RFT in its terms for medical malpractice. Although GSL indicated its willingness to negotiate on this point, there is no evidence that this was pursued. The failure of the steering committee to manage this resulted in protracted difficulties for DIMA and other government agencies as contract negotiations went forward.[32]

30   ANAO Audit Report No. 32, 2005-06, p. 116.

31   Mr Greg Watson, Australian National Audit Office, *Transcript of Evidence,* 2 June 2006, p. 14.

32   ANAO Audit Report No. 32, 2005-06, p. 116.

12.64   The Committee is disturbed by the ANAO's conclusion that in negotiating
and then settling the insurance, liability and indemnity regime, DIMA
placed the Commonwealth in a disadvantageous position due to a lack of
proper consideration and, when necessary, reconsideration of the costs
and benefits of the liability and indemnity arrangements. DIMA could not
provide evidence of a risk assessment or analysis that showed the relative
costs of the indemnities and impact on the insurances being purchased.
The ANAO considers that the steering committee provided inadequate
advice to the delegate and to Government as it failed to fully appreciate
and understand all relevant issues.

Advice to Minister

12.65   At the hearing, the Committee expressed its concern about the advice
provided to the Minister, which did not include all relevant information.
The ANAO found significant shortcomings with DIMA's understanding
of the strengths and weaknesses of the tender proposals. It concluded that
the department's advice to the then Minister was inadequate for the
following reasons:

- DIMA failed to identify its insurance risks and exposures early;

- there was an accumulation of errors in the analysis, assessment and
evaluation of tenderer responses to the insurance, liability and
indemnity requirements of the request for tender; and

- there was no evidence to support DIMA's assertion to the Minister that
the proposed indemnities represented the best financial outcome for the
Government.[33]

12.66   The Committee is very surprised, given the seniority of members of the
steering committee within the department, that the ANAO found:

> a lack of appreciation by DIMA's steering committee of the
> evidence required to underpin adequate advice to the Government
> on whether or not to grant the indemnities, or whether or not the
> option to negotiate with ACM was still open at this time.[34]

12.67   The Committee considers that this represents another significant failure on
the part of the steering committee to fulfil its obligations.

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33   ANAO Audit Report No. 32, 2005-06, p. 120.
34   ANAO Audit Report No. 32, 2005-06, p. 119.

Committee comment

12.68   The Committee is concerned that the tender process for the detention services contract was not conducted in accordance with procedures established at the start of the process and approved by the delegate. The steering committee did not fulfil its responsibility to ensure that the selected tenderer represented the best value for money in accordance with the Commonwealth Procurement Guidelines and the 1998 General Agreement. It also failed to adequately protect the Commonwealth's interests.

12.69   At the hearing, the Committee questioned DIMA about what action it has taken to address all the issues within the audit report. DIMA advised that in relation to each of the recommendations, the department has a clear plan in place for follow up action.

12.70   The department has undertaken a complete review of the existing detention services contract and decided to proceed with a new tender. A framework for the purchasing and transitional arrangements has been established in addition to the specialist procurement assurance committee.[35] The department also indicated that at the time the tender process is completed or contract negotiations are under way or the contract is to be signed, there is a requirement for assurances to be provided to the secretary of the department that value for money is being monitored and that the department is meeting the requirements of the Commonwealth Procurement Guidelines.[36]

12.71   This audit predates considerable administrative change within DIMA and the Committee notes the department's commitment to fully address the range of issues raised in this audit within the next tender process. For this reason, the Committee has not made any specific recommendations. Given the size of this contract and the considerable amount of procurement undertaken by this agency, the Committee believes, however, that the department needs to greatly improve its procurement practices and

35   Mr Bob Correll, Department of Immigration and Multicultural Affairs, *Transcript of Evidence,* 2 June 2006, p. 11.

36   Mr Simon Schiwy, Department of Immigration and Multicultural Affairs, *Transcript of Evidence,* 2 June 2006, p. 12.

demonstrate sound internal management. The Committee intends to monitor the department's progress.

13

Audit Report No. 34, 2005-06, Advance Passenger Processing

Background

13.1   The vast majority of travellers arrive in Australia by air, with around 9.3 million passengers arriving this way in 2003-04. People arriving in Australia by ship are usually the crew members of visiting commercial ships. In 2003-04 around 333,000 people arrived in Australia by sea.

13.2   The Australian Government operates a 'layered approach' to border control, whereby the particulars of each traveller are checked against Department of Immigration and Multicultural Affairs (DIMA)[1] systems at several points on their journey to ensure the traveller is properly authorised to enter Australia.

13.3   The introduction of Advance Passenger Processing (APP) on a mandatory basis commenced on 1 January 2003 and was a major component of the Government's border security response to the events of 11 September 2001.

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1   At the time of the audit, the Department was the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA). Following machinery of government changes announced on 27 January 2006, its name changed to the Department of Immigration and Multicultural Affairs (DIMA). It is referred to as DIMA throughout this chapter.

13.4 APP is the third key technological development in Australia's border processing system and links DIMA with airline departure control systems. The overall effect of APP is to extend the border to the last point of embarkation – the airline check-in point overseas. The system is designed to prevent people boarding who do not have authority to enter Australia or who are adversely recorded by DIMA. For passengers that are checked-in, all information needed for APP processing is collected when that person checks in with an airline carrier overseas and forwarded electronically to Australia. This allows passengers and crew to be immigration screened in flight.[2]

13.5 CPS Systems Pty Ltd was selected as the prime contractor to develop, implement and provide ongoing support for DIMA's Electronic Travel Authority (ETA) system after a tendering process in 1995. The relationship between DIMA and its contractor is covered by the ETA System Agreement, which provides among other things for enhancements to the ETA system. APP was developed as an enhancement to the ETA system.

Audit objective and scope

13.6 The objective of the audit was to assess whether DIMA's information systems and business processes were effective in supporting APP to meet its border security and streamlined clearance objectives. The audit focused upon:

- mandatory APP-Stage 1 (MAPP1) project management;

- MAPP1 IT development and system performance;

- APP performance reporting;

- contract management; and

- financial management.

13.7 The audit did not include:

- an assessment of the security of the APP system;

- DIMA's implementation of MAPP2 as this work was still being completed at the time of the audit;

- DIMA's Movement Alert List; or

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2 ANAO Audit Report No. 34, 2005-06, p. 40.

■ the processing of air passengers and crew by Customs and DIMA once they have arrived at the border.

13.8 The audit also focussed upon DIMA's administration of MAPP1 for air passengers and crew and excluded the maritime industry.

Overall audit conclusion

13.9 The audit highlighted weaknesses in the development and operation of mandatory APP in a number of key areas:

■ it was not apparent that DIMA had a clear strategy for managing its relationship with its contractor, including contract succession, so that the Commonwealth's interests were protected;

■ DIMA did not employ a structured approach to the delivery of APP; and

■ DIMA's contractual and financial arrangements were poorly documented and exposed the Commonwealth to risk in the event of a dispute between the parties.

13.10 The audit found that although DIMA reports APP performance in its Annual Report, it does not provide information that would allow the impact of mandatory APP on border security to be assessed. In particular, it does not report against the intent of the *Border Security Legislation Amendment Bill 2002* 'to assess passengers and crew, prior to their arrival in Australia, for the risk they may present to a range of Commonwealth laws'.

13.11 DIMA used correspondence to manage its relationship with the contractor, rather than a clearly documented contractual arrangement. The ANAO considered that in the absence of formal contract variation documentation this increased the risk of disputation over the scope of what the parties intended to be delivered, the terms on which it would be delivered, and the risk that required approvals under the FMA Act would be overlooked.

13.12 In addition, the business rationale and authority for some departmental decisions was not evident, nor were key business decisions relating to the financial arrangements for APP documented. For example, the terms and conditions that DIMA had agreed with its contractor relating to the financial arrangements for voluntary APP were unclear. There was a lack of documentation to substantiate the rationale for a payment of $900 000 to the contractor.

13.13   The department also advised the ANAO that it paid the development costs of the APP system, which is ultimately owned by the contractor.

13.14   The ANAO considers that the manner in which DIMA managed its contractual and financial arrangements with its contractor exposed the Commonwealth to unnecessary risks.

ANAO recommendations

The ANAO made six recommendations, which were all agreed to by DIMA.

Table 13.1 ANAO recommendations, Audit Report No. 34, 2005-06

1.	The ANAO recommends that to assist in managing potential risks to border security, to monitor contractor performance and, to assist airlines in meeting legislative requirements relating to Advance Passenger Processing, DIMA: • Analyse and validate system availability statistics provided by its contractor; and • Identify any common problems experienced by airlines relating to system outages and develop timely solutions in consultation with airlines to assist airlines in meeting legislative requirements relating to Advance Passenger Processing. *DIMA response: Agreed*
2.	The ANAO recommends that to improve its performance reporting relating to border security, DIMA develops and reports on performance measures relating to the following: • The number of non-citizens who were not allowed to board an aircraft to travel to Australia, as a result of being processed by Advance Passenger Processing, owing to the risk they may present in relation to a range of Commonwealth laws; and • The number of non-citizens who were refused entry at the Australian border, owing to the risk they may present in relation to a range of Commonwealth laws, that should (or could) have been detected at the point of embarkation using Advance Passenger Processing. *DIMA response: Agreed. There may be some system and practical limitation in refining the data to this point but this will be fully explored.*
3.	To assist in protecting the interests of the Commonwealth in its dealings with external parties, the ANAO recommends that as part of its review of contractual arrangements with its contractor, DIMA: • Identify its contract management risks relating to Advance Passenger Processing, analyse these risks, implement treatments, and monitor and review the success of its controls; • Consider developing a performance-based contract by linking its contractor's fee base to key performance areas and outcomes for Advance Passenger Processing; • Establish a performance management system relating to service levels for Advance Passenger Processing; • Maintain and organise contract-related documentation for easy and reliable access; and • Define processes and procedures to assist in managing contract variations relating to Advance Passenger Processing. *DIMA response: Agreed. Some of these issues are being addressed in work previously commissioned.*
4.	The ANAO recommends that to support its future negotiation of contractual arrangements with a service provider for the provision of operational and support services relating to border control systems, DIMA document its business strategy and include clear terms and conditions within the contract, and for variations, relating to the financial arrangements between the parties. *DIMA response: Agreed.*

5.	The ANAO recommends that DIMA document future approvals to spend public monies relating to Advance Passenger Processing, consistent with the requirements of the *Financial Management and Accountability Act and Regulations 1997.*
	DIMA response: Agreed
6.	The ANAO recommends that to improve transparency for Internet Electronic Travel Authority applicants, DIMA include on its website appropriate notices outlining the relationship between itself and its contractor, and notifying applicants that any transaction entered into through the Internet interface would be with DIMA's contractor, and not DIMA.
	DIMA response: Agreed

The Committee's review

13.15   The Committee held a public hearing on 2 June 2006 with witnesses from the Department of Immigration and Multicultural Affairs and the Australian National Audit Office. Questions on notice were forwarded to the DIMA following the hearing and are published as a submission to the inquiry.

Mandatory Advance Passenger Processing – Stage 1 (MAPP1)

13.16   Following the introduction of mandatory APP, 95 percent of airline passengers into Australia were being processed using APP by 30 June 2003. Additional functionality was required however to increase this coverage to include airline transit passengers, non-visa passengers, airline crew, and cruise ship passengers and crew. The MAPP1 project was to develop a new version of APP that would provide this functionality.[3]

13.17   The Committee notes that the ANAO's examination of DIMA's project management for MAPP1, including time, cost and quality expectations, revealed weaknesses in a number of areas. The key issues identified by the ANAO included:

- the target implementation date for MAPP1 was 1 January 2004. While DIMA reported to its Minister that MAPP1 went live on 6 January 2004, the ANAO found that the majority of airlines implemented MAPP1 after May 2004 as they were unable to complete their system development before then. More than 90% had implemented MAPP1 by August 2004;

- DIMA's costing for the project was incomplete. There was no overall picture of the total cost of the project and DIMA was unable to provide the ANAO with evidence that it had approved a project budget or developed a basis to manage expenditure. Further,

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3   ANAO Audit Report No. 34, 2005-06, p. 46.

DIMA was unable to provide evidence that it had recorded expenditure against a project budget or provided project budget reports to DIMA senior management; and

- DIMA did not adequately define the quality requirements for MAPP1, which reduced the department's ability to identify and apply adequate quality controls. In particular:
  - ⇒ DIMA documentation did not address IT requirements relating to the quality of the products to be delivered and important criteria such as reliability, useability, accuracy and performance;
  - ⇒ there was no indication of the expected life of the system;
  - ⇒ DIMA did not document its quality expectations for the non-technical products, such as user documentation, training materials, and communication strategies; and
  - ⇒ the document outlining the test strategy was not comprehensive, covered only user acceptance testing, and was not finalised.

13.18   The Committee is pleased that DIMA employed an experienced project manager and used a structured project management approach for the second stage of this project (MAPP2), which was outside the scope of this audit.[4] The Committee considers it essential that the department adopt a formal project management methodology to address the 'major weaknesses in key areas of project management' identified by the ANAO.[5]

Information technology development and system performance

13.19   The ANAO examined the development and testing of MAPP1, including whether DIMA had applied a structured methodology in order to facilitate delivery of the project to the required quality within time and cost constraints. It also examined whether DIMA had managed risks associated with its development approach. The ANAO found that:

- in June 2003, DIMA developed a draft Mandatory APP Development Strategy. While the methodology addressed a range of requirements, DIMA did not reference either a DIMA standard or any other documented development standard; and

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4   ANAO Audit Report No. 34, 2005-06, p. 47.
5   ANAO Audit Report No. 34, 2005-06, p. 133.

■ DIMA did not require its contractor to follow any agreed development methodology in developing MAPP1.[6]

13.20   While the approach adopted by the contractor and DIMA was essentially consistent with that in the draft Mandatory APP Development Strategy, the ANAO considered that this should have been fully developed and properly authorised prior to the commencement of development work.

13.21   The ANAO considered that DIMA did not adequately identify and manage the risks associated with its approach, which placed considerable reliance on the expertise and experience of the team (DIMA and its contractor) to 'make it work' within very tight timeframes.[7]

13.22   The ANAO also examined the business requirements for MAPP1, which were focused upon achieving 100 percent processing of the groups not covered by the existing APP system. High level business requirements were issued on 4 July 2003 covering all proposed requirements for Stages 1 to 3 of the project. The ANAO found that the requirements did not clearly address important issues, including:

■ the need to avoid duplicate reporting by airlines to both DIMA and Customs for crew members; and

■ the need for performance reporting to monitor airlines' use of APP to help DIMA determine the level of airline compliance and identify any remedial action required.

13.23   The ANAO also found that Customs was not invited to comment on the high-level business requirements, even though substantial Customs involvement would be required to achieve DIMA's objectives.[8]

13.24   Although DIMA and Customs signed off on a proposed solution to crew processing in July 2002, it was not until MAPP2 was implemented on 23 February 2005 that the need for duplicate reporting was removed.[9] When asked at the hearing about the length of time taken to implement this solution, DIMA told the Committee that the delay resulted from Customs having to change its system to accept this data and that because of system complexities following the

6   ANAO Audit Report No. 34, 2005-06, p. 52.

7   ANAO Audit Report No. 34, 2005-06, p. 52.

8   ANAO Audit Report No. 34, 2005-06, p. 53.

9   ANAO Audit Report No. 34, 2005-06, pp. 54-55.

further release of APP in January 2004, DIMA and Customs were unable to work together to implement the changes.[10] The Committee notes that this did subsequently occur in late 2004, with implementation in February 2005.

13.25   DIMA's business requirements for MAPP1 did not include a requirement for performance reporting to monitor airlines compliance with mandatory APP requirements. DIMA advised the ANAO at the time of the audit that '[r]eporting beyond the levels developed prior to MAPP1 was not seen as an imperative'.[11]

13.26   DIMA advised the ANAO that it was working to address deficiencies in its performance information through the development of a system to support a proposed fines regime for airlines that do not process all passengers and crew using the APP system. The ANAO considered that it would have been prudent to include performance reporting functionality as a requirement of MAPP1, given the significance of mandatory APP to DIMA's layered approach to border control.[12]

13.27   The ANAO found that not all business requirements for MAPP1 were developed and finalised in a timely and controlled manner.[13] Similarly, although the ANAO considered the overall quality of DIMA's functional design for MAPP1 was adequate, there were some deficiencies in the linkages between design elements and business requirements, design documentation for the web solution, and evidence that the system complied with DIMA IT security standards.[14]

System testing

13.28   The ANAO examined whether DIMA had undertaken comprehensive and timely testing of the MAPP1 system before it was implemented and found a number of weaknesses in the testing regime.[15] DIMA did not develop an overarching test plan and did not monitor testing by its contractor to ensure that agreed plans and processes were being followed. The ANAO considered that DIMA was exposed to increased risk as DIMA relied on sign-off by the contractor. There

10   Mr Brett Simpson, Department of Immigration and Multicultural Affairs, Transcript *of Evidence,* 2 June 2006, p. 27.

11   ANAO Audit Report No. 34, 2005-06, p. 55.

12   ANAO Audit Report No. 34, 2005-06, p. 56.

13   ANAO Audit Report No. 34, 2005-06, pp. 56-57.

14   ANAO Audit Report No. 34, 2005-06, p. 57.

15   ANAO Audit Report No. 34, 2005-06, pp. 60-62.

were also issues identified by the ANAO with user acceptance and usability testing, and outstanding issues when MAPP1 went live on 1 January 2004.

13.29   The ANAO considered that testing for MAPP1 should have been more timely and comprehensive to provide assurance that any problems had been detected and rectified before the system was implemented.

13.30   Importantly, the Committee notes that the ANAO considered that the sign-offs provided by DIMA did not constitute a clear business sign off that MAPP1 was complete, nor a direction to implement the system.[16]

System performance

13.31   In its report, the ANAO argued that it is critical that DIMA monitors APP system outages to assess:

- potential risks to border security;

- individual stakeholder performance relating to contractual obligations; and

- the impact on airline's ability to meet legislative requirements related to APP.

13.32   At the hearing, the Committee queried the ANAO's finding that there was a high level of availability of the APP system overall although in some months the target of 99.7 percent was not achieved. The Committee was told that statistics upon system availability are received from DIMA's contractor and that the ANAO considers DIMA should independently validate these statistics for accuracy. DIMA advised that its subsequent sampling has suggested that the data is correct. The department is also currently examining its independent reporting capacity.[17]

13.33   In surveying airlines' satisfaction with system performance, the ANAO found that airlines were generally satisfied with system response times, but were considerably less satisfied with the level of outages they experienced. There was also general satisfaction with scheduled system outages, although one airline indicated they were

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16   ANAO Audit Report No. 34, 2005-06, p. 62.
17   Mr Vincent McMahon, Department of Immigration and Multicultural Affairs, *Transcript of Evidence,* 2 June 2006, p. 25.

very dissatisfied with the notification provided.[18] The ANAO highlighted at the hearing that problems with connectivity could often exist at the airlines' end rather than with DIMA's system.[19]

Performance reporting

13.34   The ANAO examined DIMA's corporate and business planning for APP, performance measurement and monitoring, and reporting for compliance and accountability purposes. It found that APP had been adequately included in DIMA's corporate and business planning framework and that its performance measures are relevant.

13.35   In addition to reporting APP performance against its Portfolio Budget Statements, DIMA also considers the number of infringement notices that are issued.

Airline infringement notices

13.36   Carriers can be fined for bringing non-citizens to Australia without proper documentation. The number of infringement notices dropped 76 percent in the five years to 2003/04 from 5048 to 1211.[20] This figure represents approximately 0.01 percent of arrivals. The ANAO concluded from its analysis that the generally tighter security environment since 11 September 2001 may have impacted upon these statistics in addition to the introduction of APP.[21]

13.37   Noting that the focus of APP has shifted to increased border control, the ANAO considered that DIMA should include information relating to APP in its Annual Report that would allow the impact of mandatory APP on border security to be assessed, such as the number of non citizens not allowed to board an aircraft and the number refused entry at the Australian border. The Committee concurs with this recommendation.

13.38   The ANAO reviewed the accuracy, relevance and sufficiency of DIMA's APP performance information used for external reporting and airline compliance monitoring. It found that this information is unreliable to some degree, due to:

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18   ANAO Audit Report No. 34, 2005-06, p. 63.

19   Mr Mark Rogala, Australian National Audit Office, Transcript *of Evidence,* 2 June 2006, p. 24.

20   ANAO Audit Report No. 34, 2005-06, p. 71.

21   ANAO Audit Report No. 34, 2005-06, p. 74.

- code sharing arrangements between airlines;

- passengers crossing the primary line after midnight;

- charter flights;

- system errors; and

- check-in mistakes.

13.39   DIMA has been unable to quantify the impact of these factors on the accuracy of its statistics. The ANAO considered that a lack of accurate performance information reduces DIMA's ability to monitor whether airlines are using APP as required by legislation, to enable DIMA to assess passengers and crew prior to their arrival in Australia for the risk they may present in relation to a range of Commonwealth laws.[22]

13.40   When asked about the impact of these factors upon border security more generally, DIMA emphasised to the Committee that because Australia does not have visa-free entry, full checks will still be undertaken against a person's right of entry around their visa even when APP does not occur.[23]

13.41   The Committee noted that DIMA was working to address deficiencies in its performance information through the development of an APP Infringement Reporting System to support a proposed fines regime for airlines that do not process all passengers and crew using the APP system.

13.42   It was intended that the fines regime will allow DIMA to fine all airlines that do not process all passengers and crew using the APP system. DIMA expected that this system would improve the accuracy of its APP performance information used for external reporting and airline compliance monitoring.[24]

Contract management

13.43   The Committee is concerned that the ANAO considered that DIMA's management of its contractual arrangements for APP exposed the Commonwealth to unnecessary risks.

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22   ANAO Audit Report No. 34, 2005-06, p. 79.

23   Mr Vincent McMahon, Department of Immigration and Multicultural Affairs, Transcript *of Evidence,* 2 June 2006, p. 27.

24   ANAO Audit Report No. 34, 2005-06, p. 81.

13.44 DIMA's contract with CPS Systems (the contractor) included a clause that provides for enhancements to be made to DIMA's Electronic Travel Authority system, including but not limited to advance passenger information and advance passenger clearance functionality.[25] The contract also provides that if the contractor is requested to carry out enhancements, the contract is to be varied by agreement in writing between the both parties.

13.45 The ANAO found that the contractor had developed a business system design for APP on 26 November 1998, which included a section seeking written endorsement from DIMA senior managers. This endorsement was not given, and the ANAO could not find any other documented basis for a variation to the contract. The ANAO also found that DIMA had not effectively varied the contract through written agreement executed by both parties.

13.46 Without this variation, the ANAO considered that the risks of disputation over the scope of the work, the terms on which it would be delivered and that required approvals under the FMA Act will be overlooked, were increased.[26]

13.47 The ANAO also examined ongoing contract risk management and found that DIMA had not adequately identified the contract management risks relating to APP and had therefore not managed these risks. In its day-to-day management of the contract, the ANAO found that DIMA had not:

- established service-level agreements for the APP system;

- developed a performance-based contract linking its contractor's fee base to key performance areas and outcomes for APP;

- established a performance management system relating to service levels for APP;

- maintained and organised contract-related documentation for easy and reliable access; and

- defined processes and procedures to assist in managing contract variations relating to APP.[27]

25   ANAO Audit Report No. 34, 2005-06, p. 85.
26   ANAO Audit Report No. 34, 2005-06, p. 87.
27   ANAO Audit Report No. 34, 2005-06, pp. 89-90.

13.48 In addition, although DIMA had agreed with a recommendation in ANAO Audit Report No. 3 1999-2000 *Electronic Travel Authority* to devote appropriately trained and experienced resources to managing its contract with its contractor, it was not until July 2004 that DIMA engaged an officer to oversee all contractual matters.[28] DIMA advised the Committee that in addition to this contract manager, Executive staff within the relevant Division are also now closely overseeing contract negotiations and ongoing management of the contract.[29]

13.49 The Committee notes that DIMA also engaged a consultant to review and update the contract to address system enhancements and changes to the financial arrangements since 1996 that have been implemented through exchanges of correspondence. This included development of a new set of contract documents and a draft Deed of Variation was provided to the contractor in June 2005. DIMA has advised the Committee that the Deed of Variation was signed on 6 March 2006, consolidating and making more explicit contract variations agreed over time through correspondence.[30]

13.50 The Committee noted that the contract period had been extended to 3 February 2007. The ANAO examined DIMA's succession planning and found a number of issues, concluding that DIMA has not adequately addressed these matters so as to facilitate a smooth transition from one contract to another.[31] The Committee considered it important that DIMA put in place adequate arrangements for the contract transition period.

Financial management

13.51 The ANAO sought to identify from available documentary sources, the financial and ownership arrangements that DIMA had put in place with its contractor relating to the development of APP. It found that under the ETA system agreement (1996) the contractor owns the intellectual property relating to the ETA system (including the APP and ETA Internet systems).

13.52 The ANAO examined an arrangement reached between DIMA and the contractor in 1998, whereby DIMA would pay the contractor $500 000 towards the development costs of APP. This was to be

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28 ANAO Audit Report No. 34, 2005-06, p. 90.
29 DIMA submission, p. 2.
30 DIMA submission, p. 1.
31 ANAO Audit Report No. 34, 2005-06, p. 91.

repaid by the contractor through reduced transaction fees from the commencement of APP until such time as the funds were repaid in full.[32]

13.53 However on 28 June 2001, DIMA confirmed with the contractor an oral agreement for the costing structure for APP that provided for the department to pay the total development costs of APP up to 30 June 2001 of $900 000. The $500 000 advance was to be offset against this amount.

13.54 The ANAO found that DIMA and the contractor had differing positions on the purpose of the $500 000 and its relationship to the APP transaction fee structure.[33] Due to a lack of documentation, the ANAO concluded that it was not possible to determine with certainty the precise nature of DIMA's financial or service delivery arrangements with its contractor.

13.55 DIMA was unable to demonstrate its business rationale for:

- its initial payment of $500 000 to the contractor;

- its decision it would pay $900 000 to the contractor several years after development work on APP commenced; and

- the basis for the transaction fee structure for APP.

13.56 The ANAO considered that DIMA exposed the Commonwealth to risks through its poor contractual and financial arrangements. Due to these arrangements:

- there was no consideration of the time value of money in making an advance of $500 000 to the contractor;

- there was no formal variation to the contract to clearly specify the development work to be completed, quality standards and a timeframe for delivery; and

- a transaction fee structure was not agreed before the system was developed. This lack of agreement left DIMA exposed and reliant upon the goodwill of the contractor to negotiate transaction fees at a reasonable level.[34]

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32   ANAO Audit Report No. 34, 2005-06, pp.97-98.
33   ANAO Audit Report No. 34, 2005-06, pp.98-101.
34   ANAO Audit Report No. 34, 2005-06, p. 102.

Approval of expenditure

13.57   As at the time of the audit, expenditure for services provided by DIMA's contractor was:

- development costs of $1 849 555 ($900 000 relating to voluntary APP and approximately $949 555 relating to mandatory APP); and

- up to April 2005, approximately $8.955 million for APP transaction fees.

13.58   The ANAO examined whether DIMA had acted in a manner consistent with the requirements of the FMA Regulations. It found that DIMA was unable to provide evidence that a proposal to spend money had actually been approved under FMA Regulation 9 to cover APP development and transaction costs of approximately $10 804 555.

13.59   Accordingly, DIMA is unable to demonstrate that a delegated officer had formed a view that the expenditure incurred under its arrangements with its contractor represented efficient and effective use of the public money involved.[35]

13.60   At the hearing, the Committee expressed its considerable concern about this potential breach of the FMA Act. DIMA sought to emphasise to the Committee that the key issue is that DIMA is unable to produce evidence that the approvals took place in the proper way, therefore it is not clear that the department was in breach of the Act.[36]

13.61   Notwithstanding this, however, the Committee considers that the department needs to take immediate steps to ensure that all expenditure is properly approved and documented. It is pleased that DIMA has strengthened its governance and oversight arrangements and that staff involved in procurement and contract management are receiving enhanced training. The Committee considers that the department needs to ensure that its staff, including senior managers, are fully aware of their obligations under the FMA Act and regulations, and the department's Chief Executive Instructions. It therefore makes the following recommendation.

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35   ANAO Audit Report No. 34, 2005-06, p.104.

36   Mr Vincent McMahon, Department of Immigration and Multicultural Affairs, *Transcript of Evidence,* 2 June 2006, p. 23.

Recommendation 21

The Committee recommends that the Department of Immigration and Citizenship (DIAC) ensure that its staff, including senior managers, receive appropriate training in their obligations and responsibilities under the FMA Act and regulations.

Payment of APP expenses

13.62   DIMA has a cost recovery arrangement with its contractor, designed so that part of the $20 service charge collected by the contractor per ETA application made over the Internet is used to offset expenses relating to the operation of the ETA system. The ANAO examined whether the cost recovery and offsetting arrangements were consistent with guidelines issued by the Department of Finance. It found that DIMA based its cost recovery arrangement with its contractor on legal advice it received from the Australian Government Solicitor.[37] This advice indicated that the contractor could collect the fee but that there needed to be contract variations to incorporate the Internet interface into the system specifications and to include provision for the contractor to charge a fee for service and offset this against moneys owed by DIMA. The ANAO found that DIMA did not complete a formal contract variation.

13.63   The legal advice also stated that if the contractor were collecting fees on behalf of the Commonwealth rather than in its own right, the amounts concerned would be 'public money' and subject to the requirements of the FMA Act and regulations. DIMA was unable to provide evidence that it clarified whether its contractor was collecting the internet fee in its own right.

13.64   The ANAO raised two issues:

- the ETA website stated that the website was operated by DIMA's contractor 'on behalf of' DIMA; and

- the only contractual document in existence between DIMA and its contractor did not contain any clause negating an agency relationship between DIMA and the contractor.

