

Chapter 3

Prime Minister and Cabinet Portfolio

3.1 The committee took evidence from the Department of the Prime Minister and Cabinet and the Office of the Official Secretary to the Governor-General on Monday, 23 May 2005 and from the Department of the Prime Minister and Cabinet (in continuation), the Office of National Assessments, the Office of the Inspector-General of Intelligence and Security, the Australian Public Service Commission, the Australian National Audit Office and the National Water Commission on Tuesday, 24 May 2005.

Office of the Official Secretary to the Governor-General

3.2 Issues raised by members of the committee and senators in attendance included:

- An offer by the Prince of Wales to provide transport on his private jet for the Governor-General and Mrs Jeffery, following the Pope's funeral;
- The Governor-General's patronage of charitable organisations;
- Budget allocation of \$7.7 million for implementation of a heritage property master plan;
- Increased use of the Rolls-Royce by the Governor-General; and
- Staffing issues, including staff turnover, Defence postings and staff use of the Employment Assistance Program.

3.3 With regard to the heritage master plan, witnesses explained that the Office had developed a maintenance and development schedule for Admiralty House in Sydney and Government House in Canberra.¹ The committee heard that a range of consultants had been engaged for the project, including heritage architects, engineers, and environmental consultants but only one contract had gone to competitive tender. Mr Bullivant, Corporate Manager, said:

We utilised the services of two main consultants that have been used by Government House for quite some time and are very familiar with both properties. As the lead consultants on the projects, they then subcontracted to a range of other consultants. We also engaged separately, through a competitive process, a heritage architect to look at the landscape requirements of Admiralty House.²

3.4 The committee examined works to be undertaken in accordance with the plan out to 2008-09. These works include refurbishment of a number of buildings, site

1 *Committee Hansard*, 23 May 2005, F&PA 81

2 *Committee Hansard*, 23 May 2005, F&PA 82

services such as electrical supply and fuel management, environmental system work primarily relating to air conditioning, occupational health and safety related works such as dealing with asbestos cement and lead based paint, infrastructure works including road upgrades and a new carpark, and provision of education and visitor facilities.³

Department of the Prime Minister and Cabinet (PM&C)

3.5 Issues raised by members of the committee and other senators in attendance included:

- A special appropriation of \$10 million to the Australia and New Zealand School of Government (ANZSOG);
- Unauthorised disclosures of information and subsequent investigations;
- Australia's wedding present to the Prince of Wales and the Duchess of Cornwall;
- Claims in the media that the Prince of Wales wishes to open the 2006 Melbourne Commonwealth Games;
- The increasing prevalence of the interdepartmental task force structure;
- The APEC Taskforce;
- PM&C involvement in the Palmer Inquiry;
- Continuity of government planning;
- The Regional Partnerships Program grant to the Beaudesert Railway;
- The appointment of Mr John Hannaford to the Australian Crime Commission;
- PM&C's coordination of answers to Senator Murray's questions on notice regarding government advertising;
- New administrative arrangements for Indigenous functions;
- The issue of unlicensed security consultants—a responsibility of the Attorney-General's Department;
- The government's advertising campaigns relating to the Tasmanian Community Forestry Agreement and state taxes;
- The total budget for government advertising;
- Budget preparations;
- The Medicare safety net issue;
- Industrial relations policy;
- PM&C involvement in and knowledge of the Gallipoli Peninsula road works;

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- The Welfare Reform taskforce and the Welfare to Work steering committee;
 - The structure and operations of the National Security Division;
 - The taskforce on offshore maritime security;
 - Outstanding responses to questions on notice, including the cost to the taxpayer of functions held at Kirribilli House between 1 June 2003 and 1 January 2004 and the Prime Minister's stay at Claridge's Hotel; and
 - Maintenance expenditure at Kirribilli House and the Lodge.

Lack of preparedness by officers

3.6 The committee's ability to examine the expenditure and administration of government programs was hampered by some PM&C witnesses' ill-preparedness to answer questions on issues of such public policy significance and prominence as to be expected to be raised during this estimates round. Specific examples, which are discussed in more detail below, include witnesses taking all questions on notice relating to PM&C involvement in the Palmer Inquiry⁴ and being unable to provide specific answers to questions about the Beaudesert Heritage Rail Project until the second day of the department's appearance.⁵ Each of these matters had been the subject of debate in both chambers as well as intense media coverage prior to the hearings.

