

CHAPTER 8: MANAGEMENT SYSTEMS AND PROGRAM EVALUATION PROCEDURES: GENERAL MANAGEMENT AND EVALUATION

8.1 Several specific management issues other than in the personnel area, which was dealt with in Chapter 7, were raised in the evidence received by the Committee. Various written and oral submissions dealt with DFAT's relationships with other overseas operating agencies, with accommodation standards overseas, with the level of charges for passports, and with DFAT's record-keeping practices. These issues are discussed in the next section. The Committee also took evidence on DFAT's audit and evaluation programs and these are discussed in the remainder of the Chapter.

General management issues

Relationships with other overseas operating agencies

8.2 DFAT has the largest Australian Government presence overseas but several other government agencies also send staff abroad and there has been a long history of tension between the foreign affairs component of Australia's overseas representation and the other official elements. Bruce Grant, an outside appointee as a high commissioner in the early 1970s, described his experience on reading his ministerial instructions to the senior staff after his arrival at the mission:

I detected inward smiles around the table in the mission conference room at the Minister's injunction that the Australian staff in New Delhi - drawn from eight agencies and departments in Canberra - should serve the one Government I represented and not their individual bureaucratic masters in Canberra. The smiles deepened as the Minister promised to back me on this question, should any serious difficulties arise. Years of experience had taught those gathered around the table to serve their department first and the Government second, on the practical ground that the Government scarcely knew of their existence, while their departments regarded them as valuable agents in the game of bureaucratic politics (Grant 1982, p. 15).

This incident occurred, it should be remembered, almost 20 years ago. It was at a time when the Royal Commission into Australian Government Administration identified policy coordination as the major foreign affairs function, a conclusion that might reflect the types of deficiencies in inter-agency coordination implied by Mr Grant.

8.3 As noted in Chapter 2, the tension between the foreign service and other overseas operating agencies was a major underlying cause of the pressure for a single overseas service in the 1970s and early 1980s. It appears, however, that the problem was much reduced later in the 1980s. The second Harris report on Australia's overseas representation reviewed the question in some detail and concluded that "the coordination of Australia's position overseas is well-developed and favourably viewed by other services"

(Harris 1988, p. 31). Professor Harris recommended against a move to a single overseas service but commented that his conclusion was conditional on the continuation of effective coordination arrangements (Harris 1988, p. 31).

8.4 The Committee found no evidence that the level of coordination had declined since the Harris review. Two agencies with significant overseas operations - the Department of Immigration, Local Government and Ethnic Affairs (DILGEA) and the Overseas Property Group (OPG) of the Department of Administrative Services - raised concerns in their initial written submissions about aspects of their relationships with DFAT. However, the matters raised were not major and seem to have been largely resolved in the period between the lodgement of the written submissions and the appearance of representatives of the two agencies at the Committee's hearings. Other agencies with overseas operations chose not to make written submissions to the inquiry and witnesses from two with extensive operations overseas - Defence and Austrade - did not comment on any problems in their relationships with DFAT. The four agencies whose representatives were heard by the Committee, together with DFAT, employ well over 90 per cent of the Australian Government officers who are deployed overseas.

8.5 DILGEA's written submission referred to four main concerns:

- . DFAT's control of common services provided to the various agencies at most posts had been exercised to the advantage of DFAT and the cost of DILGEA with a substantial level of cross-subsidisation of DFAT by DILGEA (Evidence, pp. S470-2);
- . The Standing Committee on Overseas Operations (SCOO), intended as a forum in which the various overseas operating and regulatory agencies could resolve differences, had ceased to meet (Evidence, p. S472);
- . some DFAT officers had not been adequately prepared to carry out duties on behalf of DILGEA at posts overseas (Evidence, pp. S473-4); and
- . some posts still did not have post property committees and it was possible that DILGEA officers were disadvantaged in the allocation of residential property (Evidence, p. 475).

The Committee referred the submission to DFAT and called representatives of DILGEA and DFAT to discuss the submission at a public hearing.