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37   ANAO Audit Report No. 34, 2005-06, pp. 111-113.

13.65   The ANAO considered that this matter needed to be addressed as a priority, with amendments to the website as necessary or alternatively, if the contractor is acting as an agent of the Commonwealth, through a section 31 agreement under the FMA Act with the Department of Finance.[38]

13.66   The ANAO found that DIMA had not consulted with the Department of Finance on its arrangement with the contractor, as required by the Attorney General's Department 'Legal Services Directions' but had relied solely on legal advice from the Australian Government Solicitor.

Committee comment

13.67   The Committee acknowledges that APP provides a very substantial basis for Australia's border security and that DIMA has had considerable success in implementing APP since 2003. While the ANAO identifies certain weaknesses in DIMA's project management of MAPP1, it appears that DIMA had already begun to address these matters at the time of the audit through adopting a more formal project management methodology for MAPP2, which was outside the scope of this audit.

13.68   The Committee is concerned however about a number of the ANAO's findings in relation to contract and financial management. It finds it disturbing that the ANAO repeatedly found throughout this audit that DIMA was unable to provide the rationale for numerous business decisions or to provide documented evidence relating to these decisions. This suggests systemic failures within the department. The Committee is particularly concerned that key business decisions relating to the financial arrangements for APP were not documented. Further, the lack of evidence to substantiate approval under FMA Regulations for $10 804 555 paid for APP development and transaction costs means that the department may have acted in breach of the FMA Act.

13.69   The Committee is pleased that DIMA has undertaken a number of actions since the audit was conducted to ensure that all key business decisions, including financial approvals, are fully documented. In addition to ensuring that ensuing contract negotiations are progressed in line with the Chief Executive Instructions, which are based on the FMA regulations, DIMA has advised that the department has:

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38   ANAO Audit Report No. 34, 2005-06, p. 117.

- strengthened governance and oversight arrangements through appointment of a contract manager and closer oversight of contract negotiations and ongoing management of the contract by executive staff within the relevant division of DIMA;

- improved arrangements to ensure that the conditions of the contract are not changed informally; and

- strengthened records management processes in line with the findings of the Palmer Report.

13.70   The Committee notes that, at the time of the public hearing, DIMA was in negotiations with the contractor to develop a new contract. This contract commenced in February 2007.[39] DIMA engaged consultants with specialised skills in business, financial benchmarking/value for money, legal and probity, to ensure that the procurement process is transparent, accountable and conducted in accordance with the Commonwealth Procurement Guidelines.[40]

13.71   As with its consideration of Audit Report No. 32, 2005-06, which also examined DIMA's contracting processes, the Committee notes that this audit predates substantial administrative changes within the department announced by the then Minister in October 2005 in response to the Palmer Report. These changes include creation of a Legal Coordination and Procurement Branch within a newly established Legal Division, to put in place a uniform governance and assurance framework for DIMA's contract and procurement processes. This framework includes:

- establishment of a high-level Procurement Assurance Board to ensure that procurements have the necessary structural attributes;

- updating Chief Executive Instructions and other guidance to staff on procurement and contract management;

- enhanced training for staff involved in procurement and contract management;

- managing procurement and contracting risks with risk profiling and model contract management plans; and

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39   URL: http://www.dimia.gov.au/about/contracts-tenders/murray12.pdf , accessed 2 March 2007,

40   DIMA submission, p. 2.

- mandatory contract management plans for medium and long term contracts, including a risk treatment plan.[41]

13.72 The Committee is pleased to note that the ANAO and the Department of Finance and Administration have agreed that:

> the programme is sound, addresses audit and other criticisms, is consistent with best practice and a positive step towards improving the governance and assurance arrangements for procurement and contract management processes.[42]

13.73 As indicated in relation to Audit Report No. 32, the Committee intends to monitor the department's progress in improving its procurement and contract management.

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41 DIMA submission, pp. 2-3.
42 DIMA submission, p. 3.

14

Audit Report No. 49, 2005-06, Job Placement and Matching Services

Introduction

Background

14.1   The Department of Employment and Workplace Relations (DEWR) contributes to the Australian Government's employment outcome to provide efficient and effective labour market assistance by administering working age income support payments, and labour market programmes. Through these activities, DEWR assists people to participate in the workforce in order to reduce the social and economic impacts of reliance on income support.

14.2   The various employment programmes administered by DEWR are delivered under the Active Participation Model (APM), which has been the policy platform for the department's employment services since July 2003.

14.3   As part of the APM, DEWR administers Job Placement and matching services, which have a dual purpose of helping job seekers to find work, and employers fill vacancies. Job Placement and matching services are the successor to the employment exchange arrangements under previous Job Network contracts and the former Commonwealth Employment Service. The primary objective of these services is to increase the speed and efficiency with which vacancies are filled in the labour market.

14.4   Job Placement and matching services are outsourced. Services are provided under contract (known as a 'licence') by around 375 Job Placement Licence Only (JPLO) organisations and 110 Job Network

Members (JNMs), which automatically have a Job Placement licence by virtue of their employment services contracts with DEWR. Collectively, these organisations are known as Job Placement Organisations (JPOs).

14.5   JPOs canvass employers for jobs and load the vacancies onto DEWR's national vacancy database, JobSearch. JNMs also load job seekers' particulars, skills and occupational preferences ('vocational profiles') onto JobSearch. This enables electronic job matching of job seekers with vacancies, in addition to traditional job matching activities conducted by JPO staff and job seekers. All eligible job seekers receive Job Placement and matching services for as long as they are registered with Centrelink or a JNM. There are two levels of eligibility: job seekers on a specified income support payment who are registered with Centrelink or a JNM are classified as 'Fully Job Network Eligible' (FJNE); other job seekers can register as 'Job Search Support Only'.

14.6   JPOs can claim Job Placement outcome payments when they have sourced a vacancy from an employer, and placed an eligible job seeker in that vacancy for a specified length of time. The outcome payments range from $165 to $385 per placement, depending on the job seeker's characteristics and the length of the placement. The outcome payments are weighted towards FJNE and highly disadvantaged job seekers. A bonus payment of $165 may also be paid for the placement of FJNE job seekers who work for a longer period. The total cost of Job Placement and matching services in 2004–05 was in the order of $176 million, comprising outcome payments for JPOs, service fees for JNMs, and DEWR's administrative costs.

Audit objectives

14.7   The objective of the audit was to assess whether DEWR's management and oversight of Job Placement and matching services is effective, in particular, whether:

- DEWR effectively manages, monitors and reports the performance of JPOs in providing Job Placement services;

- DEWR effectively manages the provision of matching services (including completion of vocational profiles and provision of vacancy information through auto-matching) to job seekers;

- Job seeker and vacancy data in DEWR's JobSearch system is high quality and is managed effectively; and

- DEWR effectively measures, monitors and reports Job Placement service outcomes.[1]

14.8   The audit report was tabled on 26 June 2006.

Overall audit conclusion

14.9   The ANAO found that DEWR effectively managed the implementation of Job Placement and matching services. Until mid-2003, the government's employment services were outsourced to JNMs that provided these services, then known as Job Matching services. On 1 July 2003, as part of the introduction of the government's APM, DEWR contracted around 110 JNMs to provide Job Placement and matching services, and opened up the Job Placement market to an additional 375 commercial recruitment organisations (JPLOs), many of which had little or no history of engaging with government agencies in the delivery of employment services. DEWR has been successful in encouraging JPLOs to use their licences—JPLOs now make around 37 percent of all eligible placements.

14.10   As part of the APM, DEWR introduced mandatory interviews for newly registered job seekers to collect information relevant to the provision of employment services, to access a range of self-help services and to include them in electronic matching, a system which facilitates the on-line matching of job seekers to vacancies. DEWR has worked with JNMs to identify and overcome challenges that arose with the implementation of these services, including a lack of support for matching mechanisms from the industry, concerns about the quality of job seekers' 'vocational profiles' and the capacity to produce quality résumés for job seekers using supporting information systems. DEWR has substantially streamlined and improved these services, although there are still some difficulties to be resolved.

14.11   DEWR has been successful in increasing the number of vacancies listed on its on-line national vacancy database, JobSearch. Over 2.2 million vacancies were created on JobSearch in 2004–05, a substantial increase over previous years. This increase was largely the consequence of the inclusion of vacancies from commercial on-line job boards, MyCareer and CareerOne.

14.12   The ANAO found that DEWR's ongoing management and oversight of Job Placement and matching services would be strengthened by improvements in the following areas:

1   ANAO Audit Report no 49, 2005-06, *Job Placement and Matching Services*, Commonwealth of Australia, June 2006, p. 45.

- monitoring of the quality of the services provided by JPOs against the Job Placement services Code of Practice;

- clarifying resources requirements and expectations for new referral interview services with JNMs;

- improving the quality of vacancy data on JobSearch, the government-owned on-line vacancy listing enterprise;

- following-up the government's intention to review the costs and benefits of maintaining a national vacancy database, such as JobSearch; and

- more transparently reporting overall service performance, especially by reporting Job Placement outcomes in a manner that is comparable over time.

14.13   To effectively manage contractual arrangements, the contracting party needs reliable feedback on the performance of the contractor in meeting its contractual commitments. While the quantitative data available to DEWR contract managers on the placement and vacancy lodgement activity of JPOs was sound in itself, it was limited when it comes to the service requirements of the Job Placement licence. Most significantly, there was no systematic monitoring, through a program of site visits, of the compliance of JPOs with service commitments made in the Job Placement licence and the Code of Practice (which forms part of the licence).

14.14   To enable electronic matching, JNMs are required to conduct new referral interviews with job seekers, part of which involves entering job seekers' 'vocational profiles' onto JobSearch. This has been a time consuming and costly undertaking that had, at the time of the audit, resulted in few job placements. A small proportion of job seekers benefit from electronic matching. Placements attributable to electronic matching accounted for around 1.3 percent of eligible placements in 2004–05. The ANAO concluded that DEWR should assess the resources required by JNMs to deliver the new referral interview services and clarify its expectations in relation to those services. This would assist DEWR to assure itself that the appropriate balance between price, resource requirements, and outcomes has been struck.

14.15   DEWR's quality assurance processes provide a reasonable level of assurance that vacancies on JobSearch meet its minimum content requirements. However, vacancies were found to be frequently duplicated, and dated. At any point in time, around 14 percent of vacancies were duplicated. Over time, the duplication rate was substantially higher, at over 46 percent, which indicates that re-posting of

vacancies on JobSearch was very common. Duplicate vacancies can be misleading to job seekers, and also substantially distort DEWR's reporting of vacancy numbers. Old vacancies are unlikely to result in a placement. While DEWR has advised that it has now taken steps to reduce the rate of duplication of vacancies sourced from the online job boards and to reduce the number of dated vacancies on JobSearch, the ANAO concluded that it also needs to take steps to minimise the incidence of duplication more generally and to take duplication into account in its reporting of vacancy numbers.

14.16   At the time JobSearch was established (1996), the on-line vacancy listing market was immature. As a result, the government accepted that there was a case for JobSearch to be publicly owned and operated. However, the government also anticipated that the on-line vacancy market would mature and considered that public ownership may not be necessary in the long-term. Consequently, the government considered, at that time, that a review should be conducted at a later date of the continued need for DEWR to maintain JobSearch. No such review had occurred at the time of the audit. The ANAO concluded that, in light of the government's original intention and the subsequent maturing of the online vacancy listing market, a review should be conducted of the costs and benefits of maintaining a government owned and operated on-line vacancy listing enterprise, aside from the necessary business functions within JobSearch that support contracted employment service providers.

14.17   Reporting of Job Placement and matching performance was not consistent or transparent. DEWR reported 'record' Job Placement outcomes for:

> 2003–04 and 2004–05 of 518 350 and 665 868 respectively. In the absence of a substantive evaluation it is difficult to ascertain the extent to which the outcomes reported by DEWR for Job Placement and matching services have been affected by exogenous factors such as macro-economic conditions, the state of the labour market, changes in the way job seeker eligibility is determined, or changes in DEWR's capability to capture data on employment outcomes. DEWR has reported 'outcomes' on the basis of a performance indicator that includes placements for which DEWR is not prepared to pay JPOs, such as placements that have resulted from job seekers finding their own employment. In such cases, it is not clear that the JPO has always made a significant contribution to the job seeker finding work. [2]

2   ANAO Audit Report no. 49, 2005-06, *Job Placement and Matching Services*, Commonwealth of Australia, June 2006, p. 18.

14.18 The ANAO reviewed the available evidence and concluded that Job Placement and matching services under the APM were performing at or around the historical levels for previous job matching services in terms of eligible placements and post-assistance outcomes, although they were more costly overall—requiring outlays in 2003–04 and 2004–05 between $67 million and $100 million per year more than during the first and second Job Network contracts. The additional outlays reflect the cost of upgrading self-help facilities for job search, such as new touch-screen kiosks, as well as the requirement under the APM that all 'Fully Job Network Eligible' job seekers attend new referral interviews to register for Job Network services from the date of their receipt of income support payments. As a result, the cost per eligible placement was around 40 percent higher than historical levels.

ANAO recommendations

14.19 The ANAO made six recommendations aimed at ensuring that DEWR's management and oversight of Job Placement and matching services is effective. DEWR agreed with most of the recommendations. However, it disagreed with three parts of the recommendations relating to: developing objective indicators for key service commitments; specifying the quality of résumé it expects JNMs to provide to job seekers; and, assessing the resources required to deliver new referral interview services. The ANAO's recommendations are as follows:

Table 14.1   ANAO recommendations, Audit Report No. 49, 2005-06

1.	The ANAO recommends that, in order to strengthen assurance about the management of Job Placement services, DEWR: (a) improves the quality of data relating to contract details, related entity records and employer identity records; (b) develops objective indicators and measurable performance standards for the key service commitments in the Job Placement licence and Code of Practice; and (c) establishes minimum requirements and targets for monitoring visits. *DEWR response:* *(a) Agree.* *(b) Disagree.* *(c) Agree.*
2.	The ANAO recommends that, in order to strengthen assurance about the management of electronic matching services, DEWR should: (a) ensure that its contract with JNMs is up-to-date, reflects the importance of résumés as an outcome of new referral interviews, and specifies the quality of the résumés JNMs are expected to complete for job seekers; (b) assess the end-to-end resource requirements for JNMs to deliver new referral interview services; and (c) monitor and assess the cost of auto-matching operations. *DEWR response:* *(a) Disagree.* *(b) Disagree.* *(c) Agree in part.*
3.	The ANAO recommends that, in light of the government's original intention and the maturing of the on-line employment vacancy listing market, DEWR review the full costs and benefits of maintaining a government owned and operated on-line vacancy listing enterprise. *DEWR response: Agree.*
4.	The ANAO recommends that DEWR assess the impact of increasing the number of vacancies on JobSearch on job seeker employment outcomes. *DEWR response: Agree.*
5.	The ANAO recommends that, in order to improve client service and ensure accurate reporting, DEWR should: (a) take steps to minimise the duplication of vacancies on JobSearch from all sources; and (b) take duplication into account in reporting the number of vacancies on JobSearch. *DEWR response:* *(a) Agree.* *(b) Agree in part.*

6.	In order to improve client service, increase transparency about the performance of Job Placement and matching services, and provide greater assurance about the efficient use of public funds, DEWR should:
	(a) monitor and report on its performance in achieving job placements in a consistent manner over time;
	(b) evaluate the impact of the Job Placement Licence Only organisation initiative in increasing job placements; and
	(c) take site activity into account in reporting aggregate service coverage, and indicate whether a site is active when it is listed on JobSearch.
	DEWR response:
	(a) Agree.
	(b) Agree.
	(c) Agree in part.

The Committee's review

14.20   The Committee held a public hearing to examine this audit report on Wednesday 29 November 2006. Witnesses representing DEWR and the ANAO appeared at the hearing.

14.21   The Committee took evidence on the following issues:

- the complaints mechanism available to Job seekers;

- site visitations by DEWR contract managers;

- contracts and payments to JPOs;

- the requirements of clients in relation to SMS job matching services;

- the need for the Australian Jobsearch website to be kept in Australian Government ownership; and

- clarification of some job placement and performance indicators.

Job Placement Services

The complaints mechanism

14.22   The Committee was interested in an assurance from DEWR regarding whether complaints from job seekers were being actioned. DEWR assured the Committee that:

> …we have a complaints line which has a formal register of complaints however we receive them. Whether it be by phone, by email or by third party reference, they are recorded there and monitored through that register for timely completion or resolution…

14.23   DEWR also alerted the Committee to the complaints handling process stating that initially it is the responsibility of:

> ….the job seeker to lodge their complaint with the provider in the first instance to try to reach resolution. If they fail to do that then they are certainly entitled to call the DEWR complaints line…. If the department's intervention cannot reach a satisfactory solution to all parties, then the next step is somewhere like the Commonwealth Ombudsman. The job seeker can certainly complain to that office.[3]

14.24   DEWR informed the Committee that the system works as a two-way process, which involves feedback between the complaints line and DEWR contract managers. There is also a follow-up system for complaints in place.

14.25   The Committee was interested in learning about the main complaint which is received by the complaints line. DEWR advised that it is job seekers complaining that JPOs have referred them to a job that they are not suitable for. DEWR qualified this complaint by adding:

> …we all know that Jobseekers are obliged to accept that [which] they can be reasonably expected to do.[4]

14.26   DEWR agreed in part with Recommendation 7 of the ANAO's earlier Report number 50 (2004-2005), *DEWR's Oversight of Job Network Services to Job Seekers* by establishing minimum requirements for monitoring complaints handling by JNMs. However, the ANAO found in this report that the same did not apply to ascertaining the

3   DEWR, *Transcript of Evidence*, 29 November 2006, p. 6.

4   DEWR, *Transcript of Evidence*, 29 November 2006, p. 5.

adequacy of complaints handling by JPOs. The ANAO found that there was no data available on the complaints received by JPOs nor were there assurances available that job seekers were receiving the services that were being paid for by DEWR.

Recommendation 22

The Committee recommends that DEEWR establish a process which determines the adequacy of complaints handling by JPOs. A reporting system should be established to ensure that complaints are handled in an appropriate and timely manner by JPOs and that this information is communicated to DEEWR for assessment purposes.

Site visits

14.27   Ensuring that JPOs provide the services which they are contracted to provide is an integral part of the contact management process. DEWR informed the Committee that its contract managers conduct onsite visits to JPOs. Onsite visits are coordinated through the risk management tools provided to contract managers. This allows managers to assess the risks of each provider against specified criteria and thus they are able to determine which sites require a visit and the frequency of such visits. Once a visit has been completed, the risk management tools record the outcome of the visit along with any follow-up action required.[5] DEWR also drew the Committee's attention to:

> …the job placement site monitoring visit checklist which our contract managers use. The second [tool] is what we term our owners manual, which is a document that was produced before the ANAO audit. It tries to encapsulate what our expectations as policy formulators are of our state contract managers.[6]

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5   DEWR, *Transcript of Evidence*, 29 November 2006, p. 2.

6   DEWR, *Transcript of Evidence*, 29 November 2006, p. 3.

Contracts and payments to JPOs

14.28   The introduction of the APM in 2003 saw the Government give approval for Job Placement services to be introduced. The Government subsequently purchased the services and allowed fixed payments to be made to contracted JPOs for specified services.

14.29   The Committee noted that there had been public comments made in relation to the delivery of Job Network services and contractual compliance. It was also noted that the audit report considered:

> …that DEWR's approach to assessing contractual compliance would be more transparent if all stakeholders were clearly advised of the approach being taken for all contract requirements, and of its evolution over time.[7]

14.30   DEWR responded that changes made to the new licence agreements included that providers were to maintain a complaints register and the 'Job Placement monitoring owners manual' was to be used as a tool to clearly communicate expectations of contract managers in terms of adherence to the contract. DEWR stressed that in relation to the 'owners manual':

> …it is only fair, for that document to be made available to the Job Placement organisations themselves, so that they can see what my expectations of contract managers are in monitoring aspects of the contract.[8]

14.31   The Committee was interested in learning about overpayments to JPOs by DEWR or where JPOs overcharged DEWR for services which had not been provided. A question was raised about debt recovery in these instances.

14.32   DEWR responded that:

> We certainly attempt to recover any debts that are identified and we have a number of ways of doing that. The most successful is that we withhold the amount owing from the next payment due to the provider. In that way we can guarantee an offset or a recovery. If there is not enough money in the next payment due to be able to do that, we request payment directly from the provider. If they refuse, we

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7   ANAO Audit Report no. 49, 2005-06, *Job Placement and Matching Services*, Commonwealth of Australia, June 2006, p. 52.

8   DEWR, *Transcript of Evidence*, 29 November 2006, p. 4.

take other action including, if necessary, handing it to debt collection agencies.[9]

14.33   DEWR conducts 'programme assurance' projects to gain assurance that services paid for are being delivered. Surveys of job seekers, for example, focus on a job seeker's recollection of services being provided by a JPO which ultimately lead to a job being obtained by the job seeker.

14.34   The audit report raised concerns that in terms of recovery, 5 – 6.5 percent of responses to the programme assurance surveys resulted in a debt (which is money that needs to be recovered from a JPO). DEWR informed the Committee that it did not necessarily agree with this particular finding by the ANAO and that the figure was based on the 'first tier' of DEWR's detection process. The figure, derived from the results of the survey, can be interpreted as where:

> …the Jobseeker either erroneously fills in or does not remember or recognise the role that the job placement organisation played. What the department does with that five percent is then do a more targeted investigation by going, in some instances, and speaking to the Jobseeker and saying, 'Are you sure that you did not have interaction with Company X in the course of getting your employment?' I believe that what we see through that and through other reporting analysis that we do is that the true debt rate is not as high as five percent. We think it is probably less than half.[10]

14.35   The Committee was interested in DEWR's response to allegations that contractors were encouraged to overcharge for services performed and that overpayments were 'built-in' to the payment mechanism. The audit report made reference to the fact that when contracts are entered into, JNMs:

> … must have considered that any perceived underpayment for vocational profiles is made up for by higher payments in other areas of the contract.[11]

14.36   DEWR said that it did not agree with the accusations, especially those that were made in the media. In relation to the comment by the ANAO, DEWR responded:

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9   DEWR, *Transcript of Evidence*, 29 November 2006, p. 6.

10   DEWR, *Transcript of Evidence*, 29 November 2006, p. 6.

11   ANAO Audit Report no. 49, 2005-06, *Job Placement and Matching Services*, Commonwealth of Australia, June 2006, p. 77.

> The government's policy was that the emphasis was always going to be on paying the substantial amount of money to them once a job was attained. The service fees upfront were meant to be the smaller proportion so that any contractor could not survive on service fees alone and it was there to provide an incentive to getting people jobs… the higher fees under the contract are provided when you get somebody a job, not as the service fees upfront.[12]

Electronic job matching

14.37   Electronic job matching is a process that relies on the vocational profiles of job seekers to match them with potential vacancies. The aim of electronic job matching is to bring vacancies to the attention of potential job seekers quickly and more efficiently. Methods used to notify job seekers of vacancies include Short Messaging Service (SMS) and email.

14.38   The Committee asked DEWR whether they believed that the needs of clients were being lost in the system in terms of electronic job matching. DEWR refuted the claim saying that a record number of people were being placed into employment, justifying current policy in the area.[13]

14.39   One of the techniques used by DEWR to alert clients to potential matching jobs is by SMS text message. The Committee pointed out the ANAO's finding that the SMS messages sent by DEWR did not comply with the *Spam Act 2003* in that job seekers receiving messages were not provided with an explicit option to unsubscribe from the message.   DEWR informed the ANAO that there were processes linked to the SMS facility allowing job seekers to unsubscribe; however, the ANAO found that job seekers were not informed of this. DEWR responded that:

> If they inform their Job Network member that they have full-time employment, then part of the Job Network member's wrap-up is to remove them from subscription to those auto-match services.[14]

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12   DEWR, *Transcript of Evidence*, 29 November 2006, p. 8.
13   DEWR, *Transcript of Evidence*, 29 November 2006, p. 8.
14   DEWR, *Transcript of Evidence*, 29 November 2006, p. 8.

Recommendation 23

> **The Committee recommends that DEEWR expressly informs job seekers of the 'unsubscribe' facility within the Department's SMS job-matching facility to comply more fully with the *Spam Act 2003*.**

14.40   The Committee also sought assurances from DEWR that its electronic matching services were value for money. DEWR responded that after consideration of the costs of running the associated servers and the SMS messages themselves that:

> We believe that the figure is somewhere between $100 per placement and $160 per placement today. That augers well…against the minimal job placement outcome fee we pay for human intervention matching. As we place more and more people, I will divide that infrastructure cost by more and more placements, so it only gets cheaper from this point forward.[15]

14.41   The Committee notes with some concern the responses provided by DEWR to Recommendation 2 of the ANAO's report. The recommendation was:

> The ANAO recommends that, in order to strengthen assurance about the management of electronic matching services, DEWR should:
>
> (a) ensure that its contract with JNMs is up-to-date, reflects the importance of résumés as an outcome of new referral interviews, and specifies the quality of the résumés JNMs are expected to complete for job seekers;
>
> (b) assess the end-to-end resource requirements for JNMs to deliver new referral interview services; and
>
> (c) monitor and assess the cost of auto-matching operations.[16]

14.42   DEWR disagreed with parts (a) and (b) while partially agreeing with part (c). The Committee notes that in relation to part (a), the ANAO commented on the fact the ESC3 (Employment Services Contract 3) does not set a standard as to the quality and further monitoring of

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15   DEWR, *Transcript of Evidence*, 29 November 2006, p. 8.

16   ANAO Audit Report no. 49, 2005-06, *Job Placement and Matching Services*, Commonwealth of Australia, June 2006, p. 91.

quality of resumes. The ESC3 is the contract under which JNMs engage with DEWR and defines JNMs responsibilities to job seekers.

14.43 The Committee also agrees with the ANAO's comment in response to DEWR's response to part (b), that DEWR should develop a fuller appreciation of the costings of delivering such services. Finally, the Committee agrees with the ANAO's comment in relation to part (c) in terms of the performance of the other matching functions in achieving placements.

Recommendation 24

The Committee recommends that DEEWR implements Recommendation 2 (b) and (c) of the ANAO's report.

JobSearch

14.44 Jobsearch (found at www.jobsearch.gov.au) is a government-owned, national online vacancy and resume database. The free service provides all Australians with information on job vacancies, career opportunities and government employment services.

14.45 The Committee questioned DEWR as to why it believed that Jobsearch was best kept in the hands of the Australian government. DEWR replied that it had commissioned a review of the website and that:

> We certainly do not see Australian Job Search—and it never has been this way—as a competitor. It is meant to work with the other job boards, but I think this many years on, it is timely to stop and just review whether the government needs to be in that space going forward. [17]

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17 DEWR, *Transcript of Evidence*, 29 November 2006, p. 3.

Recommendation 25

> **The Committee recommends that DEEWR consider the appropriateness of ongoing government ownership of the JobSearch website and also that the results of its review of the website be reported to the Committee.**

Reporting Job Placement and matching service outcomes

14.46   DEWR's employment service outcomes are measured by the securing of vacancies and placing unemployed individuals into those vacancies. One of the performance indicators used by DEWR for this purpose is that of measuring the number of placements achieved annually. In 2003, DEWR changed the figures that it reported from 'eligible placements' to 'total placements', the latter resulting in much higher figures in terms of placements achieved. The Committee noted the ANAO's finding that DEWR did not clearly state this in its 2003-2004 Annual Report, which may have confused observers of these figures. DEWR disputed the claim, stating:

> My understanding is that there was one year that it was changed and that in fact every since then, and also previously to that, we have been reporting total placements. That is definitely clearly footnoted in our annual reports and will continue to be.[18]

14.47   Another indicator used by DEWR is the length of time that job seekers remain in a placement. ANAO found that DEWR achieved a 74 percent outcome of job seekers remaining in placements for three months or more against a benchmark of 70 percent. DEWR clarified these figures to show that 72.2 percent of job seekers were staying in placements longer than three months. Figures provided by DEWR to the Committee also point to a steady increase in this factor since 2003-2004.[19]

18   DEWR, *Transcript of Evidence*, 29 November 2006, p. 8.

19   DEWR, Submission no. 3. .

Committee comment

14.48   The Committee overall is satisfied with DEWR's progress in regards to the audit and urges DEWR to implement any remaining recommendations of the ANAO and of the Committee as soon as is practicable.

15

Audit Report No. 47, 2005-06, Funding for Communities and Community Organisations

Introduction

Background

15.1   The Department of Families, Community Services and Indigenous Affairs (FaCSIA) provides funding under many programmes to facilitate social outcomes and benefits to the Australian community. These programmes typically fund non-government organisations to deliver services that contribute to such outcomes and benefits. In 2004–05, FaCSIA provided over $1 billion in funding for family and community services, delivered by almost 16 000 service providers.

15.2   Funding for communities and community organisations is primarily directed towards five groups of programmes, which account for 93 percent of this expenditure. These groups include:

- **support for people with a disability**-which provides employment assistance and other services;

- **family support**-this includes child abuse prevention, grants to family relationships support organisations, early childhood and family initiatives under the Stronger Families and Communities Strategy, and services for families with children;

- **community support**-this includes emergency relief funding and community initiatives under the Stronger Families and Communities Strategy;

- **child care support**-which mainly comprises direct subsidies to child care providers; and

- **youth and student support-**this includes assistance to young people to overcome barriers to social and economic participation.

15.3   FaCSIA uses a variety of arrangements to fund providers to deliver family and community services. These arrangements include grants and subsidies, and other related funding arrangements, such as case-based funding and funding according to milestone events. These arrangements place differing obligations on service providers in relation to delivering services for which they have been funded. The arrangements also provide FaCSIA with differing mechanisms and capacities to address poor performance by service providers. For ease of reading, the audit and this report refer to all these types of funding arrangements as grants.