Australia and New Zealand School of Government (ANZSOG)

3.7 The committee questioned PM&C witnesses at length about the 2004-05 special appropriation of \$10 million to ANZSOG, intended to help the school achieve self-sustainability and attract and retain academic staff. The committee heard that Professor Allan Fels, ANZSOG Foundation Dean, had written to the government to request an endowment, and the decision to provide it was made in April 2005 by the Prime Minister in consultation with other ministers.⁶ Discussion ensued about the reasons the grant was made as a special appropriation by the Prime Minister and not within the usual budget process, and without consultation with partner governments involved in the school (namely the states and New Zealand). PM&C referred several questions on this matter to the APSC (as discussed later in the report), as PM&C had no direct involvement with the school until the arrangements for the grant were made. The committee also heard that the APS Commissioner represents the government on the ANZSOG board.⁷

4 *Committee Hansard*, 23 May 2005, F&PA 113

5 *Committee Hansard*, 23 May 2005, F&PA 116-121

6 *Committee Hansard*, 23 May 2005, F&PA 98

7 *Committee Hansard*, 23 May 2005, F&PA 94-101

Unauthorised disclosure investigations

3.8 The committee's continuing interest in investigations into leaks—further canvassed with DoFA witnesses as discussed later in this report—led to a broader exploration of processes in the Public Service for dealing with leaks. Mr Andrew Metcalfe, Deputy Secretary of PM&C, explained that the department did not have a coordinating role and 'it is usually up to the agency involved to refer the matter to the AFP [Australian Federal Police] if it thinks it is appropriate'.⁸

3.9 In response to a question on the number of leak investigations initiated by PM&C in the past year, the committee was told that one inquiry was initiated in October 2004 relating to a claim in the *National Indigenous Times* that it had cabinet in confidence papers.⁹ The committee also heard that approximately five or six leaks had been investigated during the past four years, and none of the investigations had been successful. Mr Metcalfe defended the importance of continuing to investigate leaks, saying that government trust in the public service '...goes to the core of the way our democracy operates. Therefore, it is a breach of that trust if that information is disclosed in an unauthorised way'.¹⁰

3.10 The committee's attention focused on a report in the *Sydney Morning Herald* of a leaked letter on in-vitro fertilisation matters from Senator Coonan, Minister for Communications, Information Technology and the Arts, to the Prime Minister. As the letter was reported to have been stamped 'Cabinet-in-Confidence', committee members questioned whether it fell within the scope of PM&C and whether the department would be referring the matter to the police for investigation. Officers at first claimed that the questions should be referred to the Minister's portfolio, then said that as the subject of the letter fell outside the scope of that portfolio it was a matter between the Minister and the Prime Minister, and not an issue involving PM&C.¹¹

The increasing prevalence of task forces

3.11 A theme which continued through the committee's examination of other agencies was the increasing prevalence of the raising of ad hoc taskforces to address high profile issues, in preference to establishing standing interdepartmental committees. Witnesses, however, suggested that the distinction may be more one of nomenclature than substance. Mr Metcalfe described his understanding of the differences as follows:

...an interdepartmental committee would indicate to me that the issue involves an ongoing process of discussion and consultation on issues that sit across a number of portfolios, and a task force might be established for a

8 *Committee Hansard*, 23 May 2005, F&PA 106

9 *Committee Hansard*, 23 May 2005, F&PA 101

10 *Committee Hansard*, 23 May 2005, F&PA 106

11 *Committee Hansard*, 23 May 2005, F&PA 104-105

more specific purpose...So to me, in describing [a task force] to you, I would say it is more task oriented and more specific in terms of a particular outcome, whereas an interdepartmental committee might be somewhat more routine in nature.¹²

3.12 The recently raised APEC Taskforce was cited as a case in point, with reference made to a comparable forerunner in the Commonwealth-State taskforce that coordinated security arrangements for the 2000 Sydney Olympics.¹³

Continuity of government planning

3.13 Questioning on media reports about the construction of a bunker at Bungendore, NSW, intended to protect high ranking government figures in the event of terrorist attack, led to a broader discussion about the Commonwealth's counter-terrorism infrastructure and continuity of government planning. The committee heard that while PM&C had coordinated the development of the continuity of government plan, responsibility for its implementation had been transferred to the Protective Security Coordination Centre within the Attorney-General's Department.¹⁴

The Beaudesert Heritage Rail Project

3.14 Committee members asked questions relating to PM&C's involvement in the Regional Partnerships Program grant for the Beaudesert Heritage Rail Project. Due to witnesses' ill-preparedness, questioning on this issue had to be delayed until the second day of the department's appearance.¹⁵ Members asked about the department's knowledge of a local member's request for the Prime Minister to use 'discretionary' funds to assist the rail venture. PM&C witnesses provided a chronology of correspondence on the Beaudesert Rail matter involving the Prime Minister, ministers and others. Members also delved into the role, and basis, of the Prime Minister's involvement in the government's grant to the Beaudesert Rail. Many questions about the timing of the decision to make the grant and the department and the Prime Minister's awareness of the ongoing problems with Beaudesert Rail's viability and solvency, were taken on notice.¹⁶

3.15 In examining the details of the decision to provide a grant, members sought the names of the relevant departmental officers who worked on the matter. As some officers are below Senior Executive Service (SES) level the department wanted to consider the matter of releasing names on the ground that it is policy for only SES level staff to appear before committees.¹⁷ When members attempted to identify the

12 *Committee Hansard*, 23 May 2005, F&PA 111

13 *Committee Hansard*, 23 May 2005, F&PA 111

14 *Committee Hansard*, 23 May 2005, F&PA 114

15 *Committee Hansard*, 23 May 2005, F&PA 119

16 *Committee Hansard*, 24 May 2005, F&PA 14-34

17 *Committee Hansard*, 24 May 2005, F&PA 23

names of staff in the Prime Minister's Office who liaised with PM&C officers on this issue, Senator Hill, the Minister representing the Prime Minister, refused on the ground that the inner workings of a ministerial office are private to the minister.¹⁸