15.4   Family and community grants fund a diverse range of services, but generally cater for those in the community with greater need for economic, social and physical support. A large number of services are provided in rural and remote areas, including to Indigenous people. In these areas, there are often few organisations capable of providing appropriate community and family services. However, many services are delivered in metropolitan and regional areas where there are numerous providers willing and able to provide services. These social welfare service providers are often very reliant on government funding for their financial viability.

Audit objectives

15.5   The objective of the ANAO audit was to assess whether FaCSIA administers grants effectively, according to better practice guidelines, and consistently across geographic areas and the range of programmes included in the scope of the audit.

15.6   The scope of the audit included grants administered by FaCSIA[1]
between 1 July 2002 and 30 June 2005, relating to programmes
falling within four of the five groups of programmes providing
funding for families and communities, namely Community Support;
Family Assistance; Childcare Support; and Youth and Student
Support[2]. In total, these groups involved total expenditure of some
$533 million in 2004–05.

15.7   The audit focussed on:

■ whether FaCSIA executed adequate funding agreements for the
grants included in the ANAO's sample. It assessed whether
FaCSIA used the correct type of funding agreement, with
appropriate terms, conditions and deliverables. It also examined
risk management practices FaCSIA applies to its funding
agreements;

■ FaCSIA's financial management of funding agreements,
including accuracy of payments made, financial acquittals,
adequacy of payment and financial management systems, and
compliance with key elements of finance legislation; and

■ FaCSIA's monitoring of service provider progress in fulfilling the
requirements of funding agreements, and the adequacy of
internal and external performance reporting mechanisms for
programmes that have substantial funding agreements.

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1   Until 24 January 2006, this department was known as the Department of Family and
Community Services. Following changes announced by the Prime Minister on 24 January
2006, the Office of Indigenous Policy Coordination became part of the new Families,
Community Services and Indigenous Affairs portfolio. This report refers to the
department as FaCSIA, except where quoting documents produced by the former
Department of Family and Community Services.

2   This audit excludes disability services. ANAO Audit Report No. 14 2005–06,
Administration of the Commonwealth State Territory Disability Agreement examined services
relating to the accommodation, care and participation in the community of people with a
disability. The Support for People with a Disability group of programmes provides
employment assistance and often other services to people with a disability. In 2004–05,
this group of programmes accounted for around half of the $1 billion in expenditure on
communities and community organisations. Given the magnitude of this programme
group, the ANAO concluded that this area of FaCSIA administration would be better
addressed in a separate audit of disability employment services. Accordingly, the
Support for People with a Disability group of programmes was excluded from the scope
of the audit.

15.8 The audit did not examine FaCSIA's processes to promote grant programmes, manage applications, and appraise, select and notify recipients of grants. These issues will be addressed in a separate audit the ANAO is currently conducting.

15.9 Criteria for the audit assessment were drawn from the ANAO 2002 Better Practice Guide, *Administration of Grants*. To collect information against these criteria, the ANAO drew a broadly-based sample of 102 grants from the four groups of FaCSIA programmes included in the scope of the audit [3]. Fieldwork for the audit was primarily undertaken between July 2005 and November 2005, with some follow-up work carried out in March and April 2006. In addition to interviewing relevant officers from FaCSIA's State and Territory and National offices, the ANAO also interviewed personnel from 26 of the 102 service providers in the sample, and a representative of a social welfare peak body.

15.10 During and subsequent to the ANAO's audit fieldwork, FaCSIA was undertaking a number of initiatives to improve its administration of grant programmes. These initiatives included the implementation of the FaCSIA Online Funding Management System (FOFMS)[4] enhancements to FaCSIA's performance management framework, and improving programme management guidance to FaCSIA staff as part of the new FaCSIA Service Delivery Framework[5]. In addition, FaCSIA commenced a major business process re-engineering project for community based programmes in November 2005 and is now working towards implementing process changes across the department.

15.11 The ANAO considers that these initiatives have the potential to considerably improve FaCSIA's administration of grant programmes. However, given that many of these initiatives were

3   The objective of the sample was to provide an indication of grant management across FaCSIA as a whole. The sample size was not sufficient to assess the overall effectiveness of the management of each of the programmes sampled. Therefore, issues identified in the sample may not reflect on the entire programme.

4   FOFMS is a software system for grants that tracks financial information and is also intended to link financial information with the terms and conditions of funding agreements.

5   This framework is intended to provide the basis for FaCSIA to undertake its service delivery activities in a consistent manner. It highlights the need to focus on outcomes, not just inputs and outputs, and encourages transparent practices and supports accountability. The framework consists of high level service delivery principles and programme management standards.

either commenced or largely implemented after audit fieldwork, the audit could not assess their impact.

Overall audit opinion

15.12   FaCSIA administers a large number of relatively small grants to a wide range of service providers. Many of these organisations are in the charitable, broader social welfare or volunteer sectors. To cater for this breadth of service delivery, FaCSIA focuses on using local knowledge garnered through its network of State and Territory offices, and knowledge held by its National office, to manage associated funding agreements. Recognising that the majority of these service providers rely on government funding for financial viability, FaCSIA has placed a strong emphasis on making timely payments.

15.13   The audit identified considerable scope for FaCSIA to improve grant administration processes and practices. These opportunities primarily relate to enhancing controls over grant payments, better monitoring and reporting of the performance of grant providers and programmes, and ensuring that FaCSIA enters into funding agreements that have appropriate terms, conditions and performance requirements.

15.14   At the time of audit fieldwork, FaCSIA was unable to compile comprehensive information relating to its grant programmes. This necessarily constrained programme management and the department's ability to compile accurate information in a timely manner for its Annual Reports and other accountability documentation.

15.15   The audit also identified considerable divergence in grant management processes and practices between FaCSIA's National, State and Territory offices and across its various programmes.

15.16   Improving these major elements of grant management, and the consistency of approaches between FaCSIA's State and Territory offices and across its broad range of programmes, has the potential to enhance the quality and effectiveness of services delivered by providers on behalf of FaCSIA. It is also likely to improve the financial integrity of grant programmes by ensuring services are being provided for agreed purposes and to the required standard.

15.17   FaCSIA recognised the importance of improving its grant administration and the need to ensure consistent practices for management of the department's arrangements with service providers across all community programmes. The department commenced a major information technology project in February 2004 to design, develop and implement an integrated solution for the department's funding management requirements. The staged release of FOFMS commenced in 2004–05 with two releases involving FaCSIA staff and Disability Employment Assistance Business Service providers. Further releases occurred during 2005–06, to enable all FaCSIA community programmes to progressively move to use the system over this period.

15.18   The ANAO considers that the full implementation of FOFMS, the new FaCSIA Service Delivery Framework, and the business process re-engineering project currently underway have the potential to support significant improvement in FaCSIA's management of some $1 billion per annum in grants. The ANAO notes that these initiatives represent a significant undertaking, which will require resources and commitment across the department if it is to deliver on improving the management of programmes and address the risks and issues identified in this audit.

15.19   As FaCSIA administers a large number of relatively small grants, an effective risk management approach is fundamental to facilitating efficient and effective service delivery. The ANAO found that FaCSIA could improve its risk management practices when monitoring service provider performance and acquitting payments. While FaCSIA's recent fraud control plans have included strategies to mitigate fraud associated with its grant programmes, FaCSIA could enhance practices to prevent and identify fraud, including through IT enhancements and in the course of implementing recommendations flowing from the business process re-engineering project.

ANAO recommendations

Table 15.1   ANAO recommendations, Audit Report No. 41, 2005-06

1.	The ANAO recommends that FaCSIA ensures that an appropriate funding agreement is in place and current for all grants.
	FaCSIA response: Agreed

2.	The ANAO recommends that FaCSIA ensures that grant recipients have appropriate types and levels of insurance in place by implementing a risk-based approach to collecting, and placing in its records, evidence that service providers have adequate insurance.
	FaCSIA response: Agreed

3.	The ANAO recommends that FaCSIA improves its processing of funding agreement acquittals by:
	a) applying a risk management approach to financial acquittals, so that resources and efforts to process funding agreement acquittals are matched to perceived risks;
	b) implementing adequate quality control checking and accountability processes to ensure that acquittal processing adheres to the terms of funding agreements; and
	c) adequately trained staff who process payment acquittals so that they can adequately interpret financial information and/or otherwise have access to technical advice to support them in undertaking this function
	FaCSIA response: Agreed

4.	The ANAO recommends that FaCSIA improves the management of grant payments, such that:
	d) payments are consistently made according to the terms of funding agreements;
	e) management information systems readily match financial information with funding agreement information; and
	f) timely and accurate information about grant payments can be extracted across all FaCSIA programmes, including for communities and community organisations' programmes.
	FaCSIA response: Agreed

5.	The ANAO recommends that FaCSIA implements improved fraud control practices and procedures across all of its grants programmes and at the individual service provider level, by:
	g) ensuring that it effectively implements the key fraud control mitigation strategies contained in its current fraud control plan, such as using effective funding agreements and applying sound financial acquittal practices;
	h) proving relevant staff with fraud awareness training; and
	i) undertaking risk-based initiatives specifically designed to identify fraud in the agency's grant programmes.
	FaCSIA response: Agreed

6.	The ANAO recommends that FaCSIA ensures compliance with departmental practices and procedures relating to its administration of grants that support compliance *with Regulation 10 of the Financial Management and Accountability Regulations 1997.*
	FaCSIA response: Agreed

7.	The ANAO recommends that FaCSIA develops uniform guidelines for monitoring the performance of its service providers. These guidelines should include better practices for: assessing risk; determining monitoring approaches given broad risk ratings and monitoring costs; and undertaking the main monitoring practices. These monitoring guidelines should form an integral part of the broader guidance on FaCSIA's administration of grants, and be promulgated to all relevant staff.
	FaCSIA response: Agreed
8.	The ANAO recommends that FaCSIA improves its performance measurement framework relating to grants, such that:
	j) performance information schedules to funding agreements include measures of effectiveness, quality and quantity;
	k) these measures are suitable to be aggregated to the programme level and thereby contribute to the department's performance information framework contained in its Portfolio Budget Statements and Annual Reports; and
	l) performance information collection and collation systems are established that facilitate the aggregation of performance information in funding agreements to the programme level.
	FaCSIA response: Agreed

The Committee's review

15.20   The Committee scheduled a public hearing on 6 December 2006, however, due to scheduling difficulties it did not proceed. Subsequently, the Committee submitted a series of Questions on Notice for response by FaCSIA, which was duly received.

Funding agreements

15.21   Funding agreements are legally binding agreements between the Commonwealth and another party and relate to the provision of funds to carry out a specific project. Current guidelines stipulate that FaCSIA (as the responsible department) have a funding agreement in place whenever an organisation is funded to deliver services. The agreements provide a clear statement of quality requirements, outcomes, timing and payment arrangements. They also require recipients of funding to adhere to good government standards including those in relation to financial management and viability of projects along with timescales for reporting performance to the Commonwealth.

15.22   FaCSIA has three types of funding agreements and each varies in its detail according to the level of funding being provided. Each also provides varying levels of terms and conditions along with varying levels of legal protection for the Commonwealth. The three types of agreements are the *Standard Long-Form Funding Agreement* (for projects valued at over $40 000), the *Standard Short-Form Funding*

> *Agreement* (for projects valued between $5 000 and $40 000); and the
> *Minimalist Funding Agreement* (for projects less than $5 000 in value).

15.23   FaCSIA advised the Committee that policy now allows these dollar-amounts to be varied by a threshold of up to ten percent. FaCSIA informed the Committee that a responsible delegate is now able to determine the appropriate type of funding agreement to be used and has authority to vary grant amounts by ten prevent provided a risk assessment is undertaken.[6]

15.24   FaCSIA also advised the Committee that it had undertaken a review of the Short-Form and Minimalist agreements.[7] After consultation with staff and reviews of past practice, the review focussed on aligning the content and format of both of these forms with the Standard-Long Form Agreement and the mandatory use of user guides and templates on the Department's intranet.

15.25   As mentioned, it is a requirement that all projects funded by FaCSIA have a current funding agreement in place. The ANAO found that in some cases, recipients did not have a funding agreement in place meaning that the service provider was not legally bound to provide the services that were expected of them. The Committee asked FaCSIA whether all service providers, since the audit report, had been placed under appropriate and current funding agreements for the 2005-06 financial year. The Department replied that current departmental policy required agreements to be in place prior to funds being made available and that the new FaCSIA Online Funding Management System (FOFMS) was now in place for the administration of grants and financial management.

15.26   In its report, the ANAO recommended that FaCSIA ensures that grant recipients have adequate levels of insurance by implementing a risk-based approach to collecting and placing this information in its records.[8] The Committee enquired as to FaCSIA's progress in implementing this recommendation. FaCSIA responded that:

> Standard FaCSIA Funding Agreements specify the type (eg
> public liability, professional indemnity insurance) and level
> of insurance required for funded providers of FaCSIA

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6   FaCSIA, Submission no. 1, 1.2.

7   FaCSIA, Submission no. 1, 1.1.

8   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community Organisations*, Commonwealth of Australia, p. 52.

programs. Agreements require that, if asked, the funding recipient must promptly provide a copy of insurance policies and/or certificates of currency to the Department. [9]

Recommendation 26

The Committee recommends that FaHCSIA seek stronger assurances from successful grant applicants that they possess adequate insurance policies or currency certificates on approval of their grant application.

Financial management and consistency of practice

15.27   One of the keys to FaCSIA's management of grant funding is the FOFMS. As the system was largely implemented post-ANAO fieldwork, the ANAO had insufficient time to assess the system. The Committee therefore asked FaCSIA to provide an update on the status of FOFMS.[10]

15.28   FaCSIA responded that the implementation of FOFMS was completed in April 2006. Essentially:

> FOFMS is a web-based system that assists in the management of the FaCSIA Funding Lifecycle through an integrated and standardised funding management solution that reflects the Australian National Audit Office Best Practice Grants Management Guidelines. [11]

15.29   Operationally, FOFMS:

> Provides the basis to better manage the control of payments, with business rules in place requiring delegate clearance at appropriate control points. The system interfaces with the Department's financial management system, allowing for the recording of specific payment details against Funding Agreement records. This ensures that all payments are directly matched to the provider and the Funding Agreement. This system will be in operation for all Funding Agreements from 2006-07. The use of FOFMS will also allow timely

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9   FaCSIA, Submission no. 1, 1.6.

10   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community Organisations*, Commonwealth of Australia, p. 35. See also FaCSIA, Submission no. 1, 1.1.

11   FaCSIA, Submission no. 1, 1.1.

information to be extracted for all Funding Agreements and
providers.[12]

15.30   The report commented on the ANAO's request to FaCSIA to
provide a list of all funding agreements and grants in recent years,
by dollar value and categorised by programme and sub-
programme. FaCSIA took over three months to respond to the
request and eventually provided the information less dollar values
at sub-programme level. The ANAO was advised that to fulfil the
entire request would have been too time and labour intensive along
with the fact that FaCSIA could not provide assurances that the data
that was provided represented the entire population which the
ANAO had requested.[13] FaCSIA did assure the Committee
however, that with the introduction of the FOFMS, the problem of
accurate data extraction would be overcome.[14]

Budgets and expenditure

15.31   All FaCSIA Long-Form Funding Agreements contain a projected
budget stipulating how recipients of funding should spend their
grants. In an analysis of a sample of funding agreements, ANAO
found inconsistencies in the schedules of four long-term funding
agreements examined in that they did not include itemised details
of expenditure.[15] This is in breach of clause 9.5 of the standard
Long-Form Funding Agreement. The ANAO also stated that:

> Without clear guidance on budget issues, there is a risk that
> service providers will spend the funding on items that
> FaCSIA would not knowingly allow, or overstate
> expenditures on allowable items.[16]

15.32   The Committee questioned FaCSIA's progress in ensuring that all
Long Form Funding Agreements now clearly specify budget
expenditure, including allowable expenditure items and limits for
these items. FaCSIA responded by saying that:

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12   FaCSIA, Submission no. 1, 1.10.

13   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
Organisations*, Commonwealth of Australia, p. 67.

14   FaCSIA, Submission no. 1, 1.10.

15   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
Organisations*, Commonwealth of Australia, p. 45.

16   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
Organisations*, Commonwealth of Australia, p. 46.

> …the funding recipient must spend the funding in
> accordance with the budget as defined within the Agreement.
> The budget details to be included are set out in item H of the
> Agreement Schedule, and include any limits set by the
> Department on particular expenditure items. The User Guide
> developed to assist Agreement drafters provides advice
> regarding when budget details should be included, and
> examples of budget items that should be listed.[17]

Management of payments to service providers

15.33   FaCSIA must ensure that payments to service providers are made in
an accurate and timely fashion. FaCSIA's guidelines require that
staff analyse acquittal documentation and comment on relevant
issues (such as those made by an auditor).

15.34   The ANAO's audit report states that:

> Funding agreement payments should be made according to
> agreed deliverables, timeframes for delivery, milestone
> achievements and be linked to a well-constructed project
> budget, under the terms and conditions of the funding
> agreement…The purpose of acquittals of FaCSIA's funding
> agreements is to provide assurance that payments to service
> providers are made in accordance with payment
> specifications in those agreements, and that service providers
> have met stated performance requirements.[18]

15.35   Service providers are required to provide FaCSIA with an audited
financial statement as part of the acquittal process against funding
agreements. The ANAO found that in only nine percent of cases
were adequate audited financial statements held in FaCSIA records.
The audit found that some staff responsible for the financial
management of funding agreements possessed insufficient financial
skills to assess the adequacy of audited financial statements.

15.36   For example, the ANAO found that a sample of FaCSIA staff were
confused about the term 'financial statement for audit'.[19] The
ANAO subsequently suggested that funding agreements have clear

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17   FaCSIA, Submission no. 1, 1.5.

18   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
Organisations*, Commonwealth of Australia, pp. 57-58.

19   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
Organisations*, Commonwealth of Australia, p. 51.

definitions for the terms 'financial statement' and 'final audited
acquittal statement'.

15.37   FaCSIA informed the Committee that along with providing staff
         with a two-day course in accounting principles and financial
         analysis, future standard funding agreements:

> …will clearly define what financial documentation is
> required to be provided by a grant recipient in order to acquit
> the grant.[20]

15.38   In light of the large number of grants administered by FaCSIA, risk
         management is an essential mechanism in the grant administration
         acquittal process. The ANAO found, however, that FaCSIA does not
         have such a system in place, and outlined the fact that grants with
         higher monetary values attached also attracted higher levels of risk.
         The ANAO recommended applying a risk management approach,
         especially in the administration of grants with higher monetary
         value, which would enable more scrutiny to be placed on them
         while reducing the emphasis placed on smaller financial grants with
         lower perceived levels of risk.[21]

15.39   In response to the Committee's concerns regarding FaCSIA's lack of
         a risk management process for acquittals for financial statements,
         FaCSIA informed the Committee that:

> FaCSIA has developed and implemented a risk based
> approach to acquit its 2005-06 grants which matches effort to
> perceived risk…[and] has developed and implemented a
> standard process for acquitting its grants. To ensure the
> acquittal process is of a high quality, centralised processing
> teams have been formed in each FaCSIA State and Territory
> office and in National office.[22]

Fraud control

15.40   Fraud control plans exist which assist FaCSIA in managing fraud
         associated with its grant administration activities. The most recent
         plan is the *Fraud Control Plan (2005-2007)*, however FaCSIA
         informed the Committee that *Fraud Control Guidelines* were issued to

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20   FaCSIA, Submission no. 1, 1.8.

21   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
     Organisations*, Commonwealth of Australia, p. 23.

22   FaCSIA, Submission no. 1, 1.9.

staff in November 2006, while external consultants Ernst and Young are developing the *2007-09 Fraud Control Plan*. An element of this strategy will be to assess service providers through the *Program Risk Management Process*, prior to funding agreements being finalised.[23]

15.41   The ANAO identified that existing controls were not completely effective in managing fraud within the grants administration process. Part of its reasoning was that because the most recent *Fraud Control Plan* ranks risks by organisational branch, it does not specifically address issues relating to grant administration.[24]   The ANAO identified several problems including staff:

> …not always using the appropriate type of funding agreement; often inadequately acquitting payments, including making payments without the required audited statements; and an instance of FaCSIA funding a service provider more than once for the same service and for services they had not provided for extended periods of time.[25]

15.42   One of the ANAO's recommendations was that FaCSIA implement improved fraud control practices and procedures across all of its grants programmes and at the individual service providers level by implementing the key fraud control measures outlined in its fraud control plan. It was also recommended that relevant staff be provided with fraud awareness training and undertake risk-based initiatives to identify instances of fraud.[26]

15.43   FaCSIA responded to the Committee's questions in relation to the recommendations by stating that all new employees are provided with fraud awareness training as part of their orientation and most State and Territory offices have also been provided with this training. Any suspected fraud issues are referred to the FaCSIA Audit and Fraud Branch, while the department actively seeks to recruit fraud investigators as a further preventative measure.[27]

23   FaCSIA, Submission no. 1, 1.11.

24   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community Organisations*, Commonwealth of Australia, p. 68.

25   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community Organisations*, Commonwealth of Australia, p. 69.

26   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community Organisations*, Commonwealth of Australia, p. 70.

27   FaCSIA, Submission no. 1, 1.11.

Compliance with the FMA Act, Regulation 10

15.44   Compliance with Regulation 10 of the *Financial Management and
         Accountability Regulations 1997* is an important financial
         management consideration for all Australian Government
         departments and agencies. Its operation assists in the regulation of
         unauthorised expenditure by requiring the Minister for Finance to
         approve spending proposals not already authorised. In regards to
         FaCSIA's grant administration process, authority must be sought to
         approve grants which cover multiple years.

15.45   The regulation stipulates:

> If any of the expenditure under a spending proposal is
> expenditure for which an appropriation of money is not
> authorised by the provisions of an existing law or a proposed
> law that is before the Parliament, an approver must not
> approve the proposal unless the Finance Minister has given
> written authorisation for the approval.[28]

15.46   The Finance Minister has delegated authority for Regulation 10
         approvals to the Chief Executive Officer of FaCSIA who in turn has
         also delegated the Chief Financial Officer of the Department to grant
         approvals. The ANAO found, however, that approval was only
         received for 12 percent of grants, contrary to FaCSIA's own
         guidelines.

15.47   The ANAO recommended that FaCSIA ensure compliance with its
         own procedures and policies that support compliance with
         Regulation 10 of the *Financial Management and Accountability
         Regulations 1997.*[29]

15.48   FaCSIA advised the Committee that in relation to compliance-based
         issues:

> The Department has commenced work on a number of
> initiatives that will address the ANAO recommendations as
> well as provide the technical and procedural support for the
> staff managing Funding Agreements. These initiatives
> include specialised training for staff working with Funding

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28   URL: www.comlaw.gov.au updated by the Attorney-General's Department - 12 March
      2007.
29   ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
      Organisations*, Commonwealth of Australia, p. 73.

Agreements, gated review of key program processes and documents at strategic points in the timeline for the development and establishment of programs, development of a procedures manual for the Funding Agreement Lifecycle…[30]

Monitoring and reporting performance

15.49   As part of assessing funding agreements, FaCSIA undertakes to monitor the performance of service providers. The ANAO focused on two broad elements of the process – the monitoring arrangements with service providers and the performance information reported by service providers. There are several initiatives used in the performance monitoring and reporting process.

15.50   In relation to the enhancement of programme management guidance, FaCSIA informed the Committee that a range of supporting tools and resources are available for staff use for the effective development, implementation and management of programmes. In particular, one of these resources is *the Practical Guide to Programme Administration with FaCSIA Funded Service Providers* which provides staff with information and templates on aspects of service delivery.[31]

15.51   Another initiative highlighted by the ANAO is the implementation of a Service Delivery Helpdesk and the enhancement of programme management guidance. FaCSIA informed the Committee that the helpdesk:

> …provides a single gateway for advice on all issues related to developing, implementing and managing community programmes within FaCSIA. [32]

15.52   The ANAO did note some discrepancies in the approaches used to monitor programmes. In particular, the fact that some programmes were monitored by the National Office while others were monitored by State and Territory Offices. This had created confusion amongst FaCSIA staff and service providers alike as there was no clear distinction as to which Office holds responsibility for specific programmes. The ANAO also observed some inconsistencies within

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30   FaCSIA, Submission no. 1, 1.2.
31   FaCSIA, Submission no. 1, 1.1.
32   FaCSIA, Submission no. 1, 1.1.

practices between State and Territory offices in relation to
performance monitoring.

15.53 The Committee inquired as to what actions FaCSIA had undertaken
in developing uniform guidelines for monitoring the performance of
service providers, especially in relation to the ANAO's
Recommendation 7. This recommendation required that the
guidelines:

> …include better practices for assessing risk; determining
> monitoring approaches given broad risk ratings and
> monitoring costs; and undertaking the main monitoring
> practices.[33]

15.54 FaCSIA responded that part of the Department's business process
re-engineering project would see the Department reassess its
management of service providers' performance. The Department is
planning more advice to staff regarding programme risk
assessments, and is also exploring the recording of provider
performance information in FOFMS.[34]

15.55 FaCSIA informed the Committee that:

> FOFMS will allow better collection and reporting of the
> performance measures at Agreement, program and outcome
> levels. This includes the ability for providers to record
> information via an electronic form that can be downloaded to
> the system. This will provide the tools to aggregate
> performance information from provider level to program
> level.
>
> A program simplification project currently underway will
> focus on the need to rework performance frameworks. This
> has already commenced in a number of program areas, in
> particular in respect of youth and family relationship
> programs, where detailed performance frameworks are being
> developed and implemented Part of the implementation
> includes extensive consultation with providers and
> incorporation of requirements into Funding Agreements. The

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33 ANAO Audit Report, No. 47, 2005-2006, *Funding for Communities and Community
Organisations*, Commonwealth of Australia, p. 25.

34 FaCSIA, Submission no. 1, 1.1.

Department has recently revised the standard Funding Agreements. [35]

15.56 Finally, the ANAO's report highlighted an example of FaCSIA's improvement in performance monitoring through the Stronger Families and Communities Strategy. In regards to the Strategy's Local Answers Program, the Committee asked whether FaCSIA had acted upon the ANAO's suggestion of introducing more quality indicators into the National Performance Indicator set contained in the *Programme Outcomes and Performance Indicator Toolkit*.

15.57 FaCSIA responded that the National Evaluation of the Strategy would include qualitative elements, which will include the Local Answers Program. The Department has commissioned work on a pilot programme to develop qualitative, population-level indicators for the Local Answers Program, although it is possible to include qualitative indicators in the National Performance Indicator set.

Committee comment

15.58 The Committee feels that overall, FaCSIA is on track to implementing the recommendations made by the ANAO. However the Committee recommends as follows:

Recommendation 27

That FaHCSIA lodge a progress report with the Committee, by the end of February 2009, advising of progress in responding to the Auditor-General's recommendations.

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35 FaCSIA, Submission no. 1, 1.4.

16

Audit Report No. 41, 2005-06, Administration of Primary Care Funding Agreements

Introduction

Background

16.1   The primary care sector, comprising general practice, nursing, allied health, community health and community pharmacy, is the most commonly accessed part of the health system.

16.2   Accessing primary care typically encompasses a visit by a person to their general practitioner to seek treatment for illness. However, primary care services are also provided by other medical professionals working outside of general practice, such as immunisations provided within a community health setting.

16.3   It is through the primary care sector, predominantly general practice, that Australians access a range of diagnostic, pharmaceutical and acute care services. Acute care involves the provision of medical and other services in hospitals as well as specialist services in the community.

16.4   A strong primary care system is a key to providing quality care in the treatment of illness and in the prevention of health problems through early intervention. Research has shown that:

> …countries with well-developed systems of primary care, such as Australia, achieve better health outcomes at less cost. Conversely, countries with very weak primary care infrastructures have poorer performance in major aspects of health.[1]

16.5 The nature of primary care has been changing as governments and providers in developed countries respond to demographic and morbidity changes, particularly due to the impact of ageing populations. There has also been a major focus on controlling costs while continuing to meet increasing societal needs and expectations.

16.6 In February 2006, the Council of Australian Governments announced a $1.1 billion funding package aimed at achieving better health for all Australians, through better health promotion, prevention and early intervention strategies.

16.7 The Department of Health and Ageing (Health) has a central role in supporting changes in primary care in Australia. Health's Portfolio *Outcome 4: Primary Care* works towards strengthening the primary care sector to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. Outcome 4 is managed within the Department by the Primary Care Division (PCD or the Division). In 2005-06, the Australian Government's total administered items appropriation for the primary care outcome was $816.9 million, with $30.4 million appropriated for departmental items.

16.8 Health does not provide primary care services directly to health consumers, instead it contributes to strengthening of the sector through funding primary care programmes. Health distributes funding via agreements with a range of organisations, such as universities, other education providers, private sector organisations and representative bodies. As at 30 June 2005, PCD and Health's State and Territory Offices (STOs) were administering approximately $895 million in primary care funding via 389 funding agreements. These agreements ranged in size from $1800 to $150 million and in duration from five weeks to around six years.

16.9 This financing supplemented other primary care funding, such as $10.6 billion in funding for Medicare services and $6.3 billion in funding for the Pharmaceutical Benefits Scheme.

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1 Department of Health and Ageing, 2005, *General Practice in Australia: 2004*, Canberra, p.4.

16.10   PCD funds a variety of primary care activities under 26 programmes and initiatives. A large number of these programmes involve developmental work, such as establishing after hours medical services, trialling of new approaches to treat chronic disease through general practice, and building primary care research capacity. These types of activities require agreements with sufficient flexibility while providing adequate levels of control to ensure that the Department 'gets what it pays for'.

Audit objectives

16.11   The focus of the audit was on administration of primary care funding agreements by the Primary Care Division and Health's State and Territory Offices. The ANAO's assessment was based on the following criteria:

- are funding agreements sound? (containing appropriate terms and conditions and clear performance expectations);

- are administration processes sound? (including assessing compliance and monitoring the performance of funded organisations); and

- are programme officers adequately supported? (including guidance, training and access to expertise).[2]

16.12   The audit report was tabled on 24 May 2006.

Overall audit opinion

16.13   The aim of the Government's primary care funding is to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. The manner in which Health administers primary care funding is an important factor in realising this aim.