Overdue responses to questions on notice relating to government advertising

3.16 Senator Murray highlighted the fact that answers from a number of major departments remain overdue a year after they were lodged. PM&C as the coordinating agency gave several reasons for the delay, not least the need to arrive at a uniform understanding and definition across government of some of the elements of the questions.¹⁹ Discussion ensued about the many different ways agencies manage and record information about communication activities.²⁰ Other general matters covered in relation to government advertising were PM&C's responsibility for authorising advertising campaigns, the lack of a total budget for advertising across government and compliance with the *Guidelines for Australian government information activities – February 1995*.²¹

Government advertising campaigns

3.17 A recent government advertisement promoting an agreement between the Commonwealth and Tasmanian governments on forest protection attracted criticism for being party political rather than a public information campaign. The department argued the advertisement was intended to 'ensure that there was clear, factual information available to the public'.²²

3.18 The committee's attention also focused on a May 2005 advertisement critical of the Western Australian Government's approach to taxation. Although the Government Communications Unit within PM&C had placed the advertisement, members found it difficult to discern the total cost for the advertisements as aspects were split between PM&C and Treasury.²³

New Indigenous functions arrangements

3.19 The committee examined PM&C's role in relation to new arrangements for Indigenous policy functions. Witnesses told the committee that PM&C provided support to the ministerial taskforce and the secretaries' group on Indigenous affairs—chaired by the PM&C Secretary. Ms Joanna Davidson, First Assistant Secretary,

18 *Committee Hansard*, 24 May 2005, F&PA 24

19 *Committee Hansard*, 23 May 2005, F&PA 122

20 *Committee Hansard*, 23 May 2005, F&PA 123

21 *Committee Hansard*, 24 May 2005, F&PA 41-43

22 *Committee Hansard*, 24 May 2005, F&PA 4

23 *Committee Hansard*, 24 May 2005, F&PA 40

Social Policy Division, advised the committee of the new arrangements and PM&C's role:

The ministerial taskforce has established a number of issues that it is particularly interested in. They get papers from the secretaries' group on those issues for them to consider those policy issues. They also have a role in looking at the budget for Indigenous affairs. The government introduced arrangements whereby the budget process for Indigenous specific proposals would be looked at across government. So we provided support to the ministerial taskforce as well and advice to them on that budget process on which things we thought were priorities.²⁴

Budget preparation

3.20 The committee devoted some time to understanding the involvement of the Prime Minister and his department in the preparation of the budget. Ms Goddard, Deputy Secretary, informed the committee of the department's roles:

The department plays a number of different roles in regard to the preparation of the budget. We basically provide the secretariat support for the Expenditure Review Committee, which undertakes many budget decisions, as you know. We provide a range of PM&C note takers for ERC meetings. We provide advice to the Prime Minister on individual proposals coming forward to the Expenditure Review Committee from ministers. We provide secretariat services to the Ad Hoc Revenue Committee and provide advice on revenue proposals coming forward to that committee.²⁵

3.21 The committee also asked about the Prime Minister and the department's role in finalising outstanding matters after the budget cabinet meeting. The committee was told that 'it is not unusual for the Prime Minister and the Treasurer to meet in the final stages of the budget and to discuss any loose ends, and cabinet gives them a remit—a hunting licence—to do so', and only the decisions arising from these meetings that require action by PM&C are communicated to the department.²⁶

Industrial relations policy

3.22 The committee investigated the department's role in developing industrial relations policy, and was advised that an interdepartmental committee chaired by DEWR with PM&C as a member was formed after the 2004 election and meets when required. The extent of the department's other involvement with workplace relations policy is providing advice to the Prime Minister on cabinet proposals.²⁷

24 *Committee Hansard*, 23 May 2005, F&PA 126

25 *Committee Hansard*, 24 May 2005, F&PA 4

26 *Committee Hansard*, 24 May 2005, F&PA 7

27 *Committee Hansard*, 24 May 2005, F&PA 11-14

Involvement in the Palmer Inquiry

3.23 Witnesses advised the committee that while PM&C had not been involved in developing the terms of reference of the Palmer Inquiry into the unlawful detention of Cornelia Rau and related immigration matters, the department had subsequently provided advice to the Prime Minister's office on the powers and protections of such an administrative inquiry.²⁸ Its only other involvement had been to comment on a draft advertisement inviting submissions to the Palmer Inquiry, meet with DIMIA to be briefed on the main issues and advise the Prime Minister on the progress of the process of the inquiry.²⁹

Welfare Reform taskforce and Welfare to Work steering committee

3.24 Members asked about the now-defunct Welfare Reform taskforce established in February 2005 to develop the Welfare Reform Package unveiled in the 2005-06 budget. The taskforce, chaired by PM&C, comprised twelve full time staff from eight agencies. The committee's questioning revealed the blurred lines of accountability associated with cross-agency taskforces.³⁰ For example, it emerged that the taskforce had briefed several ministers prior to the cabinet meeting where the package was considered; but other ministers with portfolio staff on the taskforce were not briefed, as illustrated by this exchange:

Senator CHRIS EVANS—Who did you as a task force brief before it went to cabinet?