16.14   The ANAO found that Health was well advanced in establishing guidance and training to equip its officers with the skills and knowledge needed to effectively administer funding agreements. Health was working to strengthen its approaches, with the development of an information system to support day-to-day agreement administration. This system was to complement existing contract registers that Health uses to monitor agreement activity and

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2   ANAO Audit Report no. 41, 2005-06, *Administration of Primary Care Funding Agreements*, Commonwealth of Australia, May 2006, p. 29.

to inform internal/external reporting. Aspects of Health's day-to-day administration of primary care agreements, such as payments, were also generally consistent with agreement requirements.

16.15   Notwithstanding, there were aspects of primary care agreement administration that required strengthening in order for Health to demonstrate that it 'gets what it pays for' and to improve the efficiency of administration.

16.16   The ANAO found that the specification of performance expectations in primary care funding agreements was insufficient, with limited use of clearly expressed and appropriate activity plans, standards or targets against which performance can be objectively assessed. There were also weaknesses in the documentation of decisions, particularly relating to the assessment of reports, which affected Health's capacity to demonstrate effective performance management.

16.17   The absence of a programme management information system, problems surrounding the management and use of contract registers, and unclear arrangements for the sharing of agreement administration between PCD and STOs had also led to less efficient administration.

ANAO recommendations

16.18   The ANAO made the following three recommendations:

Table 16.1   ANAO recommendations, Audit Report No. 41, 2005-06

1.	The ANAO recommends that, in order to define performance expectations and inform monitoring, Health clarify specifications and use appropriate timelines and targets in its primary care funding agreements.
	Health's response: Agreed
2.	The ANAO recommends that Health clarify reporting obligations to ensure it receives the necessary information to assess performance and acquit funding under primary care agreements.
	Health's response: Agreed
3.	The ANAO recommends that, to demonstrate sound decision-making, Health document the key steps in its assessment and acceptance of reports from organisations funded under primary care agreements.
	Health's response: Agreed

The Committee's review

16.19   The Committee held a public hearing to examine the audit report on Wednesday 11 October 2006. Witnesses representing Health and the ANAO appeared at the hearing.

16.20   The Committee took evidence on the following issues:

- funding agreements;

- monitoring of expenditure; and

- performance support for administrators.

16.21   The Committee also discussed Health's progress towards
         implementing the ANAO's recommendations, including its
         implementation timeframe. Health informed the Committee that the
         implementation of the three recommendations was well under way,
         and was expected to be completed within a year.[3]

Funding agreements

16.22   In its administration of primary health care services to the
         community, Health uses standard funding agreements which are
         developed by Health's Legal Services Branch. The standard
         agreements include appropriate general terms and conditions, such as
         clauses linking payments to performance. Where programme officers
         make changes to the general terms and conditions, these are based on
         legal advice from the Legal Services Branch.

16.23   The ANAO considered that while the general terms and conditions in
         standard funding agreements were appropriate, the performance
         specifications in schedules developed by programme areas were not
         always clear. This is partly explained by the difficulty in establishing
         specifications for developmental work and the need for agreements
         with sufficient flexibility. Notwithstanding, clear standards and
         targets provide guidance to programme officers and funded
         organisations and reduce the risk of disputes.

16.24   The ANAO also found that agreements commonly contained
         ambiguous activity descriptions, insufficient budget detail, and
         unclear reporting obligations. Furthermore, timelines for funded
         primary care activities were not aligned to reporting periods and the
         use of targets to define performance expectations was limited. These
         issues lessen the usefulness of funding agreements to programme
         officers and funded organisations when determining satisfactory
         performance. The ANAO noted that Health did not ensure that all
         primary care funding agreements were signed before the project

3   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 9.

period and/or the activity had begun. Delays in the signing of agreements increase the risk of disputes as the terms, conditions and performance expectations may not be agreed to before a project begins.

16.25   When questioned on this by the Committee, Health responded:

> …there is very regular contact between the project managers and the people who are delivering the services or receiving the funding. ..Quite often some of the contracts…are quite innovative approaches for Australia and it is a little bit difficult to identify exactly what the deliverables are going to be until after the contract has been in place for some time. While I think it is fair to say—obviously it is the case—that the performance information was not clearly stated, there certainly was information in there. It just probably could have been clearer, and that is something that we are making sure will be fixed in the future. [4]

Recommendation 28

The Committee recommends that as far as possible, Health attempt to have as many contracts signed as possible prior to a project beginning and funding being dispersed. Where contracts are not signed beforehand, the Committee recommends that elements which are easily defined be entered into an interim contractual measure.

16.26   At the public hearing, the Committee questioned Health about the ANAO's finding that in 54 percent of the funding agreements reviewed the description of the activities was not clearly stated. The Committee was concerned that this figure was high, and sought explanation from Health as to the reasons behind it occurring, as well as progress made towards improving performance.

16.27   Health advised the Committee that a key challenge it faces is:

> …getting the balance right between rigorous accountability, which is obviously always a prime consideration, and flexibility especially in an area like primary care, which, by its

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4   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3-4.

very nature, can be very hard to encapsulate, describe and
conceptualise in really rigorous, concrete terms.[5]

16.28   It went on to explain that:

> …some of the contracts we have in place support
> developmental or innovative activity, and often at the
> commencement of contracts, which might be providing
> services in hard-to-reach areas, it is quite difficult to project or
> predict exactly what the deliverables are expected to be.[6]

16.29   With respect to improving performance in this area, Health advised
the Committee that it now has:

> …processes in place to fix the situation and make sure that
> the project managers certainly contemplate, to their best
> endeavours, all options in trying to get better specifications,
> timelines and relevant performance information as part of
> contracts. This comes down to difficulty in predictability
> about where things are going in some of these services.[7]

16.30   Notwithstanding the complexity of the primary care programs for
which Health administers the funding agreements, the Committee
considered that there was capacity for the Department to build into
the funding agreements performance indicators relating to the
intended outcomes of the projects. Health agreed with the
Committee's sentiment, however, maintained that:

> Classically, we can buy either inputs, outputs or outcomes. In
> an ideal world, we would buy outcomes… the further we go
> towards outcomes, the less rigorous we can be but the greater
> the opportunity for innovation.[8]

16.31   The Committee also considered the types of different funding
agreements which are being administered by Health to gain an
understanding of the scale of its work. Health advised that there were
between forty and fifty initiatives being undertaken.[9]

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5   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 1.
6   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 2.
7   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3.
8   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3.
9   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3.

Monitoring

16.32   The Committee was concerned about the ANAO's finding that in 66
        percent of funding agreements reviewed, the budget did not provide
        the detail necessary to effectively monitor expenditure. The ANAO
        found that agreements that contained insufficient detail on how
        funding was to be spent often contained a total budget amount
        without identifying expenditure items. When budgets were itemised,
        programme officers generally used generic terms to describe
        expenditure items. The audit report stated that programme officers
        generally considered the budgets in agreements to be clear, although
        it noted in some cases they needed to specify more detail in reporting
        templates. Some programme officers considered that familiarity with
        the agreement helped them better understand the budget.

16.33   Health explained that the issue of inadequately detailed budgets
        arose as a variation of the same problem it encountered when trying
        to adequately describe activities within funding agreements. To
        address such concerns, Health is now:

>   …being clearer in our requirements of these organisations
>   that receive funding to work with us to develop a very robust
>   project plan with the level of financial detail upfront.[10]

16.34   In terms of project delivery, the Committee is aware that flexibility is
        required within contracts and funded organisations so as to provide
        maximum achievement. The Committee asked Health whether it had
        been determined in situations where desired outcomes were not met,
        whether it was due to staff within individual projects. Health felt that
        this was difficult to measure and gave an example that:

>   In rural Australia I think we probably all know examples of
>   small rural communities that have flourished when there has
>   been a natural leader or some champion for a cause come in
>   and, on the flip side, they have withered a little bit when that
>   sort of person leaves. We do see that the strength of
>   management and the strength of leadership in these
>   organisations are very closely linked to the results that they
>   achieve…. We do make sure that…we fund the ADGP, for
>   example, to do a lot of leadership and management training
>   to make sure that there is a strong and vital leadership group
>   coming through the network.[11]

10   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 4.
11   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 4.

16.35   The Committee also inquired about Health's measurement of
         outcomes in relation to the Divisions of General Practice Programme
         within Health. There were 119 Divisions of General Practice
         nationally at the time of the audit, encompassing about 94 percent of
         GPs. Their aim is to "improve and address access, integration, chronic
         disease management, workforce issues and consumer needs".[12] Their
         funding also allows for programmes such as allied health
         programmes and immunisation to be implemented. Funding is also
         allocated for leadership and management training to ensure future
         success.

16.36   Health responded that:

> …we are developing what will end up being a really quite
> sophisticated performance management framework for
> divisions. That will hopefully mean that we can shift our
> focus more towards what they are achieving rather than what
> they are doing. That is a multi-year project to move towards
> that and business as usual has to go on in the meantime.[13]

Support for administrators

16.37   The audit report found that there was scope to increase guidance for
         programme officers in order to address issues relating to the lack of
         clarity and comprehensiveness of performance specifications in
         agreements. Further, the lack of programme-specific guidance for
         some programmes, to supplement departmental and divisional
         guidance, had led to inconsistencies in the delivery of national
         programmes, such as different criteria or methods used to assess
         reports. The ANAO found however that:

> Health has established a process to identify the development
> needs of staff. In response to needs identified through this
> process, the Department has established a standard suite of
> training courses designed to equip staff with an
> understanding of their rights and obligations when dealing
> with parties to funding agreements. Participation in courses
> by programme officers with responsibility for managing

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12   ANAO Audit Report no 41, Administration of Primary Care Funding Agreements,
      Commonwealth of Australia, May 2006, p. 13.
13   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 5.

primary care agreements is, however, patchy with a number of officers not having attended training for many years.[14]

16.38   Health added to the ANAO's finding by noting that:

> …we have made training mandatory for all staff in the division. We have already given a presentation that everyone has attended and between 60 and 70 percent of all staff who look after contracts have attended the courses that have been developed and tailored in light of the ANAO report. So we are making that available, and we expect 100 percent attendance by the end of the month.[15]

16.39   The Committee sought assurances from Health that it was taking steps to ensure staff receive appropriate performance support. Health gave evidence that since the tabling of audit report, the Department has introduced a number of changes to its processes. For example:

> One of the resources that has come out since the ANAO report has been a program management guideline, so that everyone in the department—both in our state offices and in our central office—who have anything to do with managing general practice divisions have a guideline so that they can implement, set the criteria and set the performance indicators in a nationally consistent manner. That is something we worked with the divisions network to develop.[16]

16.40   In relation to contract management, Health advised that when a contract arrives and is given to a delegate, there is a small unit that exists which is:

> …staffed by a couple of experts in procurement and contract management, just to make sure that they are working with the contract managers to make sure things are ridgy-didge.[17]

16.41   Finally, the ANAO also noted that:

> Health is implementing a programme management information system to provide greater assistance to program officers in the day-to-day administration of funding agreements. Health plans to implement the proposed system

14   ANAO Audit Report no 41, Administration of Primary Care Funding Agreements, Commonwealth of Australia, May 2006, para 5.58.

15   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 6.

16   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 6.

17   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 7.

by July 2009. In the interim, programme officers continue to
use ad hoc, stand-alone approaches, such as spreadsheets and
to-do lists. The use of these systems is less efficient and costs
more. The risk that a contractual obligation is overlooked,
particularly where a programme officer is absent or where
there is a new programme officer, is also increased. Health
envisages that the proposed system will reduce these risks.[18]

Committee comment

16.42   The Committee is encouraged by Health's positive attitude and
demonstrated commitment to improving its funding agreements. For
example, Health advised that it began implementing changes upon
receipt of the draft Audit Report, prior to tabling of the final report.[19]
In addition, it has initiated a multi-year project to develop a
'sophisticated performance management system'.[20]

16.43   The ANAO advised the Committee that it considered Health to have
responded appropriately to the matters of good administration and
governance raised by the audit.[21]

16.44   The Department of Health and Ageing is diligent in regularly
advising the Committee of its actions in response to recommendations
of the Auditor-General.[22] The Committee looks forward to being kept
informed in writing of the Department's progress in implementing
the recommendations of both the Committee and of the Auditor-
General.

18   ANAO Audit Report no 41, Administration of Primary Care Funding Agreements,
Commonwealth of Australia, May 2006, p. 94.

19   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p.9.

20   Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 5.

21   Australian National Audit Office, *Transcript of Evidence*, 11 October, 2006, p.9.

22   Pursuant to Finance Circular 1999/02 – Follow up of Auditor-General matters.

17

Audit Report No. 43, 2005-06, Assuring Centrelink Payments – The Role of the Random Sample Survey Programme

Introduction

Background

17.1   In 2004–05, Centrelink was responsible for the administration of more than $63 billion in programme payments delivered on behalf of 25 purchaser departments. The vast majority of these outlays on programme payments (some 95 percent) related to three key purchaser departments, the Department of Families, Community Services and Indigenous Affairs (FaCSIA), the Department of Employment and Workplace Relations (DEWR) and the Department of Education, Science and Training (DEST).

17.2   A key element of the strategy used by FaCSIA, DEWR and DEST to assure the integrity of the various Centrelink payments for which they are respectively responsible[1] is the Random Sample Survey Programme. The Random Sample Survey (RSS) is a point-in-time

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1   Until October 2004, the former Department of Family and Community Services was responsible for all of the programme payments covered by the RSS Programme. Following major machinery of government changes that occurred at that time, DEWR and DEST assumed responsibility for some of these programme payments.

analysis of sampled customers' circumstances, designed to establish whether customers are being correctly paid.

17.3   Under *Social Security Law*[2], customers are required to disclose to Centrelink information about changes in their personal and financial circumstances that affect their entitlement. However, there are risks associated with a reliance on disclosure by customers because individuals can fail to report relevant changes when they occur either through lack of understanding of their obligations, omissions, mistakes, or deliberately misrepresenting their circumstances. Centrelink uses powers under the *Social Security (Administration) Act 1999* to compel randomly selected customers to participate in a RSS review, and to provide information on their circumstances.

17.4   The RSS sample design involves stratified sampling[3] across the 15 Centrelink Areas. Centrelink RSS Reviewers situated within each Area conduct the RSS reviews in face-to-face interviews with selected customers. However, file reviews are conducted in cases where a face-to-face interview is not possible, or if customers voluntarily cancel their payments before the interview can be conducted.

17.5   Customers are required to provide detailed evidence of their current circumstances during an RSS review. The Reviewer may also undertake third party verification of the information provided by the customer, such as checking with banks and employers. An RSS review may confirm that a customer is receiving a correct payment or result in a cancellation or variation of the customer's payment and/or identification of a debt or under payment.

17.6   Centrelink currently runs the RSS on behalf of the three purchaser departments. The RSS is run annually for all major Centrelink payments,[4] and minor payments are covered over a three-year cycle. Agencies advised the ANAO that, to date, the RSS Programme costs some $4.5 million a year to conduct.

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2   The *Social Security Law* comprises the *Social Security Act 1991*, the *Social Security (Administration) Act 1999* and the *Social Security (International Agreements) Act 1999*.

3   The population is divided into subpopulations (strata) and random samples are taken of each stratum.

4   Major payments are Age Pension, Youth Allowance, Parenting Payment (Single and Partnered), Disability Support Pension, and Newstart Allowance.

How the RSS is used

17.7   The purchaser departments use the RSS Programme primarily to
measure the level of accuracy of outlays on income support payments
delivered by Centrelink. Other purposes for which the departments
use the RSS Programme are to provide a measure of the effectiveness
of compliance and other review activity and to measure the level of
Centrelink's administrative error, against a target agreed between the
purchaser departments and Centrelink under the individual agencies'
Business Partnership Agreements (BPAs).

17.8   At the time of the audit, a replacement programme for the RSS
Programme was being developed by DEWR and DEST. DEWR
informed the ANAO on 16 December 2005 that:

> At the same time as the fieldwork was conducted for this
> audit, a review of the lapsing RSS budget measure was
> undertaken, led by DEWR. This review was completed in
> October and has informed thinking in DEWR and DEST
> about arrangements that might apply from 1 July 2006. These
> matters are being considered.

17.9   The ANAO's audit report notes that DEWR and DEST both received
additional funding to expand the RSS programme, under a fraud and
compliance measure in the 2006–07 Budget.[5]

Business Assurance Framework

17.10   The BAF provides 'performance assurance to the Australian
Government, Centrelink's key stakeholders, purchaser departments,
the Board[6] and customers.'[7] BAFs are included in all key Centrelink
Business Partnership Agreements (BPAs) to provide assurance on the
integrity of outlays, and to identify risks and the control frameworks
that mitigate those risks. RSS results are the primary quality
assurance tool for the BAF.[8]

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5   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random
Sample Survey*, Commonwealth of Australia, June 2006, p. 17.

6   The Centrelink Board of Management was abolished upon commencement of
amendments to the *Commonwealth Service Delivery Agency Act 1997* on 1 October 2005.
The authority which formerly rested with the Board now rests with the Chief Executive
Officer (CEO) of Centrelink.

7   Centrelink, *Annual Report 2004–05*, pp. 37-39

8   Centrelink, *Annual Report 2004–05*, pp. 37-39

17.11   In addition to the RSS, Centrelink also undertakes a broader assurance programme as part of its control framework. This programme includes a number of prevention and review activities including data matching and other risk reviews. The other review activities are targeted towards specific customers, whereas the RSS Programme is sampled across the entire Centrelink customer population for a particular payment.[9]

17.12   Under the BAF, a payment is considered 'correct' if: the right person is paid; under the right programme; at the right rate; and for the right date(s). 'Correctness' is considered, in the context of the BAF, to relate only to decision-making processes within Centrelink's control. The payment correctness target contained in the individual agencies' BPAs is a measure of Centrelink's administrative errors that have an impact on payment; it does not take into account customer error.

17.13   The RSS takes a sample of customers and identifies errors in the information held by Centrelink compared with the information obtained from the RSS interview and follow-up procedures.

17.14   Results of the survey showed some 45 percent of Centrelink customers surveyed had at least one error in their record. Over a third (1 661 cases) of these had multiple errors.[10] For errors with a dollar impact on payment, 18.8 percent resulted in a cancellation or variation to payment, 54.5 percent resulted in a debt, and 26.7 percent resulted in a cancellation or variation and a debt.

17.15   For the full year 2004–05, the total value of customer debts raised as a result of all RSS reviews was $3 213 810. The average value of all debts was $1 034. Around a third of debts were under $50.[11] Approximately 20 percent of debts were over $1 000, including 4.3 percent of debts which were over $5 000.

17.16   The RSS further categorises reviews with an error into those with a Centrelink administrative error and/or a customer error with no dollar impact, and those with a Centrelink administrative error and/or a customer error with a dollar impact.

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9   A range of customers are excluded from selection in the RSS, including those who are currently being reviewed in another Centrelink process and those who reside in remote areas.

10   Centrelink, *Rolling Random Sample Surveys, Final Results Quarter 4 of 2004–2005, including full year, Compliance and Review*, February 2006, p. 11.

11   Centrelink automatically waives debts of less than $50, as it is not cost effective to recover these debts. The power to waive in this circumstance is provided under section 1237AAA(1) of the *Social Security Act 1991*.

17.17   In 2004–05, Centrelink identified one or more errors in 4 552 of the
         10 048 RSS reviews conducted, with the total number of 7 037 errors
         distributed across these 4 552 reviews. Centrelink RSS Reviewers
         determined that 78 percent of these errors were due to customer error
         (that is customer action or inaction). The remaining 22 percent were
         categorised as due to Centrelink administrative error (predominately
         incomplete processing), albeit that only 5.1 percent of these errors (or
         3.4 percent of reviews) had an immediate impact on the customer's
         payment.

17.18   This information is used to calculate payment correctness. The
         definition agreed between Centrelink and purchaser departments for
         payment correctness only takes into account Centrelink
         administrative errors with a dollar impact. Errors attributed to
         customer action or inaction, and any administrative error with no
         dollar impact are excluded.

17.19   Centrelink reported in its 2004–05 Annual Report that:

> Since [this] random sampling process began in July 2002,
> Centrelink's payment correctness figures have exceeded 95
> percent [the BPA target] every quarter, with an annual figure
> for 2004–05 of 96.8 percent.[12]

17.20   The payment correctness figure reported in Centrelink's annual
         report is based on preliminary data from the RSS collected in the first
         three quarters of 2004–05.[13] The figure is derived by taking the
         number of reviews with a Centrelink administrative error with a
         dollar impact as a percentage of the sampled population, and
         subtracting this number from 100 percent.[14]

17.21   Centrelink's 96.8 percent reported payment correctness for 2004–05
         does not mean that 96.8 percent of customers received a correct
         payment in that year. The RSS showed that in 2004–05 some 30

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12   Centrelink, *Annual Report 2004–05*, p. 39.

13   The final validated results of the RSS for 2004–05 were not available until February 2006.
      Accordingly, these results were not available for inclusion in agencies' 2004–05 Annual
      Reports. Centrelink advised the ANAO in April 2006 that the purchaser departments had
      agreed that the Centrelink's CEO's Statements of Assurance for 2004–05 be based on the
      first three quarters of data for 2004–05 as the fourth quarter data would not be available
      by the time the Statements of Assurance were required.

14   The relevant final validated results for 2004–05 are set out in Table 1 and using these
      figures it can be seen that the final payment correctness figure for 2004–05 is 96.6 percent,
      within 0.2 percent of the preliminary figure reported in Centrelink's 2004–05 Annual
      Report.

percent of customers had an error that had a dollar impact on their payment, meaning that payment correctness (using the ordinary meaning of the term) was around 70 percent.

17.22   While the proportion of payments that were incorrect was around 30 percent, many of the individual payment variations are small. Given that the RSS is a point in time analysis, the variations relate to a fortnightly payment. The largest variation will occur in the case of a payment cancellation, that is, the largest variation will equal the customer's entire fortnightly payment. However, given that many variations are small, then the impact on outlays is not large. Nevertheless, even a small variation will have economic and other impacts on an individual customer.

Calculation of the accuracy of outlays

17.23   As noted earlier, the primary use to which the three purchaser departments put the RSS programme is to measure the accuracy of outlays on income support payments delivered by Centrelink.

17.24   To do this, the purchaser departments have to first identify the 'total payment inaccuracy'. That is the percentage of RSS reviews that have errors which have a dollar impact on payments, irrespective of the source of the error (that is customer error or Centrelink administrative error).

17.25   The inaccuracy of outlays is then calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) by the sum of the fortnightly payments to all sampled customers. The percentage figure is then calculated. To get the accuracy of outlays the purchaser departments then subtract this figure from 100 percent.

17.26   FaCSIA advised the ANAO that, based on the RSS data, the accuracy of outlays for 2004–05 was 97.9 percent for those major social security payments made by Centrelink on behalf of FaCSIA.[15] DEWR advised the ANAO on 9 December 2005 that its assessment of the results of the RSS between 1 July 2004 and 31 March 2005 show that the average inaccuracy rate for working age payments was 4.2 percent. This equates to 95.8 percent of outlays on Centrelink payments for which DEWR is responsible being accurate.

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15   These payments are Age Pension, Carers Payment and Child Disability Allowance.

Audit objectives

17.27 The overall objective of the audit was to assess whether the RSS
Programme is effective and efficient in providing assurance on the
levels of payment error and the resultant risks to the integrity of
Australian Government outlays for payments administered by
Centrelink.

17.28 Specifically, the audit assessed whether:

- the RSS Programme meets the objectives outlined for it in the
Portfolio Budget Statements under which funding was provided;

- there is an adequate methodology underpinning the RSS reviews;

- the RSS reviews are conducted effectively and efficiently, and
adequate quality assurance mechanisms exist to assure the results
obtained from the RSS reviews; and

- reporting by the agencies of the results of the RSS Programme is
adequate and takes into consideration the issues identified in Audit
Report No. 44 2002–03 *Review of the Parenting Payment Single
Program*, and Audit Report No. 17 2002–03 *Age Pension Entitlements*.

Overall conclusion

17.29 The audit report acknowledged the three purchaser departments'
efforts to find a method to measure the accuracy of outlays, and to
monitor the level of Centrelink's administrative error, and the value
of such information. However, the RSS is unable to uncover all
incorrect payments due to the inherent limitation that not all
customers will disclose all of their circumstances and/or all of the
changes in their circumstances, even when asked in a face to face
interview.

17.30 The ANAO recognised that no survey method to identify the level of
Centrelink payments affected by error will be 100 percent accurate. In
addition, the cost of uncovering all customer non-disclosure, even if a
robust methodology to achieve this was identified, is likely to be
prohibitive.

17.31 Notwithstanding this, the RSS programme has been relied upon by
the purchaser departments and Centrelink to provide a measure of
Centrelink's achievement against an agreed target in the individual
agencies' BPAs for Centrelink's payment correctness, and is the key

plank in the assurance of around one-third of Australian Government outlays.

17.32 While an internal definition of payment correctness may be agreed and understood between Centrelink and the purchasing departments, external reports quoting payment correctness based on this definition may be misleading to the outside reader. Centrelink reported in its 2004–05 Annual Report payment correctness of 96.8 percent. Using the ordinary meaning of the words 'payment correctness', this would suggest to a reader that 96.8 percent of customers receive a correct payment. However, the RSS data show that it is around 70 percent of customers who receive a correct payment.

17.33 The ANAO suggested that future external reporting of Centrelink's performance against this target in the BPAs would be clearer if it were to convey a focus on administrative correctness rather than payment correctness.

17.34 The figure reported by agencies for the accuracy of outlays (for example, 97.9 percent for FaCSIA payments in 2004–05, and 95.8 percent for DEWR payments) suggests a level of precision that is not able to be supported by data from the RSS Programme due to the inherent limitation that not all customers will disclose all of their circumstances to Centrelink.

17.35 The purchaser departments received additional Budget funding to increase the sample sizes for the RSS programme. While there may be other benefits realisable from the increase in the sample size, this will not address the non-sampling error associated with customer non-disclosure. As noted in the audit report, customer non-disclosure is a form of non-sampling error and, therefore, cannot be addressed through a greater sample size. The purchaser departments also proposed enhancements to the RSS programme to uncover further non-disclosure, however, these will not, in themselves, uncover all non-disclosure.

17.36 The ANAO considered that it is important that agencies use the accuracy of outlays figure calculated from RSS data as an indicative measure of the level of accuracy of outlays on Centrelink payments, recognising its inherent limitations. The indicative RSS measure would need to be appropriately supplemented by, and used in conjunction with, other relevant information collected by Centrelink and the purchaser departments to provide the required level of assurance for these significant Australian Government outlays.

ANAO recommendations

Table 17.1   ANAO recommendations, Audit Report No. 43, 2005-06

1.	The ANAO recommends that Centrelink make transparent, in its Annual Report and any other documents where the agency reports on its level of payment correctness, how the payment correctness figure is derived and in particular that the figure reported relates only to Centrelink administrative error identified by the RSS and does not include error identified in the RSS but attributed to customer action or inaction.
	Centrelink response: Agreed.
2.	The ANAO recommends that when reporting data from the RSS, Centrelink, FaCSIA, DEWR and DEST ensure that:
	(a) the source and limitations of the data are transparent, to enable readers to properly interpret the data and have confidence in the results; and
	(b) statistics indicating the proportion of customers correctly paid are clearly distinguished from statistics indicating the net effect of incorrect payments on government outlays.
	Agency responses: All four agencies agreed with the recommendation.
3.	The ANAO recommends that, following review and compliance activities, Centrelink aggregates and analyses information regarding the reasons identified for payment incorrectness to enable robust review, by both Centrelink and the purchaser departments, of the data collected through these activities.
	Centrelink response: Agreed.
4.	The ANAO recommends that Centrelink, FaCSIA, DEWR and DEST, when using the results of the RSS to measure the effectiveness of the control/compliance framework and to identify any emerging risks, take into account the possible skewing of data due to unidentified non-disclosure by customers of all their circumstances or relevant changes in their circumstances.
	Agency responses: All four agencies agreed with the recommendation.
5.	The ANAO recommends that FaCSIA, DEWR and DEST put in place procedures to assure themselves that Centrelink's operation of the RSS is efficient, effective and conducted independently within Centrelink.
	Agency responses: FaCSIA, DEWR and DEST all agreed with the recommendation.
6.	The ANAO recommends that Centrelink include information on the purpose of the RSS in recruitment and training materials for RSS Reviewers, and that Area RSS staff are provided with information on the outcomes of the RSS, given that it is the final product of their work.
	Centrelink response: Agreed.
7.	The ANAO recommends that Centrelink, DEWR, DEST and FaCSIA review the design of the RSS questionnaire in order to:
	(a) reduce the complexity of the questionnaire;
	(b) improve sequencing through the questionnaire; and
	(c) limit question repetition when using additional specialised modules.
	Agency responses: All four agencies agreed with the recommendation.
8.	The ANAO recommends that Centrelink review the RSS Team Room database, with a view to improving its useability, and that the information it contains is both current and relevant to RSS staff.
	Centrelink response: Agreed.
9.	The ANAO recommends that Centrelink:
	(a) develop and implement national selection criteria for RSS Reviewers;
	(b) develop and implement a national training package for all RSS staff; and
	(c) ensure appropriate Performance Assessment procedures are in place for all RSS Reviewers.
	Centrelink response: Agreed.

The Committee's review

17.37   The Committee held a public hearing on 18 October 2006, which was attended by representatives of the ANAO, Centrelink, FaCSIA, DEWR and DEST. The hearing examined aspects of the ANAO's report including the purchaser departments' implementation of the ANAO's recommendations, whether the major objectives of the RSS had been met, whether the other objectives of the RSS had been met, and other issues relating to the Access Card and Centrelink's staff inappropriately accessing customer records.