Ms Davidson—It varied, but there were briefings of the Prime Minister, as I said, the Minister for Employment and Workplace Relations and Minister Dutton. It varied from time to time. There were also briefings of Minister Patterson. Sometimes there were briefings of their officers if we were not able to brief the ministers themselves.

Senator CHRIS EVANS—Did you brief the Treasurer or the Minister for Finance and Administration?

Ms Davidson—I do not believe there were any briefings of the finance minister. I recall briefings of the Treasurer's office, but I am not sure whether we were actually able to brief the Treasurer.³¹

3.25 An area of concern to the committee was that PM&C officers were unable to answer questions relating to the key assumptions underpinning the welfare reform package and the expected impacts of implementing the package.³²

28 *Committee Hansard*, 24 May 2005, F&PA 37

29 *Committee Hansard*, 24 May 2005, F&PA 38-39

30 *Committee Hansard*, 24 May 2005, F&PA 48-53

31 *Committee Hansard*, 24 May 2005, F&PA 50

32 *Committee Hansard*, 24 May 2005, F&PA 53

Medicare safety net

3.26 Unsuccessful questioning about the department's awareness of the cost of the Medicare safety net issue led to a broader discussion of cabinet confidentiality after Senator Hill refused to disclose whether the government's announced decision on this matter had been a cabinet decision. The following exchange took place:

Senator CHRIS EVANS—So, Minister, you indicated that this was not a cabinet decision or—

Senator Hill—I did not indicate whether it was or it was not.

Senator CHRIS EVANS—I see. You will not indicate. You do not want to say whether it was a cabinet decision. I do not understand—

Senator Hill—A decision of government was announced. The formal processes by which government reaches a decision are the business of government.

...

Senator CHRIS EVANS—So your objection is to actually telling me whether or not there was a cabinet decision.³³

Road works at Anzac Cove

3.27 The committee heard that the department had little more than peripheral involvement in the Anzac Cove traffic congestion issue. A spirit of gratitude and respect towards the Turkish Government and people for permitting Australians, New Zealanders and others to commemorate their war dead at Gallipoli was expressed by the committee, minister and senior PM&C officers alike.³⁴

The National Security Division

3.28 The committee sought to obtain a clearer picture of the internal structure of the national security components of PM&C and various taskforces and committees dealing with different aspects of national security policy, for example, the Taskforce for Offshore Maritime Security and the National Counter Terrorism Committee secretariat.³⁵

3.29 Mr Lewis, First Assistant Secretary of the National Security Division (NSD) provided this overview of the structure and operations of the NSD:

We are structured with essentially two branches: the Defence and Intelligence Branch—which obviously ranges over those issues emanating from the Defence Department and the six intelligence agencies—and the Domestic Security Branch—which ranges over a number of domestic

33 *Committee Hansard*, 24 May 2005, F&PA 60

34 *Committee Hansard*, 24 May 2005, F&PA 71

35 *Committee Hansard*, 24 May 2005, F&PA 61-65

security issues that are considered by the mainstream departments of Attorney-General's, DOTARS and a number of other agencies. Within the Domestic Security Branch there is a section known as the SET unit—Science, Engineering and Technology Unit—a group of four or five secondees, people with scientific backgrounds. The SET Unit works towards bringing focus to our national science and technology effort in order to harness that effort and focus it on counter-terrorism capability. We are about 43 folks in number.³⁶

3.30 Mr Lewis also told the committee that the NSD achieves its mandate of fostering greater coordination and a stronger whole-of-government policy focus by the following mechanisms:

We maintain daily linkages with the aligned department. We are engaged in a large number of interdepartmental committees, some of which we convene and some of which we sit on. We are clearly linked to a number of departments through the National Counter-Terrorism Committee, where, as you know, the federal government departments that have a dog in that fight are sitting on one side and all the states and territories are on the other. We have extensive linkages through that formal committee system. There is the Australian Government Counter-Terrorism Policy Committee, where we are also hooked up. There is then, of course, the SCNS—the Secretaries Committee on National Security—and the NSC process, which we support. So there is a wide range of areas in which we roam and operate—maintaining, as I say, this very strong cross-portfolio linkage.³⁷

Office of the Inspector-General of Intelligence and Security (IGIS)

3.31 Mr Carnell, the Inspector-General of Intelligence and Security, provided an update in his opening statement on the following:

- Resourcing, including new staff positions and IT upgrading;
- Progress with inquiries;
- Matters related to ASIO questioning and detention warrants;
- Legislative developments; and
- Lt Colonel Collins' case relating to the loss of access to an intelligence database by some Australian Defence Force personnel in Dili in December 1999.³⁸

3.32 The committee's examination of IGIS concentrated on the fifth matter above, namely the Collins' case, which has been of ongoing interest to members for sometime now. The main issue of interest was the expected date of release of the public version of the Inspector-General's report into the matter.

36 *Committee Hansard*, 24 May 2005, F&PA 61-62

37 *Committee Hansard*, 24 May 2005, F&PA 63

38 *Committee Hansard*, 24 May, F&PA 79

3.33 Mr Carnell informed the committee that he had prepared a version that addressed national security concerns but that the Minister of Defence had subsequently asked him to make further changes which would take into account privacy issues. The minister in attendance, Senator Hill, as the relevant minister indicated that the privacy issues relate to administrative actions against three officers flowing from Mr Carnell's report and that these actions must run their course before a version of the report can be released.³⁹ Mr Carnell commented that the Privacy Act is 'very restrictive' in terms of what information about disciplinary matters can be made public.⁴⁰

3.34 Mr Carnell was asked if he was satisfied that his report had to be 'amended' to meet privacy concerns. Mr Carnell made it clear that he was abridging his report, not amending it, and that he was striving to retain as much of its original content as possible. He told the committee:

I am keen that as much as possible remain in there and in the words I originally wrote. I think it does need to be an accurate reflection of what I originally reported, but some minor deletions for security reasons needed to be made. From a privacy point of view, one of the matters that I have had to reflect on is not just the simple removal of names but the removal of information which would effectively identify who particular players were. So there are two things compelling this: deletion; or abridgement by using some alternative words and brackets. I am doing my darnedest to keep that to a minimum so that ultimately you can have as much as possible of it so that you can, hopefully, be satisfied that the matter has been properly investigated.⁴¹

3.35 The Minister indicated that at the time (24 May) he expected the administrative actions to require two more weeks to be completed; the next stage would be for Mr Carnell to present an abridged version for him to consider for public release.

Office of National Assessments (ONA)

3.36 Issues raised by members of the committee and other senators in attendance included:

- Estimates of civilian and military casualties from acts of war in Iraq since March 2003;
- ONA's assessment of political, military and economic conditions in post-Saddam Iraq; and
- A matter related to an ONA consultant appearing before a Senate committee.

39 *Committee Hansard*, 24 May, F&PA 80

40 *Committee Hansard*, 24 May, F&PA 81

41 *Committee Hansard*, 24 May, F&PA 81

3.37 Members revisited the issue of figures on civilian casualties in Iraq, canvassed during the additional estimates hearing in February 2005. ONA again stated that no authoritative figures are available, not least because of the absence of reliable Iraqi reporting systems on civilian casualties. Members heard that estimates of civilian casualties since the start of hostilities in March 2003 vary widely from about 12,400 to 100,000. Questioning also went to the credibility of some of these estimates and the different methodologies used to arrive at them. The discussion then moved onto estimates of casualties for both non-Iraqi civilians and military personnel.⁴²

3.38 Senator Faulkner sought ONA's assessment of the state of the insurgency and broader political and economic conditions in Iraq. With regard to the insurgency, Mr Varghese, Director-General of ONA, stated:

If you are asking me what my assessment is of the strength of the insurgency, I would say that the trend line at the moment shows a slight decrease. Rates of attack spike at any given interval but, if you compare the trend line over the last six months with the preceding 12 months, it would be trending down. Does that mean that the insurgency is on its way out? I think the short answer is no. The reality is that in Iraq we are going to be dealing with a violent insurgency for some considerable period. Whether we will see the insurgency move up again in terms of a trend line, I am not in a position to say. So when you ask whether things are getting better, that is one snapshot.⁴³

3.39 Mr Varghese then pointed to a number of encouraging developments in the Iraqi political sphere:

You could look at the political environment in Iraq, where I think you could make an assessment that the politics of Iraq is getting better in the sense that the Sunnis, who are driving the insurgency, are now beginning to make a calculation—at least some of them are—that they may be better off in the tent than outside of the tent. They have had a successful election, they have had the establishment of an interim government, which includes all major factions in Iraq—albeit with a longer period of formation than probably most people would have liked. I think they are positives on the political front, but there is still a long way to go.⁴⁴

3.40 Mr Varghese rounded out the picture by referring to conflicting economic factors in Iraq:

You can look at the economy and, again, you will see a mixed picture there. You have some of the economic indicators trending upwards strongly and you have some that are bouncing along the bottom. Are things getting better in Iraq is not a simple question to answer. Some things are certainly getting

42 *Committee Hansard*, 24 May, F&PA 72-74

43 *Committee Hansard*, 24 May, F&PA 74

44 *Committee Hansard*, 24 May, F&PA 74

better, others are standing still and, in one or two places, they may be falling behind.⁴⁵

Discussion continued on economic and public health conditions in Iraq where, again, ONA stated that obtaining reliable information is difficult.

3.41 Senator Faulkner also questioned Mr Varghese on whether ONA officers had discussed with Dr John Gee, a consultant engaged by ONA, a request for him to appear before another Senate committee. Mr Varghese confirmed that Dr Gee had raised the matter with him. Mr Varghese also confirmed that Dr Gee had spoken to an officer in PM&C about the matter. When asked to disclose the identity of the PM&C officer, Mr Varghese initially demurred and then took the matter on notice.