Implementation of recommendations

17.38   The Committee began the hearing by asking the departmental representatives collectively about the progress that has been made by them to implement the ANAO's recommendations. Not all of the recommendations were addressed individually at the hearing, however, those that were are outlined below.

ANAO Recommendation 1

17.39   Centrelink informed the Committee that their implementation of this recommendation was about to be published (and at the time of reporting, subsequently had been) in the Centrelink *Annual Report 2005-06*. Centrelink informed the Committee that the report:

> …provides revised wording which reflects the recommendations from the ANAO. Our internal reports have also been revised as per the recommendation.[16]

ANAO Recommendation 2

17.40   This recommendation was in relation to the transparency and limitations of data reporting for the RSS, FaCSIA informed the Committee that:

> …We have certainly taken No. 2, which is the one about reporting data, into account and the proof of the pudding will be fairly obvious in our next annual report, which will have the appropriate qualifications around the reporting of data.[17]

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16   Centrelink, *Transcript of Evidence*, 18 October 2006, p.2.

17   FaCSIA, *Transcript of Evidence*, 18 October 2006, p.3.

ANAO Recommendation 4

17.41   This recommendation was concerned with the control/compliance
         framework and the identification of risks especially in relation to
         unidentified non-disclosure by customers about their circumstances.
         FaCSIA responded stating:

> …[in relation to] the one about taking care around data
> skewing when interrogating the data for emerging risks, we
> have increased our capacity in FaCSIA to do better
> interrogation of the data and work more closely with
> Centrelink to ensure that we are clear where skewing might
> occur.[18]

ANAO Recommendation 5

17.42   This recommendation was in relation to the purchaser departments
         establishing assurance frameworks to assure themselves that
         Centrelink's conduct of the RSSS was 'efficient, effective and
         conducted independently'. FaCSIA responded on behalf of the
         purchaser departments that:

> … we have put more procedures in place, including working
> with all of the other agencies on a more collaborative
> approach.[19]

ANAO Recommendation 6

17.43   The inclusion of information in relation to RSS in the recruitment
         process and training process for RSS reviewers was the focus of this
         recommendation. It also adds that Area RSS staff be given
         information on the outcome of the RSS, given it is the final aspect of
         their work.

17.44   Centrelink informed the Committee that:

> We have basically produced new recruitment and training
> materials which have been used since 1 July. Reporting
> schedules have been developed. Reports have been circulated
> to national support staff and to the policy departments by
> each of the 15 areas we operate under.[20]

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18   FaCSIA, *Transcript of Evidence*, 18 October 2006, p.3.
19   FaCSIA, *Transcript of Evidence*, 18 October 2006, p.3.
20   Centrelink, *Transcript of Evidence*, 18 October 2006, p.2.

ANAO Recommendation 7

17.45   This recommendation requested that the purchaser departments review the design of the RSS questionnaire so as to reduce its complexity, improve sequencing of questions and limit the repetition of questions.

17.46   Centrelink informed the Committee that:

> We have basically worked with each of the policy departments present here to revise the questionnaires that are given to customers selected in random sample surveys. They have been agreed and deployed.[21]

17.47   FaCSIA reinforced the comments made by Centrelink, stating:

> We have certainly been working with Centrelink on ensuring that we have a better design of the questionnaires.[22]

Recommendation 29

The Committee recommends that a copy of the revised RSS questionnaire, implementing the ANAO's recommendation 7 be provided to the Committee.

ANAO Recommendation 9

17.48   This recommendation related to the development and implementation of national selection criteria for RSS Reviewers and a national training package for all RSS staff.

17.49   Centrelink informed the Committee that:

> We now have national selection criteria which are used for the selection of all reviewers. There is a national training package. We used to train people slightly differently in different parts of Australia; we now have one national package which we use to train all staff. We have put in place new performance assessment procedures for all staff in this area, and all of that went live on 1 July as well.[23]

21   Centrelink, *Transcript of Evidence*, 18 October 2006, p.2.

22   FaCSIA, *Transcript of Evidence*, 18 October 2006, p.3.

23   Centrelink, *Transcript of Evidence*, 18 October 2006, p.2.

Meeting the major objectives of the RSS programme

17.50   The ANAO examined the extent to which the RSS meets the objective
         of the RSS Programme, that being essentially to measure the level of
         incorrect payments. A related examination was undertaken
         concerning the detection of undisclosed changed circumstances.

17.51   The ANAO examined the data produced on the size and types of
         error within the information collected by Centrelink. The data
         consisted of the 2004-05 sample survey used by the RSS which
         showed that of 10 048 reviews conducted, 4552 (or 45.3 percent)
         contained at least one error within the data, with the total number of
         errors reported as 7037. An error is derived from comparison between
         the records currently held by Centrelink and information obtained
         during an RSS interview. Centrelink:

> …categorises reviews with an error into those with a
> Centrelink administrative error and/or a customer error with
> no dollar impact and those with a Centrelink administrative
> error and/or customer error with a dollar impact.[24]

17.52   The Committee followed this information by asking Centrelink why
         some errors initially defined as customer errors were reclassified as
         Centrelink errors. Centrelink responded:

> Sometimes when you do a survey of a customer you can find
> more than one error. There were some instances where a
> customer had made a mistake and some where we had also
> made a mistake. What we did was count those as Centrelink
> errors. So, where there were two or more errors, we counted
> both of those errors as Centrelink errors rather than trying to
> split the errors and attribute some of them to the customers.
> We did not want to double count things and we thought the
> more reasonable approach was to count them as Centrelink
> errors.[25]

17.53   The Committee then enquired as to examples of the kinds of errors
         that Centrelink made. Centrelink acknowledged that errors may or
         not lead to a situation where a customer has their payment affected
         and added:

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24   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random
     Sample Survey*, Commonwealth of Australia, June 2006, p. 19.
25   Centrelink, *Transcript of Evidence*, 18 October 2006, p.2.

> The types of things that get picked up in the survey are where information is provided by a customer and somebody from Centrelink enters that information into our system… A misspelling of a name… the transcription of a birth date; the transcription of two numbers…[26]

17.54 While some administrative errors may not lead to a customer's payment being affected (having a dollar impact), the information (or lack of information) provided by a customer to Centrelink ultimately does. The ANAO acknowledged that the RSS process does have some limitations. The major issue was the inability of the survey to detect all incorrect payments due to the fact that not all customers disclose all of their circumstances or changes to their circumstances. Centrelink and the purchaser departments have defined payment correctness as:

> …the percentage of [RSS] reviews without a dollar impact error based on information provided by the customer. This definition clarifies that customer error is excluded from the calculation of payment correctness. Centrelink procedural errors that do not impact on the customer's payments are also excluded.[27]

17.55 The ANAO suggested that the RSS identifies cases where information provided at RSS interviews differs from that held currently by Centrelink.[28] The RSS is an effective mechanism in the detection of changed customer circumstances due to the process involving a face-to-face interview with a customer and completely reviewing all records held. A major limitation of this process may be, however, that a customer fails (even at an RSS interview) to fully disclose all of the information leading to a potential change of circumstance. Non-declaration could include non-disclosure of assets or non-disclosure of additional income received during a reporting period (for example, cash-in-hand) work.

17.56 Centrelink uses the definition of payment correctness in conjunction with its Business Assurance Framework (BAF). The BAF defines 'correctness' as:

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26   Centrelink, *Transcript of Evidence*, 18 October 2006, p.6.

27   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random Sample Survey*, Commonwealth of Australia, June 2006, p. 56.

28   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random Sample Survey*, Commonwealth of Australia, June 2006, p. 65.

> …the right person is paid; under the right programme; at the
> right rate; and for the right date(s).[29]

17.57   Under the BAF analysis, Centrelink have determined that the
payment accuracy rate is 96.6 percent, meaning that there is an overall
level of payment incorrectness of 3.4 percent.

17.58   This figure contrasts sharply with the ANAO's own analysis of
payment incorrectness. The ANAO defined incorrect payments as:

> …the number of customers in the RSS sample who have an
> error in their record, which leads to an error in their payment,
> that has a dollar impact.[30]

17.59   The ANAO's analysis found that 29.8 percent of RSS reviews in the
2004-05 RSS survey contained errors which had a financial impact on
a customer.[31] Essentially this analysis incorporated all variants of
error, not just Centrelink errors which produce a dollar impact for the
customer.

17.60   The Committee asked Centrelink whether they were satisfied with the
level of errors in payments having a dollar impact being
approximately 30 percent. Centrelink responded that:

> It depends on what you can control. We are more interested
> in improving what we can control, noting that, as you would
> be aware, the majority of the gap between broadly 70 and 100
> percent is due to people either deliberately or unintentionally
> not providing the most recent piece of information.[32]

17.61   The Committee was pleased to note, however, that as of February
2006, Centrelink and the purchaser departments had advised the
ANAO that:

> Centrelink will not in future report or refer to payment
> accuracy, Centrelink will continue to report on payment
> correctness and will continue to provide all relevant data to

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29   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random
Sample Survey*, Commonwealth of Australia, June 2006, p. 58.

30   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random
Sample Survey*, Commonwealth of Australia, June 2006, p. 64, footnote 102.

31   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random
Sample Survey*, Commonwealth of Australia, June 2006, p. 55, Table 3.1.

32   Centrelink, *Transcript of Evidence*, 18 October 2006, p.5.

each policy department to enable their reporting of payment accuracy.[33]

17.62   The Committee asked Centrelink what was being done to ensure that their clients were aware of the fact that the survey does have limitations. Centrelink responded that:

> The main thing we have done is develop a far more comprehensive description of what payment correctness means… in our forthcoming [since released] annual report, we have put that quite lengthy description, which we will table at the end of the meeting. Basically, it makes the figure clear and describes how it is arrived at, what it is not, what it includes and what it does not include. Probably the most important thing is that it makes it clear that the figure of 96 percent — and it has always been 95 percent and upwards — is only about Centrelink's payment correctness, that is, the correctness of our decision making. The explanation we have put in now shows quite clearly that it does not include customer error. Therefore, I think that is much more transparent.

17.63   The Committee asked Centrelink for an example of significant change that has occurred as a result of the RSS process. Centrelink responded:

> …the main benefit to us is being able to break down the analysis and look at the reasons why errors occur. For example, the largest source of error is really customers misreporting, or not reporting at all, on their earnings. That is the largest source of error. We have undertaken a few things that will help to start to address that. There is the government funded campaign called Support the System that Supports You, which is having a very large impact. A huge number of customers are ringing us to update their records. We have a number of examples of employers electronically reporting salary directly to Centrelink and we want to move further down that track. We now have the capacity for automated voice reporting, so people can ring up on the telephone, which is much easier than having to wait in a queue. We have introduced customer accounts, which are sent out to customers regularly so that they ought to be able to look at and update them… We have a number of measures that we

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33   ANAO Audit Report no 43, 2005-06, *Assuring Centrelink Payments – The Role of the Random Sample Survey*, Commonwealth of Australia, June 2006, p. 57.

use to bring our staff to the highest level of performance
possible. There are two sources of error, as you would
appreciate: administrative errors and customer errors. By far,
the largest source of error is the customer, but we have a
number of initiatives in Centrelink, such as our Getting It
Right campaign, where we emphasise particular aspects of
the process with our staff. Forms have been revised; training
has been comprehensively revised.[34]

17.64   In relation to the RSS process, the Committee questioned its 'worth'.
Questions were raised in regards to the benefits gained by Centrelink
and the possibility that greater value could be found in processes
other than the RSS. Centrelink responded:

The policy departments need assurance about whether the
money is being spent in accordance with government
decisions… and to do that you need a sufficient sample to
look across the range of payments. This mechanism is
principally about assurance, and I think it adds value. We
actually derive a lot of other benefit from it. We learn as we
go about areas that we ought to improve, either in terms of
administration or in terms of advice to the public et cetera, so
there are a lot of other spin-offs from it. I do not think we
have a choice other than to do this.[35]

Meeting other objectives of the RSS programme

17.65   Another objective of the RSS programme is its ability to be able to
measure the reasons for incorrect payments. This particularly relates
to the reasons as to why customers do not provide Centrelink with
accurate information regarding their circumstances.

17.66   The ANAO's report highlighted the fact that there are a series of
conditions which must be met by the customer in order to meet the
requirements for each type of payment. For example, Newstart
Allowance requires customers to fulfil an Activity Test which
involves obligations such as attending all job interviews that the
customer is offered as well as accepting suitable work offers. The non-
disclosure of this type of information (such as not having attended a
job interview when it was offered), along with non-disclosure of

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34   Centrelink, *Transcript of Evidence*, 18 October 2006, p.4.
35   Centrelink, *Transcript of Evidence*, 18 October 2006, pp.3-4.

income and/or assets is the most common reason for there to be a discrepancy in the information held by Centrelink leading to incorrect payment.

17.67   The Committee asked Centrelink what mechanisms are in place to ascertain whether a customer is proving accurate information to Centrelink. In addition, the Committee asked how Centrelink could ascertain a customer's claims that the customer had informed Centrelink of changes to their circumstances which subsequently were not recorded on the system. Centrelink replied:

> Some of that is a judgement call. We train our staff in interview techniques and we structure the questionnaires in a way to try to test the information that the customers are giving us, but there is a certain degree of judgement that our staff have to exercise, which is where the issue of non-disclosure has been raised in the audit report.[36]… I would also add that we do plan to introduce a receipting process so that where a customer actually says, 'I told Centrelink,' we will ask: 'Provide us with the receipt number and we will go and check all of that.'[37]

Recommendation 30

That Centrelink advise the Committee of progress in implementing the receipting process for calls to call centres in relation to customers reporting their circumstances. In addition, the Committee would like to be kept informed of whether the receipting mechanism makes a difference in the rates for payment correctness.

Other issues

17.68   The Committee also explored other issues pertaining to Centrelink. These were issues surrounding the proposed introduction, at the time, of the then government's Access Card and also inappropriate access of customer records by Centrelink staff.

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36   Centrelink, *Transcript of Evidence*, 18 October 2006, p.6.
37   Centrelink, *Transcript of Evidence*, 18 October 2006, p.

Access card

17.69   At the time of the Committee's review, the Commonwealth
         government was exploring options for providing access to health,
         social and veterans' services. Chief amongst the new method of
         service delivery was to be a smartcard-based Access Card embedded
         with a microchip. The Office of Access Card website stated that the
         microchip:

> …is expected to include your name, address, details of
> children or other dependants, digitised photo, signature, card
> number, expiry date, gender and concession status… No
> financial information, health records or your Tax File Number
> will be on the smartcard, in the chip or held by the
> registration service.[38]

17.70   The Committee enquired as to whether Centrelink looked forward to
         the proposed introduction of the Access Card. Centrelink responded:

> One thing it is going to do is to improve the quality of the
> proof of identity arrangements for each individual. We are
> currently quite robust in how we do proof of identity, but we
> have not always been. In the past we had a much simpler
> approach to proving identity. I think there is great value in
> making sure that we are really clear about the individuals.[39]

17.71   The Committee quoted media reports which stated that there would
         be in the vicinity of 16 million, 15-minute interviews over a two-year
         period as part of the application process for the Access Card.[40]
         Centrelink was subsequently asked whether the agency could cope
         with the extra pressures that would bring the agency and whether
         there was a proposal to increase Centrelink's resources to cope with
         the anticipated introduction of the Access Card. Centrelink replied:

> I just note that the detail of that is not settled. The second
> point I would make is that we already have a lot of the
> information that you would require to enrol yourself, for
> example, in an access card, in respect of millions of
> Australians. So for a lot of people it will be quite a simple

38   Office of Access Card website at http://www.accesscard.gov.au/about_card.html
      accessed June 2007.

39   Centrelink, *Transcript of Evidence*, 18 October 2006, p.7.

40   See: S Dunlevy, 'Centrelink too stupid to run the smartcard', Daily Telegraph, 28 July
      2006, p. 32.

process…If someone is a recent Centrelink customer and we have done their proof of identity checks in the last few years then we have a lot of the information we would require to actually sign them up to the card. Would there be extra resources? Yes, there will be resources provided to whichever organisations are signing people up.[41]

17.72 The Committee also related the issues surrounding the Access Card to the rates of error as described previously. The Committee asked whether Centrelink would be comfortable with the current levels of error in its data being translated into error on the Access Card. Centrelink responded:

> Often when we are talking about an error here we may have had, for example, 20 interactions with [an individual] and, on one of those interactions, we may have mis-keyed the name, mis-keyed the address, et cetera. So it is down at that sort of level. In terms of signing people up and proof of identity and issuing access cards, we are really good at it, and Medicare is really good at it. If anything, and I am projecting forward now, what that card would do is reduce the numbers of errors. For example, I would expect that people would be able to swipe the card and, rather than us keying in information every time they visited, there would be an automatic transfer of that information and up they would come.

17.73 The Committee also noted that as well as the interview process, the responsible agency would be required to take photographs which would be placed on the Access Card thus mitigating fraud risks. Centrelink was asked whether its offices would be used for this process. Centrelink responded that although this question was yet to be settled:

> We will give people a lot of choice about where they can get it done. What I expect will happen is that in rural areas we will go out to people—and when I say 'we', it might not be Centrelink taking the photograph… When I talked about a choice I expect that it will be Australian government organisations doing the sign-up and the choice will be around giving people choice of more locations than currently exist.[42]

41 Centrelink, *Transcript of Evidence*, 18 October 2006, p.7.
42 Centrelink, *Transcript of Evidence*, 18 October 2006, p.9.

Inappropriate use of customer records by Centrelink staff

17.74   The Committee noted newspaper reports which had cited inappropriate use of customer records by staff. The Committee asked Centrelink how this behaviour is dealt with. It also sought from Centrelink a qualification as to the types of access to information that is allowed by staff. Centrelink responded that:

> We have an ironclad rule that no staff member is to deal with the records of someone with whom they are associated. This is principally relatives and other people with whom they are associated… you cannot do that, with exceptions. If you have a brother with a disability or an elderly aunt, someone who cannot act on their own behalf, we have arrangements in place where you can have nominees. You can formally nominate someone else to deal with your record. Other than that, for us it is a breach of our code of conduct and the majority of people in those figures fall into that category. There are still a lot of people who are not in that category, and we basically have a zero tolerance approach and we are very public about it.[43]

17.75   The Committee was also informed that staff who had been deemed to have inappropriately accessed records had been subject to disciplinary action. Such action has included dismissal and demotion.

17.76   The Committee is pleased to note Centrelink's decisive action in relation to staff who have inappropriately accessed information.

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43   Centrelink, *Transcript of Evidence*, 18 October 2006, p.10.

18

Audit Report No. 12, 2006-07, Management of Family Tax Benefit Overpayments

Introduction

The Family Tax Benefit programme

18.1   The Family Tax Benefit (FTB) programme was introduced on 1 July 2000, as part of a broader set of reforms to Australia's taxation system. The FTB programme is intended to help all eligible families with the cost of raising children and, in addition, to provide extra assistance to families with one main income.

18.2   The FTB Programme effectively replaced nine separate types of assistance to families, previously delivered through both the taxation and social security systems. FTB consists of two parts:

- FTB Part A (replaced Family Allowance, Family Tax Payment (Part A) and Family Tax Assistance (Part A)) and;

- FTB Part B (replaced Basic Parenting Payment, Guardian Allowance, Family Tax Payment (Part B), Family Tax Assistance (Part B), the 'with children' rate of the Dependent Spouse Rebate and the Sole Parent Rebate).

18.3   FTB payments are means-tested, with the rate of payment affected by the family's actual income – including "maintenance" income – and the number, age and income of children for whom FTB is claimed. FTB Part A is the most common payment and is paid per child. It includes a supplement, also paid per child, after the end of the financial year. FTB Part B provides extra assistance to single parent families and two parent families with one main income. It also includes a supplement, paid per family, after the end of the financial year. In 2004-05, the FTB programme delivered a total of $13.9 billion to approximately 2.2 million FTB customers.

The Family Assistance Office

18.4   The Family Assistance Office (FAO) was established as a one-stop shop for customers to access the full range of family assistance services, including FTB Part A and FTB Part B, Child Care Benefit, Maternity Payment and Maternity Immunisation Allowance.

18.5   The FAO is a 'virtual' agency resulting from a joint venture between the Department of Families, Community Services and Indigenous Affairs (FaCSIA), Centrelink, the Australian Taxation Office (ATO), and Medicare Australia. FAO offices have been established in over 550 Centrelink Customer Service Centres, Medicare Australia Offices and ATO shopfronts across Australia. Until recently, Medicare Australia Offices functioned as a 'post office' for FAO claims, which were forwarded to Centrelink for processing. Currently, Medicare Australia is taking on a more active role and all Medicare Australia Offices offer the full range of FAO services.

Features of the FTB programme

18.6   FTB customers must lodge a claim within two years of the end of the financial year for which they are claiming. Therefore, a customer who wished to claim FTB for 2004-05 had until 30 June 2007 to lodge his or her FTB claim form. Customers can elect to have their FTB entitlements paid in a number of ways:

- **A single, annual payment** – accessed by lodging a claim with the FAO, once the family's actual income for the financial year is known;

- **A single, annual payment** – accessed by lodging an FTB tax claim with the ATO, at the same time that the customer lodges their tax return with the ATO;

- **A fortnightly payment** claimed through the FAO – with the payment based on an estimate of the annual family income. Customers may also choose to receive the base rate of FTB fortnightly, and the remainder of their entitlement in a lump sum at the end of the financial year, once the actual family income is known; and

- **A fortnightly reduction of Pay-as-You-Go (PAYG) tax** (also called withholding tax), claimed through the ATO.

18.7   The legislation underpinning the FTB programme is closely linked to Australia's taxation system. FTB eligibility and payment rates are based on a family's adjusted taxable income for a financial year, as advised by the ATO through the lodgement and assessment of tax returns.

18.8   As a result, a family's actual FTB entitlement can only be determined at the end of the financial year, once the family's tax returns are lodged and assessed by the ATO. Therefore, fortnightly FTB payments are prospective payments, based on an estimate of customer's (and partner's where applicable) adjusted taxable income for the year.

How FTB debts arise

18.9   Essentially FTB customers may incur a debt to the Commonwealth in one of four ways:

- qualification—where a family's circumstances change so that the family is no longer eligible for FTB, or no longer eligible for the rate of FTB paid;

- reconciliation—where the reconciliation process has determined that the customer has been overpaid, when compared to their correct entitlement;

- non-lodger—where the customer and/or partner have not lodged a tax return within the prescribed time, or have not informed the FAO that they are not required to lodge a tax return for the relevant financial year; and

- administrative processes—where a computer processing error, or human error on the part of a FAO staff member, causes the customer to receive more FTB than they are entitled to.

18.10 Once FTB debts are identified, through either an automated process such as reconciliation or the work of individual FAO staff, as is often the case for qualification debts, the debt is formally raised in Centrelink's Debt Management Information System (DMIS) and referred to Centrelink's debt recovery network, for recovery action. Some debts are recovered immediately by automatically offsetting available components of a customer's supplement payment and/or tax refund against the debt. Where this cannot occur, staff in Centrelink's debt recovery network seek to contact the customer and negotiate a repayment arrangement. Under certain conditions, debts may also be waived, temporarily written off or permanently written off.

History of FTB debt

18.11 Most years, in its annual report, FaCSIA publishes statistics describing the number of FTB customers who receive overpayments, underpayments and nil adjustments. These statistics relate to the FTB entitlement year immediately preceding the year in which the annual report is published.

18.12 Although these statistics are prepared 12 months after the end of the FTB entitlement year, FTB customers have up to two years after the end of the entitlement year to lodge a claim. Therefore, the statistics included in the Department are accurate at the time of the publication of the audit. Yet these figures may further mature as some additional customers claim FTB in the second year and as others are reconciled when customer and partner lodge tax returns in the second lodgement year.

18.13 The ANAO's analysis in this regard examined how FTB reconciliation figures have matured over time for the 2002-03 FTB entitlement year. The figures showed that as at December 2003 some 435 448 customers had been identified as receiving a top-up payment in respect of the 2002-03 FTB entitlement year. However, by December 2004, 601 617 customers had been identified as receiving a top-up payment. A similar pattern is evident for customers identified as nil change and those incurring a debt – that is, with the passage of time and the completion of more reconciliations, more customers are identified in each category until, about 18 months to two years after the end of the entitlement year, the numbers stabilise.

18.14   FaCSIA's annual report for 2003-04 reported the number of top-ups for the 2002-03 FTB year as 552 912 – using the most up to date information available at the time of its publication. However, at the time of conducting the audit, a more accurate figure of 612 229 was available using FaCSIA's historical time series of reconciliation outcomes.

18.15   Further analysis by the ANAO showed that after the first year of the FTB programme, there was a decline in the number of FTB customers incurring a reconciliation debt, from year to year. In addition, the FTB population has been slowly increasing in size. Taking this into account reveals that the percentage of FTB customers incurring a reconciliation debt has decreased – from 33 percent of the FTB population in 2001-02, to 29 percent in 2002-03, to 10 percent in 2003-04 and seven percent in 2004-05.

18.16   An FTB debt is perceived by customers as a negative outcome and the repayment of these debts can cause some families at least some degree of financial hardship. Reducing the frequency of customers incurring a debt has been a priority for the FAO over recent years.

Audit objectives

18.17   The audit examined the effectiveness and efficiency of the FAO's management of overpayments, within the FTB Programme. In particular, the ANAO considered the FAO's activities in relation to FTB debt prevention, identification, raising and recovery. The audit also compared the FAO's policy documentation and guidance material for staff, against relevant sections of Family Assistance legislation.

18.18   Centrelink manages the majority of activity in relation to FTB debts, and has consolidated operations within six debt management centres. During this audit, the ANAO observed various debt management activities at Centrelink's Melbourne, Perth, Darwin, Brisbane, Sydney and Coffs Harbour debt management centres.

18.19   The ANAO also interviewed key FAO staff members at a number of Centrelink Customer Service Centres and Call Centres, across Australia. In addition, the ANAO discussed aspects of FTB Programme administration with programme specialists and information system staff in Centrelink, FaCSIA, Medicare Australia and ATO national offices, which are located in Canberra.

18.20   During the audit, the ANAO reviewed various departmental files, reports, statistical collections and data sets. The ANAO also examined a range of FTB claim forms, information booklets and agency Internet sites. Fieldwork for the audit was primarily undertaken during April 2006 to June 2006.

Overall audit opinion

18.21   Through a series of debt prevention strategies and measures, the FAO has significantly reduced the incidence and extent of customer debt arising from the reconciliation of FTB entitlements. In the first two years of the FTB Programme, approximately 33 percent of the FTB population incurred a reconciliation debt, whereas in the most recent two years[1] (at the time of the audit), the incidence of reconciliation debt had fallen to under 10 percent of customers.

18.22   In contrast with the range of activities targeting reconciliation debt, the ANAO noted that less attention had been paid to reducing the incidence of non-lodger debt—that is, debt arising from the failure to lodge a tax return (where required) in support of an FTB claim. The amount of non-lodger debt incurred each year has remained relatively stable. However, due to the reduced incidence of reconciliation debt, non-lodger debt now accounts for a greater proportion of the outstanding FTB debt stock than reconciliation debt.

18.23   The FAO has improved the rate at which FTB reconciliation debts are recovered from customers. Increased standard withholding rates, together with a FAO large debt initiative, announced in the 2005–06 Federal Budget, have contributed to this improvement. The ANAO noted that the recovery rate for non-lodger debt is significantly lower than that for reconciliation debt and that action regarding non-lodger debt was not included in the FAO large debt initiative.

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1   Latest figures available at the time of the audit were for the 2003–04 and 2004–05 FTB entitlement years.

ANAO recommendations

Table 18.1   ANAO recommendations, Audit Report No. 12, 2006-07

1.	The ANAO recommends that the FAO evaluates the introduction of the new FTB claim form (FAO04), for its impact on administrative workload and consistency of advice to new FTB customers. Agency Responses: Agreed
2.	The ANAO recommends that, building on the success of the strategies used to reduce reconciliation debt, the FAO develops and implements a customer awareness raising strategy and/or administrative measures, specifically targeted at reducing the incidence of non-lodger debt. Agency Responses: Agreed

The Committee's review

18.24   The Committee's review consisted of a public hearing on 28 February 2007. It was attended by witnesses from the ANAO, Centrelink, Department of Families, Community Services and Indigenous Affairs (FaCSIA), and Medicare Australia. The hearing took evidence on the prevention of FTB debts, the recovery of debts, the management of levels of debts and issues relating the child care tax rebates.

Preventing FTB debt

18.25   Part of the FAO's role is to assist customers in not incurring an FTB debt. Several debt prevention initiatives are used to fulfil this obligation. These include:

- the provision of sufficient information to help customers understand the FTB programme – the eligibility requirements and the obligations of FTB recipients;

- improved communication with customers - in particular, educating customers as to the importance of correctly estimating the family's annual income;

- identifying customers at high risk of incurring FTB debts and directly intervening to assist those customers reduce their risk; and

- legislative and policy changes, many of which provide customers with options for reducing the likelihood of incurring a debt.[2]

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2   ANAO Audit Report No.12, 2006-07 *Management of Family Tax benefit Overpayments*, p. 50.

18.26   The Committee asked Centrelink what action had been taken to specifically address non-lodger debts. Centrelink replied that:

> We have particularly looked at our current forms, advice and information we provide to the public and also nonlodgers specifically. We are reviewing all this public information. We are reviewing the forms and all the information around nonlodgers and tax returns…We are putting out a new letter to remind families of the requirement to lodge a tax return for family assistance... All families will receive a reminder of their obligation to lodge a tax return or to advise the Family Assistance Office, if they are not required to lodge, in May this year, when the new financial year estimate letter is sent. So we are using all the mechanisms that we currently have, and more, to encourage people to be aware of the non-lodgement issue.[3]

Non-lodgers

18.27   The ANAO's report stated that there were a high proportion of customers with multiple debts.[4] The Committee asked both Centrelink and the ATO for comment. Centrelink responded that:

> We need a combined strategy across the agencies dealing with nonlodgers. But in particular in our case what we are specifically looking at is what material people are currently getting which they are obviously, or potentially, not responding to. Is it because they do not understand it? Is it because there is not enough frequency in that information? So we are refining that as well as developing more information on the website to advise people of their requirement to lodge. This is a broader issue about several contacts that we have with nonlodgers and also that other organisations in the FAO also have to have.[5]

18.28   The ATO added:

> …but we are working collaboratively with the other agencies and assisting in the development of some of those products that we just talked about—the reminders et cetera. We have

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3   Centrelink, 28 February 2007, *Transcript of Evidence*, p. 2.