Australian National Audit Office (ANAO)

3.42 The committee welcomed the new Auditor-General, Mr Ian McPhee, and wished him well with his responsibilities.⁴⁶

3.43 Issues raised by members of the committee and senators in attendance included:

- The annual illustrative financial statements;
- Outcome reporting;
- Consultative relationships between the ANAO and comparable international audit bodies;
- The ANAO's budget allocation and budget pressures;
- Auditing of third parties and non-government agencies;
- Identity fraud;
- International accounting standards; and
- Four specific audit reports:
 - Audit Report No. 38 2004-05: *Payment of Goods and Services Tax to the States and Territories*;
 - Audit Report No. 39 2004-05: *The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge*;
 - Audit Report No. 42 2004-2005: *Commonwealth Debt Management Follow-up Audit*; and
 - Audit Report No. 21 2004-05: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*.

45 *Committee Hansard*, 24 May, F&PA 75

46 *Committee Hansard*, 24 May 2005, F&PA 83

Annual illustrative financial statements

3.44 Senator Sherry asked when the next set of illustrative financial statements would be published. Mr McPhee advised that, in response to concerns raised by his predecessor, the department of finance would be preparing the documents from this year forward. Mr McPhee went on to explain that the previous Auditor-General's concerns related to 'independence issues in producing a guide for agencies to produce financial statements and then undertaking the subsequent audit'.⁴⁷ In order to address this potential conflict of interest, DoFA had agreed to take over the production of the illustrative accounts. Witnesses advised that the ANAO would continue to be consulted regarding the preparation of the accounts.⁴⁸

Outcome reporting

3.45 Senator Sherry questioned the ANAO about areas for improvement in the specification and measurement of outcomes, including the relationship between specific programs and generic outcomes. Mr McPhee told the committee that:

One of the things that the finance department and the Audit Office have been saying for some time is that, where you do have broad outcome statements, agencies should really consider perhaps the use of intermediate outcomes as a step towards the overall outcome.⁴⁹

3.46 Mr McPhee went on to say that there is a balance to be struck between providing information for accountability purposes and the sheer volume of documents required to report on specific programs. In response to further questions, Mr McPhee acknowledged that a cost blow-out in a particular program, when it is encompassed within a broad outcome, may not be identifiable from the documents currently published. Mr McPhee advised that information on program costs within outcomes exists, but is not published universally.⁵⁰

3.47 Mr McPhee told the committee that although there is currently some cautious presentation in outcome statements, the 'idea is to get to more clearly articulated outcomes so we know how successful we are being in achieving the particular goal'.⁵¹ The committee supports this view and emphasises the need for outcomes to be clearly defined, so that informed performance assessments can be made.

47 *Committee Hansard*, 24 May 2005, F&PA 83

48 *Committee Hansard*, 24 May 2005, F&PA 83

49 *Committee Hansard*, 24 May 2005, F&PA 84

50 *Committee Hansard*, 24 May 2005, F&PA 85

51 *Committee Hansard*, 24 May 2005, F&PA 84

ANAO budget allocation and budget pressures

3.48 Committee members questioned the ANAO about an additional allocation of \$12.8 million to the office over the next four years. Mr McPhee told the committee that the additional funding was for contract work and for the Defence financial statements.⁵² The committee heard that the ANAO had also, unsuccessfully, sought additional funds for extra IT capability, contracting in additional audit staff and for the additional rent for Centenary House.

3.49 Committee members explored with the ANAO the budget pressures facing the office and possible repercussions for its audit program. The committee heard that the previous Auditor-General, Mr Pat Barrett, had such serious concerns about the shortfall in funding for the ANAO's financial statement audit functions that he had taken the unusual action of writing to the Prime Minister about the matter.⁵³

3.50 Mr McPhee told the committee that, in the absence of additional funding, the ANAO has reallocated resources to ensure its financial statement work does not suffer in 2005-06. Such measures included deferring IT systems development, recordkeeping and other corporate projects, reducing investment in professional development for staff, and reducing the target number of mainstream performance audits each year, from 46 to 44.⁵⁴

3.51 The committee heard that budget pressures will continue to impact on the ANAO in coming years. These pressures include salary increases, ongoing efficiency dividends and decreased budget estimates for employee provisions.⁵⁵ Mr McPhee told the committee that 'The position we have arrived at is that we can manage the situation in 2005-06; however, it becomes more challenging in the out years...'⁵⁶

Auditing of third parties and non-government agencies

3.52 Senator Murray asked the ANAO about issues associated with auditing outsourced services and whether this caused a cost burden for the agency. Witnesses informed the committee that there had been 'enormous change' in this area, such as the inclusion in Finance's procurement guidelines of model contract clauses, which give the ANAO access to third party providers where necessary.⁵⁷ Mr McPhee told the committee that most agencies have adopted these clauses in their procurement arrangements. He went on to inform the committee that 'even the private sector community that deals with the public sector now has come to an understanding about

52 *Committee Hansard*, 24 May 2005, F&PA 87

53 *Committee Hansard*, 24 May 2005, F&PA 88

54 *Committee Hansard*, 24 May 2005, F&PA 91

55 *Committee Hansard*, 24 May 2005, F&PA 91-92

56 *Committee Hansard*, 24 May 2005, F&PA 92

57 *Committee Hansard*, 24 May 2005, F&PA 96

the role of the Audit office'.⁵⁸ The committee was pleased to hear about this progress in establishing a culture of accountability in relation to government contracting.