4   ANAO Audit Report No.12, 2006-07 *Management of Family Tax Benefit Overpayments*, p. 109.

5   Centrelink, 28 February 2007, *Transcript of Evidence*, p. 2.

> done sampling of the nonlodgers and we also found some
> levels of 'no requirement to lodge', where there is actually no
> requirement to lodge. Prima facie, the tax law sets out
> obligations for people to lodge, but there is no obligation on
> people to tell us if they have not got a requirement to lodge.
> So within the broad numbers, when you actually get into it,
> you find that some people do not have that lodgement
> obligation…[6]

18.29   The ATO advised the Committee that their efforts in this regard are
primarily focused around high revenue risks such as individuals in
high profile occupations like the legal profession. The ATO is working
collaboratively with other agencies to identify individuals in these
categories and also working on strategies to require these individuals
to lodge.

18.30   The Committee was concerned about this particular view taken by the
ATO. While focussing efforts on requiring people with higher
incomes to lodge tax returns is important, it is also important to
pursue all individuals who are non-lodgers. The Committee put the
view to the ATO that by allowing accumulation of debts by families,
especially those who are primarily reliant on Government benefits,
the system unfairly places added pressure on those families, as
repayment of the debt would account for a large proportion of their
income. The ATO responded that:

> …by working together across the agencies we will actually
> focus our effort on the people who require assistance to
> lodge. That is an important distinction: the ATO assisting
> people to lodge versus the ATO forcing people to lodge. The
> sanction for nonlodging is prosecution in the courts. I am not
> sure that the people who are involved in having these debts
> are the sort of people we would want to put before the court.
> So we need to find that middle ground, that strategy that
> actually encourages them to lodge and assists them to lodge,
> and that is where working across agencies, we believe, would
> be a better approach.[7]

18.31   The Committee was also interested in learning about the profile of
non-lodgers. Part of the Committee's concerns included that the ATO
is perceived as not having a commitment to its Tax Help programme.
Tax Help is a free service offered by a network of Tax Office-trained

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6   Australian Taxation Office, 28 February 2007, *Transcript of Evidence*, p. 3.
7   Australian Taxation Office, 28 February 2007, *Transcript of Evidence*, p. 3.

community volunteers. Tax Help is aimed at people who have simple tax returns (that is, salary and wages, bank interest, Centrelink payments and dividends) who meet an income test.

18.32   In defending its commitment to Tax Help, the ATO responded that:

> The analysis of income levels of this category of non-lodgers is not presently available. Analysis of the sample group is presently underway and will be provided as soon as possible.
>
> As noted in our response to the ANAO's report, we fully support the need to develop an understanding of the circumstances surrounding non-lodger debt in order to develop strategies to reduce the incidence of non-lodger debt.
>
> To this end we plan to undertake further analysis of this population, in conjunction with FaCSIA and Centrelink in order to determine characteristics, including income levels. This will provide a platform from which a range of measures can be developed to address non-lodgement of income tax returns by FTB recipients.[8]

18.33   FaCSIA was able to provide the Committee with some information on the department's own analysis of non-lodgers. It was stated that the most significant finding is that the composition of the non-lodger population does not differ from the general FTB population, that is to say, factors such as ethnicity and child support liabilities do not make an FTB recipient more or less likely to be a non-lodger.

18.34   In relation to strategies being used with the non-lodger population FaCSIA added that:

> Part of what we have been doing across the agencies is quite a lot of analysis of who the nonlodgers are and then thinking about what sorts of strategies would work best in responding to the issue. …There are a variety of strategies being looked at… They range from being of a relatively low intensity—further communications while, for example, drawing their attention to what other sources of assistance might be available—all the way through to being a potentially quite intensive interaction with those specific customers around 'Why haven't you lodged? Is there some problem? Can we help you?' and that sort of thing, which is not dissimilar from some of the strategies that have been employed around

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8   Australian Taxation Office, 28 February 2007, *Transcript of Evidence*, p. 2.

> reconciliation debt where for some groups it has been quite
> intensive.[9]

Recommendation 31

> **The Committee recommends that FaHCSIA provide the Committee with
> a written update in December 2009 in relation to the strategies being
> used in responding to the issue of non-lodgement.**

18.35   The Committee also asked whether literacy or numeracy were
contributing factors in terms of customers incurring FTB debts.
FaCSIA informed the Committee that it would conduct research to
examine whether these factors influence the current rate of non-
lodgement exists.

18.36   The Committee also asked whether those who had English as a
second language were at greater risk. FaCSIA responded:

> Not in the research that we have. All that we could really use
> there was country of birth as a proxy indicator and, as I said,
> nonlodgers are slightly more likely to be born in Australia
> than are the general FTB population. That does not seem to
> indicate that, though it is possible.[10]

18.37   The Committee asked the ATO about the strategies used to minimise
instances of multiple non-lodgers. The ATO responded:

> I think understanding the population and the attributes of the
> other agencies is a way forward. Across-the-board there is a
> whole range of reasons why people or businesses do not
> lodge. Payment is certainly an issue. They do not have the
> ability to pay so the easiest way is not to crystallise the debt
> by lodging the return or the activity statement.[11]

> That is certainly a big issue. Typically it compounds as well—
> they let one go, then they let two go, and then it has become
> too hard for them to face. The sanctions we employ, as I
> mentioned, are to prosecute, but there are many people

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9   Department of Families, Community Services and Indigenous Affairs, 28 February
2007, *Transcript of Evidence*, p. 4

10   Centrelink, 28 February 2007, *Transcript of Evidence*, p. 5.

11   Australian Taxation Office, 28 February 2007, *Transcript of Evidence*, p. 5.

whom it is absolutely not appropriate to prosecute. We work on the assistance angle: providing them with avenues and working with their tax agents. Seventy-five percent of individuals use tax agents to lodge income tax returns and 94 percent of businesses use tax agents to lodge returns, so in recent years we have really angled it at the tax agents—we work with them and they work with their clients—to assist people to lodge and get them to lodge.[12]

Debt raising and recovery

18.38   The Committee was interested in the areas of raising and recovery of non-lodger debt. The ANAO's audit report stated that if the customer has not responded to reminders and requests for information from the FAO and has not lodged a tax return by November of the second lodgement year – that is, some 18 months after the end of the year FTB payments were received – the entire amount of FTB payments received in the relevant FTB year is raised as a debt. Customers are notified in writing by the FAO.

18.39   The Committee asked whether there had been a sufficient shift in focus by FAO agencies from recovery of debt to assisting customers to correctly lodge their tax returns and informing them of strategies to avoid debt. Centrelink responded that it was assisting FaCSIA using its current mechanisms.

18.40   FaCSIA added:

> There is one really striking difference between reconciliation debt and other forms of FTB debt and nonlodger debt. The nonlodger debt itself is actually notional. The moment the person lodges, the nonlodger debt itself disappears. The person might then have a reconciliation debt associated with having lodged the tax return and then being able to have their income properly assessed. It is probably one of the reasons the government has been less focused on aggressively going after these people, in the sense that when the debts disappear you go back to just what their reconciled entitlement was.

> The biggest issue for them, of course, is that for as long as they have a nonlodger debt they are also not receiving, on an ongoing basis, their full entitlement. So there are already some incentives built in for them to lodge: first of all, they

12   Australian Taxation Office, 28 February 2007, *Transcript of Evidence*, p. 6.

> will get their correct entitlement and, secondly, they will get
> access to their FTB supplements, which otherwise they do not
> get.[13]

18.41   The Committee followed this by asking whether non-lodgers might
have an underlying fear of lodging their returns based on the fact they
may incur a debt through the reconciliation process. FaCSIA spoke of
the research that had been proposed which would:

> …get some form of external consultant to talk to these people
> in an environment where they might tell us some of these
> things…so that we get that information, because we do not
> have that now. But it is hard to imagine that that would be
> driving them because of what actually happens now if they
> have not lodged by the end of the financial year after the
> entitlement year. There is the entitlement year and then the
> first lodgement year and the second lodgement year, and if
> they have not lodged by the end of the first lodgement year
> we actually write to them. In November, we issue them with
> a debt notice: we write to them and say, 'Because you haven't
> lodged, all the FTB that you received in the entitlement year
> is now a debt and you owe us, and collection action will start
> within 28 days.' So, when you think about it, there is no way
> at that point that lodging a tax return could produce a worse
> outcome than where they are at that point in time.
>
> If they continue on payment then there are standard rates of
> withdrawal from their entitlement. If they are in the lower
> income group and they are receiving above the minimum rate
> of FTB part A, we claw back 25 percent of their payment on
> an ongoing basis. If they are on FTB part B only or if they are
> on the minimum rate, we claw back 95 percent of their
> payment because people in those groups are likely to be on
> higher incomes. In fact, out of the nearly 69,000 nonlodgers
> we have had so far, we have actually had 19,000 who have
> repaid their nonlodger debt—they just paid the lot back
> rather than lodging. This is somewhat mysterious to me.[14]

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13   Department of Families, Community Services and Indigenous Affairs, 28 February
2007, *Transcript of Evidence*, p. 6.

14   Department of Families, Community Services and Indigenous Affairs, 28 February
2007, *Transcript of Evidence*, p. 7.

18.42   The Committee asked Centrelink if it still employed staff in the capacity of Financial Services Officer and enquired as to the role such staff play. Centrelink responded affirmatively, but noted that its Financial Services Officers are primarily involved in helping age pension customers, particularly those with complex income and assets and also conduct public seminars on financial arrangements. The role of its Financial Services Officers is primarily to assist with the financial needs of older Australians and those of pension age. The scheme, which includes seminars, had not been extended to those in other groups such as single parents or people on low incomes.

Recommendation 32

The Committee recommends that the role of Centrelink's Financial Services Officers be extended to include advice to groups of customers who may find the provision of information helpful in their calculations about FTB entitlements.

Managing the stock of FTB debt

18.43   The stock of FTB debt is constantly shifting. Amounts are constantly being added to the stock of debt – as customer debt is identified and raised – and other amounts being subtracted from it – as debts are recovered from customers or are otherwise removed from the debt stock.

18.44   Typically, the bulk of reconciliation debts are identified in the first half of each financial year, as customers lodge their tax returns for the previous year(s) and the reconciliation process is conducted. Non-lodger debt is usually raised in the November of the second lodgement year – 18 months after the end of the year during which FTB payments were received by the customer.

18.45   The Committee asked FaCSIA for advice on the extent of the non-lodger population. FaCSIA responded:

> The original number of people who did not lodge in that year was around 55,000. At the time we did this work—which was 30 June last year, so more would have lodged since then—23,000 had subsequently lodged. Seventy-eight percent of that group—that is over 18,000 of them—received a top up totalling around $34.2 million. Twenty-one percent—4,900—received a debt, but that total level of debt was $8.7 million.

> Looking at those figures, when these people finally lodge, we spend more than we save from an Australian government perspective. The residual who are not lodging may not be the same.[15]

Case management

18.46   The Committee was interested in FaCSIA's approach to case management when dealing with non-lodgers. In particular, the Committee asked FaCSIA about its follow up contact with customers who have not yet lodged a return. FaCSIA responded:

> Such a measure as this for the nonlodger group is something that the ANAO refers to as the sort of strategy that might be appropriate as an administrative strategy. And it is the sort of thing we are discussing with the minister…if the government chose to do something like that, there would be further discussion between agencies on the exact terms…[16]

18.47   The FAO agencies also alluded to the difficulties in setting up an intensive follow up programme to deal specifically with non-lodgers, as is the case with the group of customers who are identified through the Assistance to Families at Risk of Overpayment (AFRO) project. The AFRO project identifies the customers who are at the highest risk of an overpayment (including those with previous reconciliation debts) and delivers intensive follow-up intervention to prevent debts occurring. FaCSIA stated:

> The difficulty with running an AFRO-like strategy in the case of nonlodgers is that we cannot predict who are going to be nonlodgers. The biggest predictor of someone not lodging is that they have not lodged in the previous year. In the case of the AFRO measure, we are targeting people who are at risk of giving us an incorrect estimate of their income, and we know some of the determinants of that—they are people with casual employment and factors like that. We can pick a group and try to prevent it occurring in those cases. That is much more difficult in the case of nonlodgers. Your biggest predictor is that they have not lodged in the past, so a strategy more like the government's large debtor measure, where we currently

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15   Department of Families, Community Services and Indigenous Affairs, 28 February 2007, *Transcript of Evidence*, p. 9.

16   Department of Families, Community Services and Indigenous Affairs, 28 February 2007, *Transcript of Evidence*, p. 8.

> case manage people who have large reconciliation debts,
> might be more appropriate. Something like that in the case of
> nonlodgers is something that we are exploring.[17]

18.48   The Committee asked Medicare Australia for an example of what
procedures would be followed if it received signals about a family at
risk. Medicare Australia responded that it has mechanisms for
referring 'at risk' customers to Centrelink where necessary.

Recommendation 33

**The Committee recommends that the FAO implement a program of
intensive assistance to the non-lodger population potentially based on
the Government's large debtor measure and provide a report to the
Committee on measures adopted to strengthen assistance.**

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17   Department of Families, Community Services and Indigenous Affairs, 28 February
2007, *Transcript of Evidence*, p. 8.

19

Audit Report No. 24, 2006-2007, Customs' Cargo Management Re-engineering Project

Introduction

Background

19.1   Australian Customs Service (Customs) is responsible for managing the security and integrity of Australia's borders. The role of Customs at the border is to regulate trade and travel, collect revenue and enforce relevant Australian laws.   One of the key features of Customs is its need to balance its responsibility for protecting the community with its obligation to facilitate the legitimate movement of cargo.

19.2   In 1996, Customs set out to review its cargo management processes and in 1997, its Cargo Management Strategy (CMS) was published. The aim of the strategy was to integrate the people, processes and technology associated with cargo management. The CMS evolved into a large and complex Information Communication Technology project titled the Cargo Management Re-engineering (CMR) project. The Australian National Audit Office (ANAO) outlined the key elements of the project as follows:

- re-engineering Customs' business processes;
- legislative change to support this new business environment; and

- developing the Integrated Cargo System (ICS) to replace Customs' transaction processing systems.[1][2]

19.3   The project also included the Customs Connect Facility (CCF), the secure communication gateway that allows internal users and external clients to interact with the ICS, and the Cargo Risk Assessment (CRA) System. The CRA identifies and assesses potentially high risk cargo.

19.4   The intention of the Trade Modernisation Legislation (TML) package was to modernise the way Customs managed the movement of cargo as well as providing the legal basis for an electronic business environment. Because of the substantial changes industry and Government would face, provisions in the legislation allowed Customs up to two years to introduce the ICS following the International Trade Modernisation Act being passed. Therefore the ICS was to be implemented by 20 July 2003.

19.5   Electronic Data Systems (EDS) Australia started developing the CMR applications (i.e., ICS and CCF) in 1998 under Customs' existing information technology (IT) outsourcing arrangements. In October 2001, it was agreed between Customs and EDS that EDS would retain management of the infrastructure, desktop and voice and data aspects of the project. The balance of analysis and development would be undertaken by one or more third parties. At the beginning of 2002, the Computer Associates Consortium was engaged to develop the ICS. Separate contracts with IBM and SecureNet were established to develop the CCF. Given the scope of the work, Customs was under considerable pressure to meet the July deadline for legislative implementation in the following year.

19.6   The CMR project experienced delays and significant cost increases. The project was estimated in 1999 to cost $30 million. The total cost of the project, which was considered by Customs to be completed as at 28 February 2006, was $205 million. Additional payments of $7.7 million were made by Customs for further developments and support of the ICS and CCF.

19.7   The ICS was implemented in three releases. Release 1 was a trial with industry during March and April 2003. The implementation of Release 2 on 6 October 2004, the exports component, was relatively successful. However, implementation of Release 3 on 12 October 2005, imports processing, had a significant impact on Australia's supply chain and international trading environment. There was a substantial disruption to

1   These systems included: Export Integration; Air Cargo Automation; Sea Cargo Automation and Customs Online Method of Preparing from Invoices Lodgeable Entries (COMPILE).

2   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 15.

the movement of cargo, particularly sea cargo, as a result of problems with the functionality and performance of the ICS and CCF. Australia's major ports were congested with a backlog of containers awaiting clearance and delivery for many weeks.[3]

The audit

19.8   The ANAO tabled a performance audit on Customs' Cargo Management Re-engineering Project on 7 February 2007. The objectives of the audit were to:

- examine Customs' management of the CMR project; and

- determine whether the ICS and Customs Connect Facility (CCF) met:
  ⇒ project and operational objectives; and
  ⇒ user capability and functionality requirements.

19.9   A particular emphasis was placed on the project management framework that supported the CMR project, implementation arrangements for the ICS, and ongoing operational arrangements.[4]

19.10   The ANAO audit report notes that after the audit commenced, Customs commissioned Booz Allen Hamilton to conduct a review of the ICS. The aim of that review was to provide Customs with a forward-looking report on the lessons to be learned from the ICS implementation, its current status and the opportunities to enhance benefits for both Government and industry. The review made thirteen recommendations relating to ongoing management and governance of the CMR project at both strategic and tactical levels.

Audit findings

19.11   The ANAO made the following conclusions in relation to its performance audit:

> Customs operates within Australia's international trading environment and must balance its border protection responsibilities with the need to facilitate legitimate trade. To successfully develop and implement a project of the size and complexity of the CMR project within this environment was a

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3   Background extracted from ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 15-16.

4   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 43-44

major challenge for Customs. The project encountered considerable delays, cost overruns and the implementation of the imports component of the ICS caused substantial disruption to the movement of cargo at Australia's major ports and airports.

The management framework that Customs had in place to support this project lacked many of the basic fundamentals necessary to successfully implement a large ICT project. The outcomes to be achieved and the expected benefits from the project were never clearly defined. There was no overall CMR project plan, financial management plan, project budget or proper assessment of the risks facing the project. There was also a lack of supporting documentation surrounding contractual arrangements. Delays in the early years of the project had major repercussions for the latter stages of the project. Project teams were continually under pressure to meet tight deadlines, which were not achieved. Delays with the project necessitated three amendments to the legislated implementation date.[5]

19.12   According to the ANAO, Customs underestimated the complexity and the risks associated with the project. They failed to respond properly to issues that were emerging and changes in risks. Moreover:

The implementation was not supported by a coordinated implementation strategy or adequate business continuity planning. Insufficient time was allowed for system testing, particularly end-to-end testing. Customs did not have quality assurance mechanisms to assess the readiness of third party software providers, the quality of their software or the preparedness of industry participants. Problems with the Cargo Risk Assessment system also impacted on Customs' ability to clear cargo and to target and assess high risk cargo, increasing the risks to Australia's border security and Customs' revenue collection responsibilities.[6]

19.13   The ANAO reported that while the CMR project involved signficant changes that would impact on industry stakeholders Customs did not manage the change process well and did not fully appreciate industry's capacity to meet the changes. A lack of understanding of industry's

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5   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 17-18.

6   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 17-18.

business processes contributed to the problems around implementation of the ICS Imports.

19.14   The ANAO also reported that Customs acknowledges that the project could have been better managed and it has learnt lessons:

> It has initiated a number of reviews to improve its processes, revised its organisational structure and is modifying the ICS to more closely align with user and business requirements. It is also taking steps to more actively engage industry. Successfully implementing the outcomes of these reviews and initiatives and rebuilding its relationship with industry will be critical if Customs, industry and the community are to realise the full benefits of the CMR project.

> Recognising the difficulties facing agencies undertaking large ICT projects, the Government recently introduced its *Responsive Government* policy[7], including the ICT Investment Framework and the Gateway Review Process.[8] These initiatives provide a project management and evaluation framework to assist agencies. It is still incumbent on agencies, however, to put in place the management structures, systems and processes necessary to effectively manage these projects.[9]

ANAO recommendations and agency response

ANAO recommendations

19.15   The ANAO made seven recommendations, all of which were agreed to by Customs. The aim of these recommendations was to improve the ongoing management of the ICS and the CCF and project management processes. Priority was given to Recommendations 1, 6 and 7. The ANAO recommendations are listed below:

- **Recommendation 1** – The ANAO recommends that Customs implements the necessary arrangements to align the import and export

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7   *The Responsive Government - a New Service Agenda* policy was introduced in March 2006 and outlines the Government's aim of effectively utilising ICT to assist in providing better service delivery, improving efficiency and reducing costs.

8   The Australian Government has introduced the Gateway Review Process for projects assessed as being of medium or high risk and over specific financial thresholds. Gateway is a project assurance methodology that involves short, intensive reviews at critical points in the project's lifecycle by an independent review team.

9   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 17-19.

processing provisions of the *Customs Act 1901* with the Integrated Cargo System business rules and processes as a matter of priority.

- **Recommendation 2 –** The ANAO recommends that Customs review its major ongoing projects to gain assurance that they are supported by a sound project management framework.

- **Recommendation 3 –** The ANAO recommends that Customs review its contract management arrangements for major ongoing projects to ensure compliance with:
  - ⇒ Chief Executive's Instructions;
  - ⇒ Commonwealth Procurement Guidelines; and
  - ⇒ Financial Management and Accountability Regulations.

- **Recommendation 4 –** The ANAO recommends that Customs develop, as a part of its software development lifecycle, a standardised approach to the testing and implementation of application projects and system modifications. This approach should require that:
  - ⇒ standards are established prior to the approval of the test project plan; and
  - ⇒ testing be undertaken in accordance with the project test plan.

- **Recommendation 5 –** The ANAO recommends that Customs updates its existing Memoranda of Understanding to reflect the implementation of the Integrated Cargo System. This should clearly establish: inter-agency consultative arrangements; security of information; message integrity requirements; and other administrative arrangements.

- **Recommendation 6 –** The ANAO recommends that Customs' review of the Integrated Cargo System (ICS) Imports Business Continuity Plan include:
  - ⇒ an evaluation of Customs' Business Continuity Management framework, specifically assessing its continued appropriateness following the implementation of the ICS and its relationship to existing disaster recovery requirements;
  - ⇒ documenting a control framework for transactions that occur as a result of a disruption to normal business activities; and
  - ⇒ developing processes for regularly reviewing and testing continuity plans.

- **Recommendation 7 –** The ANAO recommends that Customs review its strategy for communicating with industry and, as part of this review:

⇒ identify the most appropriate forums for communicating with industry;

⇒ establish formal feedback and review mechanisms;

⇒ determine the information to be exchanged and the most appropriate delivery method for each industry sector; and

⇒ assess the practicalities of implementing an industry/Customs secondment program.

Agency response

19.16   Customs provided the following response to the ANAO's performance audit:

> Through the implementation of the Cargo Management Re-engineering (CMR) Project, Customs has delivered a robust platform for business re engineering, replaced our legacy cargo management systems and introduced the Trade Modernisation Legislation to support the new security and trade facilitation environment.

> At the same time, Customs acknowledges that there are some things that could have been done to make the implementation smoother and that there are lessons for Customs that will arise not only in the continuing development of the Integrated Cargo System (ICS) but also in future major systems developments. Customs has made significant progress in addressing the shortcomings identified by the ANAO in this report and taking action to ensure they do not re-occur.

> Our staff responded quickly to address the immediate problems experienced by industry following the implementation of the imports processing component of the ICS in October 2005 and the system has functioned reliably during the past 14 months. However, it is clear that much remains to be done to realise the potential benefit of the ICS for both Customs and industry. Industry is now actively engaged with Customs in undertaking this work. Over the past year, Customs has implemented significant changes to the ICS to address the difficulties faced by industry and worked hard to build a more effective industry relationship for the future.

> Recognising the serious impact on Customs and industry, Customs commissioned external reviews of the ICS implementation and intelligence processes. Additionally, Customs

has undertaken internal reviews of key business processes including the Cargo Risk Assessment component of the ICS.

In early 2006, Customs engaged independent experts to assist it to identify the business improvements required to address any shortfalls of the ICS, and to deliver any unrealised benefits for government or industry.

The review of the ICS proposed a number of recommendations, addressing improvements to governance arrangements; tactical improvements providing for increased functionality, usability and system stability; and strategic transformation actions. A number of actions have been completed, including:

- Implementation of a range of enhancements to the ICS addressing functionality issues. Work on further enhancements continues in line with a work program agreed with industry;
- Establishment of the Cargo Processing Executive Steering Committee, chaired by the CEO of Customs and comprising senior representatives from industry and Customs, to provide on-going strategic direction to Customs Trade Facilitation Program;
- Development of a Trade Facilitation program management structure to ensure sound governance of the work program;
- Implementation of the first stage of new organisational accountabilities that better align operational outcomes with agency objectives, including the creation of a dedicated focus on end-to-end cargo management processes;
- Establishment of new cargo management business re-engineering projects, including projects examining Alternative Cargo Reporting, Supply Chain Security and Standardised Data Sets – co-design with industry and other stakeholders is a feature of these projects;
- Revision of software development procedures governing release of software;
- Implementation of a revised ICS Business Continuity Plan.

Action continues to ensure all recommendations of the independent review are addressed. Monitoring of implementation is occurring through Customs Executive Management and the Customs Audit Committee.

The external review of the intelligence function reported findings in December 2006. This review will provide a sound vision for the future development of Customs intelligence capability and to provide recommendations on how this can be achieved. To provide a stronger alignment of intelligence activity with agency

outputs a new Intelligence and Targeting Division has been established.

Action was undertaken in late 2005 and 2006 to address internal user issues associated with the Cargo Risk Assessment component of the ICS. Four working groups were established to consider issues in relation to usability, information quality, reporting and cargo selection. A number of CRA system enhancements have been implemented and an ongoing work program is being progressed as a high priority.[10]

The Committee's review

19.17   On 12 September 2007, the Committee held a public hearing to review progress made against the recommendations that came from the ANAO's audit. The public hearing was attended by representatives of the Australian Customs Service, and the ANAO.

19.18   The Committee took evidence on the following matters:

- changes to project management practices;

- IT services;

- accountability;

- issues related to the deactivation of profiles in October 2005;

- enhancing industry engagement; and

- the current status of recommendation implementation.

Changes to project management practices

19.19   As referred to in the overall audit summary above, the ANAO's audit of this project identified a number of key concerns with the project management framework supporting the development of the ICS and CCF. In chapter 3 of its report, the ANAO state that while Customs did develop a business case for the CMR, it not adequately identify costs, benefits, risks, deliverables or timelines. Additionally, there was no identified source of funding in the business case and no strategy for determining whether the project had achieved its overall objectives. No detailed financial plan for the CMR project overall or adequate business cases for

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10   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, pp 31-32.

the CMR, the ICS or CCF made it extremely difficult to monitor project costs properly.

19.20   One issue of particular interest to the Committee was the difference between the initial budget of $30 million and the final cost of the project which was in the vicinity of $205 million.

19.21   At the review hearing, Mr Neil Mann from Customs confirmed that no detailed cost estimate was prepared at the commencement of the CMR project:

> It is probably fair to say there was never a full life-cycle cost established at the outset of the project.[11]

19.22   Mr Mann also confirmed that Customs was unable to determine how the initial estimate of $30 million had been arrived at because no documentation has been found that would establish the basis upon which this figure had been calculated.

19.23   The ANAO reported that based on an initial cost estimate of $30 million for the CMR (although this estimate was not included in the original business case), Customs made a decision to fund the project from existing internal resources. Over time as the development costs increased significantly Customs' decision to use internal funding eroded available cash reserves and put pressure on operating resources. The ANAO concluded that Customs were poorly placed to determine whether the CMR project was affordable and achievable.

19.24   In addition to these deficiencies, the ANAO determined that project governance was inadequate. Customs' Executives were informed of the project's status through meetings, briefings and reports. Although the risks associated with the ICS were consistently rated as 'extreme' or 'high', the ANAO could not determine from minutes of meetings what actions had been implemented to address emerging risks. Meeting minutes did also not reflect discussions around project costs even though monitoring of costs should have been an integral part of the project's governance arrangements.

19.25   The Committee notes from the ANAO audit report that Customs did not develop an implementation strategy nor plan for the introduction of the ICS Imports Release. As a consequence of this, many decisions made immediately following the implementation were made in a 'crisis' environment. In the ANAO's view, these should have been developed and agreed to by all relevant parties well in advance of the

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11   Mr Neil Mann, transcript, 12 September 2007, p 4.

implementation. This would have enabled Customs to be better prepared. The ANAO recommended that Customs review the project management frameworks for ongoing projects.

19.26   The Committee sought assurance from Customs that the lack of documentation evident in this project no longer exists in other major projects in Customs. Mr Mann provided the following response:

> …we have set up, in addition to each business area having its own program governance arrangements, an independent corporate project office that is reviewing all significant projects, to give the executive that second level of assurance.[12]

19.27   Mr Murray Harrison, Chief Information Officer at Customs provided a brief outline of new performance measurement and contract management arrangements as follows:

> We have a very distinct governance structure that incorporates meetings with the CEOs. With those various organisations, on a regular basis we have a performance scorecard approach. We have new arrangements around service levels. There is a very elaborate structure that is designed to provide that information.[13]

19.28   Mr Mann outlined further changes to project management practices as follows:

> In the implementation of our project management approach there is a big focus on much earlier stage gates around describing the intent, objectives and deliverables. For large projects they will be escalated to the Customs executive rather than left to the relevant project board.
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> …We have added to the basic project management methodology—PRINCE2 is the version that we are using—to go even further to get clear statements of intent and deliverables at an early stage, which would need to be agreed at the highest level within the organisation. We have also taken a different approach to large projects, where, rather than committing ourselves to the full implementation of a project, we are saying: 'Hang on, let's just go to a proof-of-concept stage and develop a business case. Let's make quite clear that there is a go/no-go stage, without committing into the future.' That is certainly the approach that we are taking in response to the redevelopment of our passenger

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12   Mr Neil Mann, transcript, 12 September 2007, p 5.