GST payments

3.53 In relation to Audit Report No. 38, Senator Sherry clarified with witnesses that 2004-05 was the first year since the GST was introduced that the states received at least as much from GST as they would have received under pre-GST arrangements. Witnesses for the ANAO noted that while this appeared to be the case for each state, some states had already stopped receiving budget balancing assistance in earlier years.⁵⁹

3.54 Senator Sherry also questioned witness about the spreadsheet system used by Treasury for calculating GST related payments to the states. Mr Boyd told the committee:

...what we would have expected – our normal approach – would have been to actually consider the best way of going about that and to have gone through a design process, designing the system and how all the interrelationships would work and then building upon that. What we are commenting on in the report is that that process did not appear to have occurred in the Department of the Treasury.⁶⁰

3.55 The committee heard there were a number of shortcomings associated with Treasury's approach, including system limitations should calculations need to change over time, and risks associated with protection of the data and ability of people to access the spreadsheet.⁶¹

Administration of the Superannuation Contributions Surcharge

3.56 In relation to Audit Report No. 29, witnesses for the ANAO confirmed that there exists between \$360 million and \$750 in uncollected surcharge revenues, associated with a seven year backlog in processing of exceptions.⁶² Mr White, Acting Group Executive Director, said that the Australian Taxation Office (ATO) has a team working through the exceptions and that the ANAO had been advised that the backlog will be processed by 30 June this year.⁶³

58 *Committee Hansard*, 24 May 2005, F&PA 97

59 *Committee Hansard*, 24 May 2005, F&PA 99

60 *Committee Hansard*, 24 May 2005, F&PA 99

61 *Committee Hansard*, 24 May 2005, F&PA 99-100

62 *Committee Hansard*, 24 May 2005, F&PA 101

63 *Committee Hansard*, 24 May 2005, F&PA 102

Defence financial statements

3.57 Witnesses for the ANAO explained the reasons for the highly publicised qualifications of Defence financial statements in 2004 (Audit Report No. 21), pointing to problems with Defence's internal reporting systems and data.⁶⁴ Mr Goodwin, Group Executive Director, explained:

...what transpired was a series of scope limitations on the following balance sheet line items: general stores inventory, \$2 billion; explosive ordnance inventory, \$845 million; repairable items, which is a component of specialist military equipment, \$2.8 billion; military provisions, which are the entitlements for military personnel, \$1.2 billion; and land and buildings, \$1.4 billion. We are not saying that those items do not exist; we are saying that, due to a series of issues around the internal controls and a series of issues around the operational systems that support the data within the systems of Defence, we, as well as the Department of Defence and the Secretary of the Department of Defence, could not verify those balances.⁶⁵

3.58 Mr Goodwin noted that it was a 'very rare and very significant event' for the ANAO to be unable to verify a department's financial statements.⁶⁶ He said that while the ANAO has qualified Defence's accounts to varying degrees over a number of years, there had been a deterioration in inventory asset management in the 2003-04 financial year.

3.59 The ANAO told the committee that Defence is undertaking 15 remediation plans to address the issues raised in various audit qualifications. Mr Goodwin said:

...the issues that gave rise to the audit qualifications are around management oversight and internal controls and therefore should be able to be addressed by remediation plans. They are not technical accounting matters; they are control matters.⁶⁷

Australian Public Service Commission (APSC)

3.60 Issues raised by members of the committee and other senators in attendance included:

- A special appropriation of \$10 million to ANZSOG;
- Staffing levels;
- Certified agreement negotiations; and
- Absence management.

64 *Committee Hansard*, 24 May 2005, F&PA 104

65 *Committee Hansard*, 24 May 2005, F&PA 104

66 *Committee Hansard*, 24 May 2005, F&PA 105

67 *Committee Hansard*, 24 May 2005, F&PA 105

Australia and New Zealand School of Government

3.61 Following referrals from PM&C, the committee questioned witnesses for the APSC regarding the special appropriation of \$10 million to ANZSOG. Witnesses told the committee that the proposal was initiated by Professor Fels, following discussion with the ANZSOG board.⁶⁸ Ms Briggs, Australian Public Service Commissioner, said:

Professor Fels was quite interested to see the grant paid as soon as possible because he was quite keen, firstly, to shore up the resources of the organisation. He also saw that as an important stepping stone to approach the other jurisdictions which are part of the five governments associated with ANZSOG for similar capital grants.⁶⁹

3.62 However, the committee heard that at this stage the states and New Zealand have not contributed matching funding and witnesses for the APSC were unable to advise what contribution is being made by the universities associated with the school.⁷⁰