13   Mr Murray Harrison, transcript, 12 September 2007, p 7.

assessment and clearance systems. In that case we sought an initial two-year funding from government to do some basic work around the infrastructure and platform issues, and we will be going back to government with a more detailed description of benefits in the out years before we seek the long-term funding.[14]

19.29 The Committee was informed that Customs had established a corporate project office and an internal audit committee. It is anticipated the former will be headed up by individuals external to the organisation who will, at a cost of $1 million per annum, review current project management approaches to ensure industry best practice and provide an independent assurance on significant projects to the CEO at Customs.[15] The internal audit committee has been restructured to comprise two external members, three internal members and a number of committee observers. Mr Mann advised that the composition of the audit committee is consistent with ANAO better practice guidelines.

19.30 Additionally, the Committee heard about how difficulties would be now responded to by Customs should they be raised in the context of an internal audit. First, projects similar in size to this project will be subject to the gateway review[16] and external government processes. Second, within Customs itself, there is now an obligation, via the audit committee to ensure the CEO is advised of any concerns. Finally, there is a "very methodical approach"[17] taken to project management such that any risks raised and actions taken would now be carefully recorded and documented.[18]

IT services

19.31 The Committee queried Customs' ongoing contractual relationship with Electronic Data Systems (EDS) Australia and was pleased to learn that while the initial development of the CMR applications had been the responsibility of EDS, the delivery of those services had now been divided

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14 Mr Neil Mann, transcript, 12 September 2007, pp 9-10.

15 Mr Neil Mann, transcript, 12 September 2007, p 10.

16 The Gateway Review Process (Gateway) is designed to improve the delivery of major projects. Gateway involves short, intensive reviews at critical points in a project's life cycle by a team of reviewers who are not associated with the project. The review team comprises accredited reviewers coordinated by the Department of Finance and Administration. Gateway applies to new projects undertaken by the *Financial Management and Accountability Act 1997* agencies which require cabinet approval and which satisfy certain financial and risk thresholds.

17 Mr Neil Mann, transcript, 12 September 2007, p 9.

18 Mr Neil Mann, transcript, 12 September 2007, p 9.

into six categories. Mr Harrison explained the nature of the new information technology arrangements as follows:

> The EDS contract that was entered into in 1998 was a contract that was for five years plus two plus two. It ran out at the end of June this year. We have now conducted a market-testing exercise around a sourcing strategy about how we want to deliver those services going forward. It is a long story, but we have broken up those services into essentially six categories. Of the six categories, we have put four to the market. One we decided to bring back ourselves and with the other we are going forward on a case-by-case basis. What I mean by that is that all our services in our main processing of mainframes, midrange and all that sort of stuff were, under the previous arrangement, delivered by EDS, either directly or through contract.
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> ...
>
> The main processing was one—and this exercise by IBM. Another component is what we call the internet and secure gateway services. That has been won by Verizon, which used to be Cybertrust—they were doing it under contract before—and Telstra won telecommunications. On what we call 'applications, maintenance and support', we have essentially 100 or thereabouts basic business applications in the organisation. We have decided to put a panel arrangement in place to support those. Two companies will get the bulk of the work. We are splitting it fifty-fifty. EDS will retain one of those components and KAZ, the other. There are three other companies on a panel, if necessary.[19]

Accountability

19.32   At the hearing, the Committee was advised that while no personnel involved with the design and implementation of this project from the outset remain with Customs, the former Chief Executive Officer had publicly taken responsibility for the management of the project.

19.33   The Committee was interested to learn what processes had been put in place to ensure adequate reporting to the relevant Minister. Ms Bailey responded as follows:

> …the process we now have is that we have an industry action group which meets quarterly. The minister's office staff attends every meeting and gives an independent report back to the

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19   Mr Murray Harrison, transcript, 12 September 2007, pp 6-7.

minister on those occasions. Jo [Corcoran] and I monitor those issues arising from industry. So I do think we have a much clearer line of sight now on the issues that are arising for industry dealing with the system and we make sure that that is treated with high priority and the respect it deserves. The minister's representative is there and we do regularly update them on the arrangement of issues that are arising.[20]

Issues related to the deactivation of profiles in October 2005

19.34   The ANAO performance audit reported that when ICS Imports (Release 3) was implemented there was a significant disruption to the movement of cargo, particularly in relation to sea cargo. This was because of problems with the risk profiling function. As a result of this problem, excessive cargo was being held and ports became congested with a backlog of uncleared containers for many weeks. In an effort to reduce the cargo backlog, all air and sea cargo profiles were de-activated posing a considerable risk to border security and Customs revenue collection responsibilities.[21]

19.35   The Committee was interested to learn what had been done by Customs to compensate industry for the disruption to their businesses and additionally, how the identification process of high risk cargo had been restored.

19.36   Mr Mann informed the Committee that while the experiences across industry stakeholders were not universally negative, Customs has reviewed and settled 555 compensation claims paying out $1.75 million.

19.37   With regard to the problems created as a result of the de-activation of the risk profiles, Ms Jane Bailey of Customs advised the following:

> By 3 November [2005], basically all the profiles had been restored and were fully functioning. Today we have the profiles for effective work, the cargo processing is quite stable and the risk processing is quite stable in the ICS. So while there was some time, especially on the first day or two, when a significant cohort of the air cargo profiles were deactivated, we in that case of course had a second line of defence there, which was basically our Customs officers. They were active there. For sea cargo the deactivation was for a much smaller cohort and they were quickly reactivated. So,

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20   Ms Jane Bailey, transcript, 12 September 2007, p 15.

21   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 119.

> while we recognise that there were issues, we quickly moved to restore them. Since that date, that process of profiling, and the activation and deactivation of them, has been standard and works as it is directed by the intel and targeting team.[22]

19.38   The Committee notes that individual Customs officers played a significant role in trying to clear the backlog of containers smoothing out some of the problems.[23]

Enhancing industry engagement

19.39   Although Customs put in place a number of strategies to engage with industry during the development of the Cargo Management Re-engineering Business Model, the ANAO found that Customs did not achieve a large proportion of industry 'buy in' for the Business Model. This was identified by the ANAO as a risk to the successful implementation of the project.

19.40   Throughout the development of the Business Model, industry raised concerns about a number of issues (e.g., onerous cargo reporting requirements, a strict sanction regime for non-compliance etc.) which were never resolved to their satisfaction. In considering these issues, Customs advised that it had to balance industry's concerns with its border protection responsibilities. This notwithstanding, the ANAO concluded that if some of the issues raised by industry had been more thoroughly examined by Customs early in the project, a number of the problems faced in implementing the ICS may have been minimised.[24]

19.41   The ANAO acknowledged initiatives that had been undertaken by Customs to improve its systems and processes and relationship with industry. The Committee queried Customs further on its attempts to enhance links with industry and repair the relationship. The Committee was informed that over the last 12 months, Ms Bailey, National Director of Cargo, had been working with industry to identify and address their concerns by enhancing Customs' processes. This included the establishment of a new branch entitled Industry Engagement and User Services Branch which incorporates a 'help desk' for industry.[25]

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22   Ms Jane Bailey, transcript, 12 September 2007, p 8.
23   Ms Sharon Grierson, MP, transcript, 12 September 2007, p 7.
24   ANAO Audit Report No 24 2006-2007, *Customs' Cargo Management Re-engineering Project*, p 19.
25   Transcript, 12 September 2007, p 6.

19.42   Additionally, Mr Mann reiterated the strategies that have been adopted to further enhance the relationship with industry:

> We still have our Customs national consultative committee that allows all of the major peak bodies to tell us what they think is going wrong or right, and we can provide them with updates. In addition, we have created a cargo processing executive steering committee, where the CEO has invited respected individuals from industry— [26]

19.43   And, further:

> They have been asked in their own right to be advisers to the CEO on not only how the current process is working but the future improvements they believe need to be made. Evidence of that is that, at industry's request, we are looking at whether there are benefits in moving to an alternative cargo reporting system such as that used in the United States. We are working in a joint team with industry to do the evaluation of a model that could perhaps take us forward. That is a process where we now are bringing industry into our working teams to actually provide joint advice to us around the merits of going one way or the other. [27]

19.44   Mr Mann further stated:

> In different parts of the organisation, much more now, we are bringing other government agencies and industry members into those consultation and codesign approaches. The industry action group that was established by the minister when things went bad is still going, and we are constantly prioritising with them on what the most important changes are, whether they be procedural, policy or system changes, to address their concerns. We will continue to do that for as along as industry wants to participate.
>
> We have also set in place stakeholder managers for elements of industry, whether they be exporters, importers or brokers. We now have dedicated people to get to know the industry, get to know the issues of the industry and be the channel—there is almost an internal advocate—for teasing apart what the consequences are for industry. They then represent those issues into our release management processes around which candidates we will promote for further work. We are not rushing to a systems solution; we are asking, 'What are other ways we could do it,

26   Mr Neil Mann, transcript, 12 September 2007, p 16.
27   Mr Neil Mann, transcript, 12 September 2007, p 16.

either in the interim or permanently?' It could be policy issues or it could be our processes that need to be fixed to address their concerns. So, there are a range of measures that we have put in place in the last 12 months.[28]

Current status – implementation of recommendations

19.45   At the hearing on 12 September 2007, Mr Neil Mann, Deputy Chief Executive Officer (Passengers and Trade Facilitation) of Customs provided the Committee with an update on the implementation of the recommendations made in Booz Allen Hamilton's Review of the Integrated Cargo System and the ANAO's report as follows:

> …[Booz Allen Hamilton's] review made 13 recommendations about how the ICS could be optimised…Just over 12 months later, 11 of those recommendations have been addressed, with work well advanced in respect of the remaining two, which focus on how we take ICS forward into the future.

> The ANAO review of the Customs cargo management re-engineering project was tabled in February 2007. Noting the work already underway in Customs in response to the Booz Allen Hamilton review, the ANAO made seven recommendations…Customs agreed with all seven recommendations and has made good progress on addressing them.[29]

19.46   Mr Mann, who identified himself as the key executive now responsible for the project, further advised:

> We have, for the ANAO recommendations, some expected completion dates. Two, I believe, we have completed, but we have a schedule of when we expect to complete the rest of the recommendations. We are treating it seriously. When I took over my role, I tasked our internal audit function to give me a report on how we thought we had gone against the Booz Allen Hamilton recommendations, to make sure that we were starting off on the right foot.

> …

> There was a need for us to go back and make sure that the intent of the recommendation had been properly addressed in our

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28   Mr Neil Mann, transcript, 12 September 2007, p 16.

29   Mr Neil Mann, transcript, 12 September 2007, pp 1-2.

implementation plans. That has now been done, and the same approach will be taken to the ANAO's recommendations.[30]

19.47   Mr Peter White, Executive Director, ANAO reaffirmed progress made by Customs:

> Customs is putting mechanisms in place to address some of the problems that came up. I think what is critical is that they have flagged the 13 Booz Allen Hamilton recommendations and the seven recommendations that we have made, and also flagged to rebuild this relationship with industry. That should give them a solid platform to go forward on.[31]

Recommendation 34

The Committee recommends that Customs provide a written report in the form of a submission to the Committee on the status of the implementation of the ANAO's recommendations and the recommendations of the review conducted by Booz Allen Hamilton within 6 months of the tabling date of this report.

19.48   It should also be noted that despite the difficulties associated with the implementation of the ICS, Customs appear satisfied with the system as it currently stands. As Ms Bailey reports:

> …I think we are all now of the view that we have actually got a very stable high-performing system. We regret that it did not start as well as it could have, but in terms of processing trade transactions it has turned out to be a very reliable platform. We would like to and will work with industry to return more productivity through them, but I think there is definitely a focus now at all levels, from the CEO, to the DCO, to me, to my national managers, to industry, about how to manage this and to make sure that all the issues are given the credibility and priority they deserve.[32]

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30   Mr Neil Mann, transcript, 12 September 2007, 7.

31   Mr Peter White, transcript, 12 September 2007, p 16.

32   Ms Jane Bailey, transcript, 12 September 2007, p 15.

Conclusion

19.49   The Committee is satisfied from the evidence provided at the hearing that Customs has acknowledged and taken responsibility for the significant problems that beset the CMR project. The Committee is also satisfied that Customs have expended considerable effort in addressing the recommendations suggested by both the ANAO and the Booz Allen Hamilton review. Of particular note is the effort that has gone into implementing Recommendation 7 of the ANAO relating to its strategy for communicating with industry.

19.50   That said, the Committee is gratified that the ANAO is considering a follow-up audit. It looks forward to receiving the findings of such an audit report in due course.

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Audit Report No. 37, 2006-2007, Administration of the Health Requirement of the *Migration Act 1958*

Introduction

Background

20.1   Australia operates a universal visa system to manage the movement of non-citizens across its borders. This visa system acts as a screening mechanism to prevent people who pose a security, criminal or health risk from entering Australia. People who wish to migrate permanently to Australia, or to stay temporarily, must apply to the Department of Immigration and Citizenship (DIAC)[1] for an appropriate visa. Currently there are about 150 visa types for managing applicants in different situations. In 2004-05, DIAC received 4.5 million visa applications and granted 4.3 million visas.

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1   As a result of Ministerial changes effective from 30 January 2007, the Department of Immigration and Multicultural Affairs (DIMA) became the Department of Immigration and Citizenship (DIAC).

20.2 Within the visa system, health risks are managed according to the health requirement of the *Migration Act 1958* (the Act), and the *Migration Regulations 1994* (the Regulations). The health requirement (also called the health criteria) is a relatively small but important component of DIAC's broader remit for border control.[2] The intent of the health requirement is to:

- protect the Australian community from public health risks;

- contain public expenditure on health care and community services; and

- safeguard Australians' access to health services in short supply.

20.3 Diseases such as tuberculosis (TB), Human Immunodeficiency Virus (HIV), malaria and hepatitis B and C are associated with high incidence, morbidity and mortality globally, and may incur high medical costs. Serious health conditions, for example, cardiac, pulmonary or renal disease, may also draw heavily on hospital resources or put additional pressure on long waiting lists for organ transplants. Against this backdrop, the health requirement for visa applicants has an important role in contributing to Australia's high standard of health and containing health costs.

20.4 In line with the health requirement, each visa applicant is required to have their health assessed by DIAC and to satisfy the Public Interest Criteria 4005-4007 (PIC) outlined in the Regulations. The extent of health screening undertaken will vary depending on DIAC's policy requirements and each applicant's situation, particularly their country of origin, length of proposed stay in Australia, and current health status. Some applicants need only to make a health declaration, while others require more extensive health assessments.

20.5 The health requirement applies to all visa applicants and must be met before a visa can be granted.[3] The foremost components of the health requirement state that the visa applicant:

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[2] The visa system is complemented by other border controls intended to minimise Australia's risk of exposure to diseases of public health significance. These controls include: the completion of passenger cards by travellers landing in Australia from overseas; surveillance of ports by Customs authorities; and human quarantine requirements which may be invoked under the Quarantine Act 1908. A quarantinable disease is any disease declared by the Governor-General, by proclamation, to be a quarantinable disease.

[3] The health requirement is set out in the *Migration Regulations 1994, Schedule 4, Public Interest*

- is free from tuberculosis;

- is free from a disease or condition that would result in a threat to public health or danger to the Australian community; and

- does not have a disease or condition that is likely to: require health care or community services while in Australia; result in significant costs to the Australian community; or prejudice the access of an Australian citizen or permanent resident to health care or community services.

20.6   Visa applicants complete a health declaration as part of their visa application and, depending on the applicant's individual circumstances, may be required to undergo further health assessment to establish whether they meet the health criteria. In 2004-05, DIAC processed over 400,000 health assessments, each involving one or more of the following: a medical examination; a chest x-ray; blood tests; and other specialist examinations.

20.7   DIAC maintains a panel of more than 3,600 overseas medical doctors and radiologists who perform medical examinations offshore on DIAC's behalf. Each applicant's medical reports are forwarded to DIAC for final assessment and clearance. Where an applicant's medical results indicate a significant disease or condition, a Medical Officer of the Commonwealth (MOC) assesses the medical reports and forms an 'opinion' on whether the visa applicant: meets or does not meet the health requirement; is eligible for a health waiver; or should be placed on a health undertaking. DIAC's case officers cannot change an MOC opinion and must take the MOC opinion into consideration when making the final decision to grant or reject a visa application.

Audit Objective

20.8   The audit objective was to assess the effectiveness of DIAC's administration of the health requirement of the *Migration Act 1958* (the Act). To achieve this objective, the ANAO examined whether DIAC was setting and implementing the health requirement in accordance with the Act, the *Migration Regulations 1994* (the Regulations), and DIAC's own guidelines.

Criteria (PIC) 4005-4007.

Audit Conclusions

20.9   DIAC had established administrative structures, procedures and
        guidelines to implement the health requirement specified in the
        Migration Act 1958 (the Act) and the Public Interest Criteria (PIC).
        While DIAC complied with the intent of section 60 of the Act, the
        audit identified several limitations and caps in DIAC's administrative
        processes underpinning its implementation of the PIC. These
        limitations and gaps weakened DIAC's ability to fully assess the
        appropriateness, consistency, and efficiency of its health screening of
        visa applicants. This also meant that DIAC could not determine the
        effectiveness of its implementation of the health requirement in
        protecting Australia from public health threats, containing health
        costs and safeguarding access of Australians to health services in
        short supply – important DIAC objectives under the health
        requirement.

20.10   DIAC's primary focus for health screening of visa applicants is to
        protect Australia from tuberculosis (TB). TB is the only disease
        specifically identified in the PIC, largely due to the significance and
        long history of TB as a global public health threat. Concurring with
        this focus, DIAC's guidelines and procedures for implementing the
        health requirement for TB were well-established. Notwithstanding
        these guidelines and procedures, DIAC should strengthen its
        arrangements to reduce the health risks associated with TB. In
        particular DIAC's health risk matrix for assessing temporary visa
        applicants should be kept up to date to ensure that visa applicants of
        highest TB risk were identified.

20.11   In some cases, individuals identified as having inactive TB (or who
        have a history of treatment for TB), are allowed entry into Australia
        providing they sign a 'health undertaking'. DIAC requires a person
        on a health undertaking to report to a designated health authority in
        their State or Territory of residence for a follow-up health assessment.
        This is a precautionary measure to check that their TB has not become
        active since their last medical examination. DIAC has few
        mechanisms to monitor or ensure visa holders' compliance with
        health undertakings, and thus cannot determine whether health
        undertakings are effective in terms of meeting the intent of the health
        requirement. DIAC would improve the effectiveness of health
        undertaking by establishing arrangements with the States and
        Territories that enable better monitoring and reporting of compliance.

20.12   DIAC guidelines and procedures for areas of the PIC concerning health threats other than TB, and to determine significant costs and prejudice to access, were less well established. In particular, DIAC had not determined which diseases or conditions constituted a 'disease or condition that would result in a threat to public health' for immigration purposes. While DIAC included some infectious diseases of global significance within this criterion, the reasons or a firm basis for doing so was often unresolved and undocumented. DIAC did not follow a systematic process for incorporating new or emerging health risks into its guidelines and risk management framework. This weakened DIAC's ability to develop responsive and soundly based migration guidelines and procedure, and to ensure that its guidelines aligned with other national public health policies.

20.13   To implement the PIC, DIAC requires technical advice from DoHA on public health issues. However, cross-agency collaboration between DIAC and DoHA had not been formalised. This affected the timely development of migration health screening guidelines and procedures. Stronger cross-agency arrangements would be beneficial in: defining roles and responsibilities; supporting the review and updating of DIAC's risk management framework for migration health screening; and in providing a timely and sound basis for the development of guidelines and procedures on immigration health matters, particularly in relation to public health threats and migration health screening.

20.14   Data management for the purposes of internal management of the health requirement and external reporting were also areas that required strengthening. Both in terms of IT system capability and use of data. DIAC's capacity to store and manage information on the health requirement was limited by the differences between its many IT systems and the lack of a central repository for client health data. Gaps in DIAC's client health data were reflected throughout its visa application processes, with consequential weaknesses in monitoring of health undertakings and health waivers undermining DIAC's ability to determine compliance or consistency with its own guidelines.

20.15   There is a particular need to address these IT limitations, as they weaken DIAC's efficiency in processing and managing visa applications, and diminish its capacity to generate meaningful data to monitor, evaluate and report performance against the health requirement. Under its *Systems for People* initiative, DIAC has outlined

preliminary costings and priorities for the redesign of its IT systems for health processing.

20.16　DIAC's performance framework provided little scope for performance monitoring and reporting of the health requirement. There were no outputs for the health requirement and one effectiveness measure, pertaining solely to TB. DIAC's performance framework needs to include a broader range of performance indicators and measures to provide better accountability and transparency of the health requirement. This will involve DIAC defining the cost and quality of the health requirement services it provides and assessing the overall effectiveness of the PIC.

ANAO recommendations

20.17　The ANAO made the following recommendations

Table 20.1　ANAO recommendations, Audit Report no. 37, 2006-2007

1.	To ensure that health risks to Australia are minimised, the ANAO recommends that DIAC and DoHA develop a protocol, such as a Memorandum of Understanding (MOU), that clearly define the respective roles and responsibilities of each agency in setting and managing the health requirement of the *Migration Act 1958*. The protocols or MOU should document mechanisms to achieve a well-coordinated and timely response to support DIAC in setting and reviewing the health requirement.
	DIAC's response: Agreed
	DoHA's response: Agreed
2.	To provide a sound basis for consistent medical assessments of visa applicants against the health requirement by Medical officers of the Commonwealth, the ANAO recommends that DIAC:
	• ensure an up to date and complete set of guidelines (Notes for Guidance); and
	• implement a formal process for regular review and appropriate endorsement of these guidelines.
	DIAC's response: Agreed
3.	ANAO recommends that DIAC, with assistance from DoHA, formulate comprehensive and current advice on what constitutes a threat to public health for immigration purposes. This advice should be used to inform the development of timely strategies for addressing emerging immigration issues having public health risk.
	DIAC's response: Agreed
	DoHA's response: Agreed
4.	ANAO recommends that DIAC improve its risk management of health assessments by:
	documenting the procedure for categorising countries' risks (low to very high) for the temporary health risk matrix, giving clear indication of the basis on which the risk categories are decided, and a process for regularly reviewing them;
	• regularly updating the gazetted list, *Specifications for countries for the purposes of regulation 2.25A*;
	• defining the methodology and re4asons for selecting countries for the

	gazetted list, and the basis for allocating authority for local clearance of health assessments to gazetted and non-gazetted countries; and
	• evaluating its process for assessing medical reports submitted by visa applicants prior to their visa applications (front end loaded applications) with a view to developing standard procedures and guidelines to manage and monitor this process effectively.
	DIAC's response: Agreed
5.	To encourage consistency in health waiver decisions and enable accurate reporting of health waiver outcomes, the ANAO recommends that DIAC:
	• in line with the department's requirements, ensure that all health waiver decisions are sent to a designated coordination point such as the Health Policy Section, for review and recording; and
	• ensure that sufficient data is collected to enable accurate monitoring and reporting of the outcome of health waiver decisions, including potential costs to the Government.
	DIAC's response: Agreed
6.	To improve the effectiveness of health undertakings, ANAO recommends that DIAC:
	• develop guidelines on health undertakings, to provide the basis for more transparent and consistent decisions; and
	• consult with the States and Territories with a view to establishing arrangements to assist DIAC in monitoring and reporting of compliance for health undertakings.
	DIAC's response: Agreed
7.	The ANAO recommends that DIAC fully scope the IT needs for the health requirement, in consultation with users, and develop a comprehensive strategy and plan for improving management of client records and data collection for purposes of program management, performance and outcome reporting.
	DIAC's response: Agreed
8.	DIAC's effectiveness measure for its implementation of the health requirement of the Migration Act 1958 is the 'extent to which public health and safety is protected through migration screening'. To enable DIAC to monitor and report its progress against this, the ANAO recommends that DIAC:
	• develop appropriate effectiveness indicators and effectiveness measures to monitor and report its performance in meeting key elements of the Public Interest Criteria, including diseases of public health threat other than tuberculosis; significant cost to the Australian community; and prejudice to access; and
	• effectively utilise data to set and review the health criteria, procedures and guidelines.
	DIAC's response: Agreed

The Committee's review

20.18   The committee held a public hearing on Wednesday 19 September 2007 with witnesses representing DIAC, DoHA, as well as representatives from the ANAO.

20.19   The Committee took evidence on the following issues:

- Cross-agency cooperation
  ⇒ Cooperation with DoHA

⇒ Memorandum of Understanding

■ Development of guidelines and procedure

■ The Health Risk Matrix

■ Management of emerging health risks

■ Health undertakings and health waivers

■ Panel doctors

■ IT systems

■ Performance monitoring

Cross-agency cooperation

20.20   The Committee discussed the importance of the relationship between DIAC and DoHA in assessing public health risks.

20.21   While DIAC was aware of the importance of coordination with DoHA to set its health requirements, as noted in DIAC's *Procedures Advice Manual* (PAM3)[4], the ANAO found that DIAC needed to more formally coordinate with DoHA to ensure that the implementation of the health requirement by DIAC was consistent with Australia's national health strategies. The ANAO also noted that DIAC was required to work with the Department of Families, Community Services (FaCSIA) and the Department of Employment and Workplace Relations (DEWR) to provide advice on disability and community services.

Cooperation with DoHA

20.22   DIAC's ability to coordinate migration health screening is reliant on technical advice and data provided by DoHA concerning diseases and medical treatments; available treatments and costs; Medicare; and information on strategies to combat communicable diseases such as TB, Human Immunodeficiency Virus (HIV) and hepatitis B.

20.23   The ANAO noted that the roles and responsibilities of the two agencies with regard to migration health screening had never been clearly defined or documented, despite several attempts in the past, including the establishment of the now defunct Interdepartmental Forum on Migration Health comprising representatives from DIAC, DoHA, and FaCSIA.

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4   Footnote 43, ANAO Report

Memorandum of Understanding (MOU)

20.24   At the final meeting of The Interdepartmental Forum on Migration
         Health, DIAC had presented a draft MOU to DoHA and FaCSIA, with
         DIAC indicating to the ANAO that no response had yet been received
         on the draft from the other agencies.

20.25   In response to Recommendation 1 from the ANAO report, DIAC
         noted:

> DIAC is working on a collaborative approach to policy
> development with DoHA, State and Territory public health
> authorities and other relevant bodies. To this end, DIAC will
> pursue a protocol or a Memorandum of Understanding with
> DoHA and other agencies to clarify our respective roles and
> responsibilities.[5]

20.26   Additionally, DoHA responded:

> DoHA acknowledges the need for cross-agency cooperation
> and supports the ANAO's recommendation to formalise
> consultative arrangements and clear roles and responsibilities
> of DIAC and DoHA. Documents outlining the proposed
> respective roles and responsibilities have already been
> circulated between DoHA and DIAC with a view to
> incorporating agreed elements in a protocol or MoU.[6]

20.27   The Committee expressed its support for more formalised agreements
         and cooperation between DIAC and DoHA. The Committee was
         informed that there had been an evolving series of practices over time
         that had not been formally adopted, that the MoU had led to
         clarification of the roles and responsibilities of DIAC and DoHA, and
         that the MoU had recently been concluded. [7] The Committee is
         pleased to see both agencies responding rapidly to the ANAO
         recommendation and formalising practices.

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5   ANAO Audit Report no. 37, 2006-2007, p. 60
6   ANAO Audit Report no. 37, 2006-2007, p. 60
7   Mr Hughes, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit,
     Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19
     September 2007, p. PA2

Development of Guidelines and Procedures

20.28   The Committee then examined guidelines and procedures that underpin the health assessment of visa applicants.

20.29   Information supporting the PIC is contained in DIAC's manuals and guidelines such as PAM3 and *Notes for Guidance* for Medical Officers of the Commonwealth (MOCs). The ANAO reported that as migration matters were subject to court appeal, MOCs required reliable and up to date guidelines (in the form of *Notes for Guidance*) to enable them to reach robust, consistent and legally defensible opinions.

20.30   The ANAO noted the development, updating and review of *Notes for Guidance* had been continually problematic over several audits regarding migration matters, and recommended that DIAC finalise a complete and up to date set of *Notes for Guidance* and that there be a formal process for review of said guidelines. DIAC agreed with the recommendation.

20.31   The Committee was informed that, subsequent to the ANAO's recommendation, DIAC had implemented clearer guidelines for MOCs[8] and that said *Notes for Guidance* would be reviewed and updated annually.[9] Further, in its response to the audit, DIAC noted there was the capacity to request an ad-hoc review if required, and that DoHA and other relevant agencies would now be consulted during the drafting of *Notes for Guidance*.[10]

The Health Risk Matrix

20.32   Noting the dynamic nature of potential risks to public health, the Committee expressed its concern at the absence of mechanisms enabling reviews of the Health Risk Matrix (HRM), and examined the issue further.

20.33   In order to identify visa applicants who may pose undue health risks to Australia, DIAC is required to conduct health screening of all visa applicants.

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8   Mr Farrell, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA2

9   Mr Farrell, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA4

10   ANAO Audit Report no. 37, 2006-2007, p. 66

20.34   The first step in this process is for visa applicants to answer questions
        about their medical history and health status and to sign a health
        declaration. Along with information contained in the HRM, the
        information contained in the health declaration is then used
        determine if further examination or action is required.

20.35   DIAC uses the HRM to determine the medical screening required by
        assessing the risk level of the applicant's country of origin and their
        proposed period of stay in Australia.

20.36   DIAC advised that the risk level of each country was based on its
        incidence of TB, and that the risk level was reviewed every two years,
        but that they could not confirm if the matrix was soundly based or
        current.[11]

20.37   As there were no clear guidelines for review of the HRM, the
        Committee inquired what circumstances acted as a trigger for DIAC
        to reassess the matrix. The Committee was informed that while the
        HRM was not subject to a formal review period, it had been
        monitored with the assistance of DoHA and other agencies, and that
        following the recommendations of the ANAO, the Health Risk Matrix
        would be evaluated annually.[12]

20.38   Accordingly, the Committee makes the following recommendation:

Recommendation 35

**The Committee recommends that DIAC institute clear guidelines for
review of the Health Risk Matrix outside of the provision for annual
review to take into account events and developments which may act as
prompts for review outside of the annual review period.**

Management of emerging health risks

20.39   The Committee expressed its continuing concern at the ability of
        DIAC and DoHA to adequately respond to potential health risks,
        noting that settlers from regions outside of Australia's traditional
        migrant sources may have had exposure to diseases or conditions

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11   ANAO Audit Report no. 37, 2006-2007, p. 84

12   Mr Farrell, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit,
     Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19
     September 2007, p. PA4

unfamiliar to Australian authorities. Further, the Committee examined the ability of the agencies to identify potential public health risks previously unencountered by health officials, such as variant flu strains, localised illnesses and new health risks.

20.40 The Committee was informed that potential health risks would have to be identified off-shore in the first instance, and that DoHA would seek expert advice from experts such as the Australian Health Protection Committee and the Communicable Diseases Network Australia on the potential risk to public health.[13] Further, it was indicated that a consequence of the recently signed MoU was for a fortnightly international health surveillance report received by DoHA to be provided to DIAC to enable both Health and Immigration officials be made aware of new strains and diseases that pose a potential threat to Australia.[14]

20.41 The issue of new migrants being exposed to diseases or conditions unfamiliar to Australian authorities was explored, with the Committee being informed that this issue had been addressed, with the introduction of pre-departure medical screening.[15]

Health undertakings and health waivers

20.42 The Committee also expressed its concern at the monitoring of health undertakings and health waivers.

20.43 Under the Regulations, a MOC can request a visa applicant to sign a health undertaking as a prerequisite to satisfying the health requirement.[16] The visa holder, on their arrival in Australia, must then present themselves to the health authority in their intended State or Territory of residence for a follow-up medical assessment.

20.44 A visa applicant may be required to sign a health undertaking if they have a disease or condition that the MOC determines to warrant a

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13 Ms Halbert, DoHA. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA9

14 Mr Parsons, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA10

15 Mr Hughes, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA4

16 Migration Regulations 1994, Schedule 4, Public Interest Criteria (PIC) 4005(d); 4006A(1)(d); and 4007(1)(d). Also, DIAC Procedures Advice Manual (PAM3), 1 July 2006, p. 126-129.

health undertaking, including a history of treatment for diagnosed or suspected TB, and if the applicant is pregnant and has not undergone the standard chest x-ray examination as a result of the pregnancy.

20.45 Health undertakings are administered by State and Territory health authorities, requiring DIAC to establish formal protocols for monitoring and compliance. At the time of the audit, there were some informal arrangements, but these did not provide comprehensive data on compliance with health undertakings and outcomes.

20.46 The Committee was informed that a formal system of follow-up would be resource intensive, and that a number of proposals had been developed which were being considered by the government at the time of the hearing.[17]

20.47 The Committee inquired whether guidelines on health undertakings to provide the basis for more transparent and consistent decisions had been prepared following the publication of the ANAO recommendations. It was advised that while a set of guidelines had been prepared, it was expected that a set of enhanced guidelines would be presented provided a funding application package was approved by the government.[18]

20.48 Despite this, the Committee expressed its concern that a set of guidelines could not be provided upon request. A clear set of guidelines for the monitoring of health undertakings, combined with clear protocols with individual States and Territories are both vital to not only provide adequate performance management data, but to increase compliance with health undertakings signed by visa holders.

20.49 Accordingly, the Committee makes the following recommendations:

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17 Mr Hughes, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA9

18 Mr Farrell, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA11

Recommendation 36

> **The Committee recommends that DIAC conclude clear protocols with each State and Territory to enable improved compliance of visa holders with health undertakings.**

Recommendation 37

> **The Committee recommends that DIAC produce a clear set of guidelines for the monitoring of health undertakings to assist in the improvement of visa holder compliance with health undertakings.**

Panel Doctors

20.50   DIAC relies on overseas panel doctors to provide medical examinations to visa applicants, by maintaining a list of over 3,600 doctors and radiologists approved to undertake medicals.

20.51   The Committee inquired as to the measures used to determine the credibility and expertise of these doctors, noting it was important to ensure set procedures were in place to prevent sub-standard medical practitioners performing such an important role.

20.52   The Committee was informed that a global medical unit based in Sydney managed the panel doctor network and provided screening of panel doctors. The procedure for appointing and maintaining panel doctors involved an initial assessment, and regular follow-up through e-mail or personal contact with doctors to ensure their skills and knowledge remain up to the required standards.[19]

IT Systems

20.53   At the time of the audit, DIAC utilised several unintegrated IT systems to manage data, process visa applications and to generate reports for performance management purposes. By DIAC's own admission, the systems were limited and not ideal, and prior to the audit, DIAC had been working on an integrated IT system.

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19   Mr Farrell, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA10

20.54   In responding to the ANAO's recommendation, DIAC noted it had
         established a Health Services Project and a Health Working Group to
         advance the project, with the working group meeting monthly to
         assist in the development of business direction and to provide advice
         and make recommendations to the project team.[20]

20.55   The Committee was informed that an end-to-end review of processes
         had been completed and that DIAC was still examining the ideal way
         to integrate an IT system into DIAC's processes, with a health portal
         being planned.[21]

20.56   The Committee was pleased to hear that an integrated IT system
         designed to function as a central repository of visa applications and
         health information has been budgeted for and is in the final stages of
         construction.[22] The Committee believes a central database for visa
         applications and the management of the health data of visa applicants
         is vital to provide reliable data to DIAC for internal performance
         monitoring and to eliminate the numerous inconsistencies and
         duplications in data received by DIAC relating to visa applications.

Internal performance monitoring

20.57   While DIAC has several monitoring and audit processes in place to
         monitor processes and management in relation to health assessments,
         the ANAO noted the limited capabilities of mechanisms used to
         examine data used for performance management and monitoring.[23]

20.58   As a result, DIAC was unable to accurately state how many health
         assessments had been completed, and how many visa applicants were
         refused visas as a result of not fulfilling the health requirement. The
         ANAO noted that a primary cause of this problem was the use of
         several unintegrated IT systems by DIAC to process visa applications
         and manage data as mentioned above.

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20   ANAO Audit Report no. 37, 2006-2007, p. 125
21   Mr Farrell, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit,
     Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19
     September 2007, p. PA6
22   Mr Parsons, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit,
     Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19
     September 2007, p. PA12
23   ANAO Audit Report no. 37, 2006-2007, p. 131

20.59   The Committee heard that DIAC had an active internal risk-based audit program and a departmental audit committee with an external Chair and with representation by the ANAO.[24]

20.60   Further, DoHA advised the Committee that they were approaching the conclusion of a significant enterprise risk management exercise which was designed to lead to a new iteration of the department's enterprise risk management plan.[25]

20.61   The Committee expressed its support for these positive developments, but noted more training was required by both departments to enhance the anticipated improvements in performance monitoring and assessment gained via improved data collection and analysis.

20.62   Accordingly, the Committee recommends:

Recommendation 38

The Committee recommends that DIAC and DoHA revise their training programs to include a focus on improving staff skills in performance monitoring and assessment to assist in greater departmental compliance with performance management requirements.

24   Mr Hughes, DIAC. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA7

25   Mr Learmonth, DoHA. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 19 September 2007, p. PA8

21

Audit Report No. 29, 2006-2007, Implementation of the *Sydney Airport Demand Management Act 1997*

Introduction

Background

21.1   Sydney Airport is a major international gateway and cargo airport and a key element of Australia's economic and transport infrastructure. It is set amid densely populated urban areas, relatively close to the city centre.

21.2   The following figure outlines monthly aircraft movements at Sydney Airport since 1998. It highlights the volatile nature of aviation demand, with the effects of the September 2001 terrorist attacks in the United States exacerbated in Australia by the collapse of Ansett Airlines. While aircraft movement growth at Sydney Airport has resumed, it is at a slower rate than prior to the events of September 2001 such that monthly movements have only recently returned to the levels observed before the Sydney 2000 Olympic Games.

21.3   Within the civil aviation industry, approaches to managing airport demand have evolved to improve the use of tightly constrained airport facilities. In this context, the International Air Transport Association (IATA) has developed procedures (called the Worldwide Scheduling Guidelines) to provide guidance on the allocation of available capacity and coordination of airline schedules. However, IATA has acknowledged that, where sovereign nations have in place legislation to govern the

management of demand, this legislation takes precedence over the Worldwide Scheduling Guidelines.

21.4   The *Sydney Airport Demand Management Act 1997* (SADM Act) provides the framework for the long-term management of demand at Sydney Airport. The SADM Act is intended to meet the commitment made by the Government prior to the March 1996 Federal election that aircraft movements at Sydney Airport would be capped at 80 per hour. In this respect, the requirements of the SADM Act take precedence over voluntary coordination practices advocated by IATA, and in place at other major Australian airports.[1]

21.5   In the second reading speech for the legislation, Parliament was advised that the demand management arrangements would:

- help alleviate delays caused by congestion at Sydney Airport;

- spread aircraft movements more evenly within hours;

- safeguard the levels of access that regional New South Wales has to Sydney Airport;

- provide for any potential new entrants to have equal access with their established competitors to slots at Sydney Airport; and

- ensure a workable and effective means of administering the movement limit.

21.6   The demand management scheme for Sydney Airport comprises the SADM Act and legislative instruments made under the Act. The SADM Act limits aircraft movements at Sydney Airport to a maximum of 80 per hour. Each arm of the operational requirements created by the SADM Act is put into effect by legislative instruments made under the Act. The two most important are:

- the Slot Management Scheme, under which aircraft operators are required to seek a slot (a permission to undertake an aircraft movement) from the Slot Manager;[2] and

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1   The voluntary coordination of scheduled movements between Australian Airports is a long-standing practice. International terminal coordination commenced at Sydney and Melbourne in 1971. Brisbane, Perth and Darwin airports followed suit, as have Adelaide, Townsville and Cairns as their international arrivals have grown.

2   The Slot Manager, Airport Coordination Australia Pty Ltd (ACA), was appointed by the Minister and is a proprietary company registered in New South Wales. At June 2006, the holders of its 1 000 issued shares were the Sydney Airport Corporation Limited (10 percent), Qantas Airways Limited (41 percent), Virgin Blue Airlines Pty Ltd (35 percent) and the Regional Aviation Association of Australia (14 percent).

■ the Compliance Scheme, which requires operators to carry out
authorised aircraft movements within a prescribed tolerance period
before or after the scheduled slot time. The Compliance Scheme also
deals with certain matters concerning the application of penalties to
aircraft operators who operate aircraft without a slot or outside of the
prescribed tolerances.

21.7   The combined action of these two instruments is intended to implement
the movement limit, by controlling the scheduling of aircraft movements
under the Slot Management Scheme and requiring timely performance
through the Compliance Scheme.

21.8   The SADM Act commenced on 17 November 1997, with the movement
limit and penalties for unauthorised aircraft movements coming into effect
on 17 May 1998. Both the Slot Management and Compliance Schemes
were made by determination of the then Minister for Transport and
Regional Services during 1998. The Slot Management Scheme commenced
operation on 25 March 1998, and the Compliance Scheme on 25 October
1998. Since the commencement of the scheme, there have been over 190000
regulated hours and approximately two million aircraft movements.

21.9   The Department of Transport and Regional Services (DOTARS)[3] is
responsible for the implementation and administration of the SADM Act.
Airservices Australia is responsible for monitoring and reporting on
compliance with the aircraft movement limit.

Audit Objective

21.10 The objective of the audit was to assess the implementation and
administration of the movement limit and the Slot Management Scheme at
Sydney Airport.

21.11 The scope of the audit included the development and administration of
the Act. The scope also included the development and administration of
the relevant legislative instruments and determinations, particularly those
which put in place the monitoring and compliance frameworks that
support the legislation.

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3   The Transport and Regional Services Portfolio was formerly the Transport and Regional
Development Portfolio. The name change occurred as part of revised administrative
arrangements in 1998. For consistency, all references in this report are to the Minister for
Transport and Regional Services (the Minister) and the Department of Transport and Regional
Services (DOTARS).

Audit Conclusions

21.12 The primary purpose of the SADM Act was to give effect to the Government's commitment to limit aircraft movements at Sydney Airport to 80 per hour. DOTARS had primary responsibility for the development of the delegated legislation that gives effect to the SADM Act. In doing so, the Department consulted with a range of parties, including airlines and representative groups. This approach was necessary to meet the underlying policy goals that the slot management arrangements be workable in the industry's interests and be developed and implemented by the industry in a cooperative manner. In this respect, DOTARS has advised ANAO that the scheme is held in high regard by industry and that there is a high degree of voluntary cooperation. However, ANAO's analysis is that elements of the legislative scheme are unclear, do not operate in the way intended or are ineffective.

21.13 Slot allocation is a complex process that, for international airports, has to fit within a world-wide structure. Slots at Sydney Airport are currently allocated and managed in a manner that aligns closely with the Worldwide Scheduling Guidelines issued by IATA. The Worldwide Scheduling Guidelines acknowledge that, where sovereign nations have in place legislation to govern the management of demand, this legislation takes precedence over the Worldwide Scheduling Guidelines. However, the allocation and management of slots at Sydney Airport does not accord with the SADM Act and its subordinate legislative instruments.

21.14 Under the SADM Act, almost all aircraft operators who wish to land at, or take off from, Sydney Airport must apply for and be granted a slot under the Slot Management Scheme. Slot allocation has the capacity to ensure that movement limit breaches do not occur, depending on the number of slots allocated in any given period, and the timeliness of the subsequent aircraft operations. However, the Slot Management Scheme does not include an express limit on the number of slots that can be allocated, and there has been at least one occasion on which more than 80 slots were allocated in a regulated hour. In an environment of increasing aircraft movements, there is also a risk to future compliance with the movement limit in circumstances where slot allocations are made at or near 80 movements per regulated hour.

21.15 The intent of the Sydney Airport Compliance Scheme is that aircraft operators comply with the requirement to obtain a slot for a proposed aircraft movement and, having done so, take reasonable measures to ensure the proposed movement occurs as planned. The SADM Act established a system of penalties for unauthorised aircraft movements so

as to protect the integrity of the movement limit, and establish clear
guides for airport users as to the range of sanctions that may be levied in
the form of an infringement notice or civil prosecution.[4]

21.16   There is evidence of a high number of unauthorised aircraft movements
(movements without a slot and movements outside the slot tolerances)
having occurred at Sydney Airport. However, since the scheme
commenced in 1998, no infringement notices have been issued to
operators or other penalties applied.

21.17   In addition, there are other factors which indicate that the demand
management scheme is not being administered as intended. These
include:

- the Compliance Committee chaired by DOTARS has not effectively
  applied the Compliance Scheme's provisions for identifying
  unauthorised aircraft movements; and

- some operators that have not been exempted by the legislation are,
  nevertheless, not required to submit data on their aircraft movements
  thereby enabling them to operate outside the jurisdiction of the scheme.

21.18   Further, the SADM Act requires Airservices Australia to monitor and
report breaches of the movement limit to the Parliament through its
Minister. However, reliable and accurate records do not exist to evidence
past monitoring of compliance with the movement limit, and support the
reports made to the Parliament. The available data indicates that some of
the 61 reported breaches may not, in fact, have occurred. This data also
indicates that there may have been many other, unreported, breaches of
the movement limit. This position should be considered in the context of
approximately two million aircraft movements since the commencement
of the scheme. The available data shows that breaches occurred prior to
September 2001 when there were higher overall numbers of aircraft
movements at Sydney Airport. The risk of future breaches will increase
when the scheduled numbers of aircraft movements at Sydney Airport
return to pre-September 2001 levels.

21.19   Against this background, the management of aircraft demand at Sydney
Airport needs to give more emphasis to the legislative requirements put in
place specifically to manage aircraft movements. In this respect,
Airservices Australia and DOTARS have already taken steps in a number

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4   *Sydney Airport Demand Management Bill 1997*, second reading speech, House Hansard, 25
September 1997, p. 8536.

of areas to improve administration of the demand management scheme. These steps include:

- Airservices Australia is planning to introduce new technology to enhance its ability to meet its obligations to monitor aircraft movements at Sydney Airport. This is at least three years away and, in the meantime, other steps are underway to improve data collection, processing and reporting; and

- DOTARS has written to the Slot Manager and Airservices Australia reinforcing the primacy of the legislation over industry guidelines, emphasising the importance of delays being managed through the Compliance Scheme and stressing the need for operators to obtain a new slot where they are unable to use a slot on the day for which it was allocated.

21.20 Having regard to the improvement initiatives already underway, ANAO has made six recommendations relating to:

- The development and implementation of performance information and performance reporting that addresses the demand management scheme's objectives;

- addressing deficiencies in the legislative framework, including the fundamental issue of clear and effective aircraft movement definitions;

- implementation of slot allocation and management processes that comply with legislative requirements (rather than industry-preferred procedures) and promote adherence to the movement limit; and

- effective and equitable compliance arrangements that address all unauthorised aircraft movements.

ANAO Recommendations

Table 21.1   ANAO recommendations, Audit Report no. 29, 2006-2007

1.	ANAO recommends that the Department of Transport and Regional Services promote the efficient and effective implementation of the demand management scheme for Sydney Airport by:
	(a) establishing performance measures for each of the scheme's objectives; and
	(b) reporting to the Parliament on the administration of the demand management scheme, including the extent to which the scheme's objectives have been achieved.
	DOTARS response: Agreed
2.	ANAO recommends that, in view of the importance of valid and effective aircraft movement definitions to the demand management scheme, the Department of Transport and Regional Services take steps to ensure consistency between the Compliance Scheme and the *Sydney Airport*

	Demand Management Act 1997.
	DOTARS response: Agreed
3.	ANAO recommends that the Department of Transport and Regional Services seek to improve its ability to oversight the allocation and management of aircraft movement slots at Sydney Airport by working with the Slot Manager to:
	(a) implement arrangements that provide the Commonwealth with appropriate access to, and protection of, the records of the Slot Manager;
	(b) clarify the process for prioritising slot applications;
	(c) clarify the operation of the historical precedence provisions in the Slot Management Scheme so as to provide a sound basis for the allocation of movement slots to existing operators at Sydney Airport; and
	(d) oversight the slot allocation process in order that all the statutory rules governing historical precedence are applied.
	DOTARS response: Agreed
4.	ANAO recommends that the Department of Transport and Regional Services work with the Slot Manager to enhance the rigour and effectiveness of the demand management scheme by:
	(a) identifying and evaluating options for obtaining movement data from all operators that use Sydney Airport, except those that are exempted from the scheme;
	(b) establishing and applying the necessary authority for varying, suspending or cancelling the Slot Management and Compliance Schemes in the event of major disruptions to the operations of Sydney Airport;
	(c) developing operational procedures for the Compliance Committee that apply the legislative requirements for identifying and assessing unauthorised aircraft movements; and
	(d) assessing options for obtaining greater assurance, on a risk management basis, as to the veracity of reasons given by operators for movements operating outside of their slot tolerances.
	DOTARS response: Agreed

The Committee's Review

21.21   The Committee held a public hearing on Wednesday 12 September 2007 with witnesses representing DOTARS, Airservices Australia, as well as representatives from the ANAO.

21.22   The Committee took evidence on the following issues:

- Legislative framework

- Movement cap breaches

- Definitions

- Data management and reporting mechanisms
    - ⇒ Data management
    - ⇒ Reporting mechanisms

■ Improving agency compliance with legislation

Legislative framework

21.23 The Sydney Airport Demand Management Act (SADM Act) was assented to on 17 November 2007. The purpose of the act is to limit aircraft movements at Sydney Airport to a maximum of 80 per hour. Each arm of the operational requirements created by the SADM Act is put into effect by legislative instruments made under the Act. The two most important are:

■ the Slot Management Scheme, under which aircraft operators are required to seek a slot (a permission to undertake an aircraft movement) from the Slot Manager;[5] and

■ the Compliance Scheme, which requires operators to carry out authorised aircraft movements within a prescribed tolerance period before or after the scheduled slot time. The Compliance Scheme also deals with certain matters concerning the application of penalties to aircraft operators who operate aircraft without a slot or outside of the prescribed tolerances.

21.24 The combined action of these two instruments is intended to implement the movement limit, by controlling the scheduling of aircraft movements under the Slot Management Scheme and requiring timely performance through the Compliance Scheme.

Movement cap breaches

21.25 The Committee was concerned that there had been inadequate reporting of breaches of the movement cap to Parliament, however, the Audit Report indicates there were severe deficiencies in data collection and data management that have led to confusion over whether or not cap breaches have actually occurred.

21.26 In the public hearing, the ANAO indicated that due to these data deficiencies, it was not possible to determine if there had been over 80

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5 The Slot Manager, Airport Coordination Australia Pty Ltd (ACA), was appointed by the Minister and is a proprietary company registered in New South Wales. At June 2006, the holders of its 1 000 issued shares were the Sydney Airport Corporation Limited (10 percent), Qantas Airways Limited (41 percent), Virgin Blue Airlines Pty Ltd (35 percent) and the Regional Aviation Association of Australia (14 percent).

movements in an hour, or which movements were exempt movements and therefore should not be counted towards the cap.[6]

21.27   Airservices Australia acknowledged their system made it impossible to verify the true number of movements made per hour. As a result, they acknowledged there was a need to improve their data and records management procedures to not only monitor the total number of movements per hour, but also which movements were exempt from the cap.

> They key learning from Airservices' perspective was the need to improve our data and records management. It was not that it was freely available; it was freely available but it was about our systems which are now designed to keep them for longer than the 30 days. That was key to the point: because we were not keeping them for longer than the operational requirement, that made it difficult to verify. We have now put processes into place to be able to do that and we have new technologies which are converting the paper strip technology to electronics, which will make this problem not apparent any more.[7]

21.28   The Committee inquired whether other agencies had found it difficult to access data, and sought an assurance that records would be available for Commonwealth officers in the future. DOTARS advised the Committee that they had had no difficulty in accessing the records to date, but that there were regulations being put into place for the making and keeping of records by the compliance committee and the slot coordinator.[8]

Definitions

21.29   The SADM Act defines aircraft movement as the landing of an aircraft on a runway, or the taking off of an aircraft from a runway.[9]

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6   Mr Bond, ANAO. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA21

7   Mr Dudley, Airservices Australia. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA21

8   Mr Mrdak, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA21

9   S33, *Sydney Airport Demand Management Act 1997*

21.30   To monitor aircraft movement, Airservices Australia recovers radar data which approximates the time at which an aircraft's wheels leave (for take-off) or first touch the runway (for landing).

21.31   The SADM Act does not explicitly define the terms *land* and *take off*, instead, they are defined in Schedule 1 as having the meaning given by the Compliance Scheme. The Compliance Scheme defines the terms as follows:

> An aircraft 'takes off' when it first moves after all external doors have been closed in preparation for flight; and

> An aircraft 'lands' when, after a flight, it comes to a standstill and the engines are turned off.

21.32   This has led to the situation of Airservices Australia, the organisation in charge of monitoring movement using a different definition of an aircraft movement to that defined in the Compliance Scheme established by the Act.

21.33   The usual rule of statutory interpretation is that the provisions of an Act cannot be undone by regulations or other instruments made under that Act. The purpose of this is to recognise the primacy of the Parliament and is intended to guide officials drafting and administering instruments made under the authority of an Act. A definition that is used in delegated legislation must comply with the requirements of the empowering Act unless the Act provides otherwise. In this case, the definitions of 'take off' and 'land' in the Compliance Scheme are inconsistent with the requirements of the SADM Act.

21.34   The Committee asked why there had been problems establishing standard definitions of aircraft movement, as standard definitions would improve the consistency of data available to assess the performance of the demand management scheme. The Committee was informed that the movement cap refers to movement on the runway,[10] while the slot management scheme refers to movement from gates.

21.35   The Committee was advised that the slot management scheme's use of movement from gates was consistent with international practice, and that work to align definitions was in progress.[11]

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10   Mr Doherty, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA24

11   Mr Mrdak, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA25

Recommendation 39

The Committee recommends that a standard definition of aircraft movement be used for the purposes of administering and reporting on compliance with the SADM Act and that this definition directly relate to aircraft movement on runways.

Data management and reporting mechanisms

Data Management

21.36   The Committee notes one of the major points of the Audit Report was the lack of recorded information available to the ANAO to assess compliance with legislation. Further, the lack of recorded information made it difficult to assess the functioning of the slot management system and to prepare reports to Parliament on the slot management system.

21.37   As noted above, aircraft movement data is provided by both the slot coordinator, Airport Coordination Australia (ACA) and Airservices Australia. The data is then presented to DOTARS, with Airservices Australia analysing the data to report on compliance with the movement cap.

21.38   ACA commented in their response to the Audit Report that they had provided the Department with performance data since 1998, and pledged to cooperate to provide any further information required.

21.39   The Committee requested elaboration on data provision for performance measurement, and were informed by DOTARS that there were issues around the way the slot coordinator (ACA) dealt with data and records.[12]

21.40   The Committee inquired whether ACA was an outsourced organisation, and was informed that ACA was a limited liability company owned by the airport and airlines, a model consistent with overseas practice.[13]

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12   Mr Mrdak, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA19

13   Mr Mrdak, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA19

21.41   The audit found that the slot compliance procedures were based on the International Air Transport Association (IATA) Worldwide Scheduling Guidelines, rather than the SADM Act. The Worldwide Scheduling Guidelines note that they are subordinate to any local legislation that applies, and, as such, the slot compliance procedures should have followed the requirements of the SADM Act, rather than any IATA guidelines.

21.42   The preference for IATA guidelines over legislation is of great concern to the Committee, and the Committee looks forward to seeing the ANAO recommendations implemented in full to ensure that Australian legislation rightfully takes precedence over IATA guidelines.

Recommendation 40

The Committee recommends that the SADM Act be used as the sole guide for slot compliance procedures.

Reporting mechanisms

21.43   The Committee each year approves the annual reporting requirements for Commonwealth Departments. One of these requires Annual Reports to include 'reporting of actual results against the specific standards for the outcomes and outputs set out in the PBS/PAES'.[14]

21.44   The Audit Report found DOTARS' reporting of its performance in administering the SADM Act has been minimal, and that there is no evidence that DOTARS has put in place mechanisms to measure the success of the Slot Management Scheme in meeting the remaining objectives outlined in the Minister's Second Reading speech. The ANAO found:

■   no evidence of a performance information or evaluation strategy being developed as part of the policy development process;

■   no evidence of base-line data collection or systematic and ongoing reporting or relevant performance information; and

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14   Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* (Approved by the JCPAA under subsections 63(2) and 70(2) of the *Public Service Act 1999*), June 2005, p. 6.

- no evidence that the Department has formally evaluated the administration of the program or the outcomes that have been achieved.

21.45   Accordingly, the ANAO recommended that DOTARS establish performance measures for each of the scheme's objectives and report the administration of the scheme to Parliament.

21.46   DOTARS agreed to the recommendation and undertook to review its performance reporting regime and establish measures for the scheme's objectives as appropriate, and pledged to include performance information in the Department's Annual Reports.

Improving agency compliance with legislation

21.47   The Committee believes it is quite clear to see that there is very little compliance with the SADM Act, with the preference for use of the IATA Worldwide Scheduling Guidelines preferred. This situation is unacceptable, and it is vital to ensure agencies cooperate with the appropriate legislation for demand management at Sydney Airport – the SADM Act.

21.48   DOTARS indicated to the Committee that they believed the SADM Act actually performed two functions – controlling and capping runway movements at a maximum of 80 per hour, while providing an orderly planning regime for slot allocation.[15]

21.49   The Committee examined ways of improving the legislation, inquiring whether changes to legislation could be effected through regulation the primary legislation itself. The Committee was informed that the slot management scheme and compliance scheme were both statutory instruments, and that any changes in definitions would have to be effected through the primary legislation, requiring a package of amendments to the SADM Act.[16] Further, the Committee was advised that legislative

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15   Mr Mrdak, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA25

16   Mr Doherty, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA25

amendments had not yet been prepared, but that a bid for drafting had been placed at the time of the public hearing.[17]

21.50   It is of concern to the Committee that the SADM Act and its subordinate instruments did not completely align, resulting in the inconsistency of definitions. The Committee believes there are definite lessons to be learned from this experience, and that portfolio departments must ensure legislation is developed through the usual standard processes.

21.51   DOTARS conceded that the Audit Report had shown that the process could have more closely followed the procedure in the Act, and that the Department had established a working committee that included the compliance group and the slot manager. The objective of the working committee was to examine the operation of the arrangements with the goal of ensuring amendments to the scheme align with the requirements of both the compliance group and the slot manager.[18]

21.52   Further, DOTARS have indicated that while they are looking at amending the legislation to clarify definitions, they have also taken steps within the administration of the scheme through the slot manager to ensure that the administration of the scheme is consistent with the legislation.[19]

21.53   The audit revealed that the slot management scheme was focused on the gate movement time, rather than runway takeoff and landing times. Gate movement times are of little use in recording aircraft movements for the purposes of administering a movement cap, as there is often a considerable gap in time from an aircraft leaving the gate to actually taking off.

17   Mr Doherty, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA26

18   Mr Doherty, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA26

19   Mr Mrdak, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA23

21.54   DOTARS indicated to the Committee that while both statistics are important, there was clearly a need to align and improve the data collection process to make sure both gate and take off/landing times are recorded.[20]

Sharon Grierson MP
Committee Chair

August 2008

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20   Mr Doherty, DOTARS. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports Nos 21 (2006-2007) to 3 (2007-2008), Wednesday 12 September 2007, p. PA25