3.63 The committee heard that the Commonwealth's response to Professor Fels' proposal indicated six areas of activity that the Commonwealth wanted to see funded. Ms Briggs said:

This funding is to be provided to: attract and retain world-class teachers; increase the scope and effectiveness of teachers; strengthen ANZSOG's capacity to undertake new initiatives and make a wider contribution to the improvement and innovation of government administration; develop leadership capability amongst senior executives; contribute to improved governance in the region; and improve the relationship between public service leaders across jurisdictions, building a whole of government culture et cetera.⁷¹

3.64 Committee members questioned the APSC as to why the grant had to be paid in the 2004-05 financial year and did not go through the normal budget process, but witnesses did not provide an answer. Ms Briggs responded, 'I do not have an answer for that. In my approaches I have not specified when I would like to see the money paid'.⁷²

Absence management

3.65 Senator Mason sought an update on the APSC's development of guidelines for absence management, which it agreed to undertake in response to the ANAO report on this matter (Audit Report No. 52 2002-03). The report stated:

68 *Committee Hansard*, 24 May 2005, F&PA 113

69 *Committee Hansard*, 24 May 2005, F&PA 113

70 *Committee Hansard*, 24 May 2005, F&PA 114

71 *Committee Hansard*, 24 May 2005, F&PA 114

72 *Committee Hansard*, 24 May 2005, F&PA 116

The Commission advised that it notes the work already undertaken by the ANAO in identifying better practice approaches to absence management in the APS and proposes to use this work as a basis for developing guidelines. Timing for development of the new guidelines for agencies will be considered as part of the Commission's business planning process. As priorities for attention in 2003–04 have already been identified, the issue of guidelines for dealing with unscheduled absences will be considered for inclusion in the 2004–05 business planning process.⁷³

3.66 The committee heard that the APSC had not yet produced the proposed guidelines.⁷⁴ Ms Tacy, Deputy Public Service Commissioner, said:

Linked to our issues around workforce planning and people management, we would deal with issues around absence management, leave management and, more generally, work and family issues and so on. But we have not, given our other priorities, been able to address the issue of producing guidelines.⁷⁵

3.67 Further, Ms Briggs told the committee that the APSC was not intending to treat the matter as a priority in the coming year.⁷⁶ This is of some concern to the committee given the estimated cost of unscheduled absences in the APS,⁷⁷ and the ANAO's finding that, 'little more than one-half of responding APS agencies...reported that policies and procedures for absence management had been issued by their agency'.⁷⁸

National Water Commission (NWC)

3.68 Issues raised by members of the committee and other senators in attendance included:

- The NWC's structure and priorities;
- Grant assessment guidelines and process;
- NWC engagement with other sectors;
- Relationship between the NWC and other initiatives; and
- Involvement of the NWC in research.

73 ANAO, Audit Report No. 52, 2002-03, *Absence Management in the Australian Public Service*, pp 21-22

74 *Committee Hansard*, 24 May 2005, F&PA 118

75 *Committee Hansard*, 24 May 2005, F&PA 118

76 *Committee Hansard*, 24 May 2005, F&PA 118

77 The ANAO estimates that the overall direct salary cost of APS unscheduled absence was \$295 million in 2001-02. See ANAO, Audit Report No. 52, 2002-03, *Absence Management in the Australian Public Service*, p. 10

78 ANAO, Audit Report No. 52, 2002-03, *Absence Management in the Australian Public Service*, p. 13

3.69 Senator Stephens clarified with witnesses the way in which the NWC has been set up and proposes to operate, including its budget allocation, staffing, the appointment and role of commissioners and processes for engaging with stakeholders.⁷⁹

3.70 Witnesses explained the processes in place for assessing projects under the Water Smart Australia program. Ms Hart, General Manager, outlined the basic eligibility criteria and project assessment criteria.⁸⁰ She also clarified that while states need to be a signatory to the National Water Initiative in order to be eligible for funding, private enterprises and local governments within states that are not signatories are eligible to apply.⁸¹ Mr Matthews, Chief Executive Officer, explained the Commission's intention of using the expertise of its commissioners, as well as external expert and technical advice and drawing on a range of Commonwealth agencies to ensure informed project assessments are made.⁸²

3.71 The committee heard that the first funding round was in progress, with applications closing on 30 June 2005. Mr Matthews explained that future funding rounds may operate differently, for example, focusing on particular types of projects.⁸³

3.72 In response to further questions from Senator Stephens, officers for the NWC explained the processes they have in place for engagement with other levels and arms of government. These included coordination with Commonwealth agencies, visits and meetings with state and territory counterparts and meetings with the Australian Local Government Association.⁸⁴

79 *Committee Hansard*, 24 May 2005, F&PA 120-121

80 *Committee Hansard*, 24 May 2005, F&PA 122

81 *Committee Hansard*, 24 May 2005, F&PA 124

82 *Committee Hansard*, 24 May 2005, F&PA 124

83 *Committee Hansard*, 24 May 2005, F&PA 122

84 *Committee Hansard*, 24 May 2005, F&PA 127