8.6 The Secretary to DILGEA, Chris Conybeare, a former Foreign Affairs Officer, attended with officers of his Department and reported that the matters in dispute with DFAT had been largely resolved. Mr Conybeare told the Committee that DFAT had "achieved a great deal over the past year in improving information flows on common services". He conceded also that DFAT's written response to DILGEA's submission had clarified misunderstandings on the cost base for common service provision (Evidence, pp. 256-8). Mr Conybeare also commented that, although the SCOO remained moribund:

We are very satisfied ... as to the quality of the consultation that is now taking place. There are various ways of skinning cats; standing committees among departments are, of course, one of them (Evidence, p. 258).

8.7 Mr Conybeare told the Committee that "significant progress has been made over the last few years in sensitising officers proceeding on overseas assignments to address the new demands of immigration legislation" (Evidence, p. 260). DILGEA has also improved its own arrangements for liaison with posts where DFAT officers perform DILGEA's functions (Evidence, p. 261). There was now "no particular concern about any particular post or agency performing [DILGEA] functions" (Evidence, p. 260).

8.8 As to the issue of residential accommodation at posts, DILGEA could not give any current example of a case in which one of its officers could sustain a claim of discrimination. DILGEA representatives told the Committee that from time to time at certain posts there could be a perception of unfairness in the allocation of accommodation but that the system in place was designed to prevent that (Evidence, p. 273). The main mechanism in this system is a requirement that each post establish a property committee with representation of different agencies and levels of staff. DFAT told the Committee that those posts which had not yet established property committees had recently been instructed to do so (Evidence, pp. S1020-22).

8.9 OPG, in its initial written submission, complained about:

- . the possible loss of specialist knowledge of property matters on the part of DFAT's administrative officers as a result of destreaming, with the consequent risk of poor management of Australia's overseas property assets (Evidence, pp. S388-9);
- . the removal by DFAT, with limited reference to OPG, of Building and Services Officers (BSOs) from three posts and the possibility that BSOs would be withdrawn from other posts (Evidence, p. S389-90).

OPG suggested that the BSO positions and staff, which were part of DFAT, should be transferred to OPG.

8.10 By the time the Committee took oral evidence from representatives of OPG, a decision had been taken to transfer BSOs to OPG. Representatives of that organisation expressed their satisfaction with that decision (Evidence p. 422). In regard to the property skills of DFAT officers, John Kent, the General Manager of OPG told the Committee:

The comments in our earlier submission were based strongly on the obvious point that, where an officer who had not served previously in an administrative position does so, he would lack the property knowledge of an officer who has served in several administrative posts. What has now become obvious to me is that, of the non-administrative officers placed in such a position, most have had a high capacity to

learn, have an interest in the property area and have made an attempt to do so (Evidence, p. 422).

Destreaming, it would appear, is working. In any case, OPG retracted its initial complaint about poor management by DFAT of overseas property assets.

8.11 At the core of both the DILGEA and OPG concerns were the familiar problems of generalists versus specialists and of the domination of the latter by the former. In DFAT's relationships with other overseas operating agencies, as in many other areas, there was evidence from sources outside DFAT of past problems and recent improvement in the Department's management practices. No evidence was presented to the Committee to indicate that there are serious current problems in the relationships between the various Australian Government departments with overseas operations.

Accommodation standards overseas

8.12 The Committee received evidence from the Foreign Service Families Association (FSFA) on the low standard of some residential and office accommodation provided to officers overseas. FSFA gave the Committee copies of responses to a survey of its members, extracts of responses from Islamabad are reproduced below:

Case No. 5: Difficulties with accommodation - Islamabad

"One of my main worries here re the safety in the house has been the gas. There is always a faint smell of gas around inside the house and out. Because of the poor quality of fittings i.e. the gas is connected using plastic hose (a heavy quality) but one can never feel really comfortable with these types of fittings. The way the locals try to find if there is a gas leak is by lighting a match and holding it close to the fittings" (Evidence, p. S342).

"On the 8th August 1988, my children and I visited our future residence at ... Islamabad. During our visit my son ... bumped into a table. A brass lamp on the table fell. My son reached out and caught the lamp in order to keep it from breaking. The weight of the lampshade caused the poorly-made Pakistani lamp to come apart. [My son] ended up holding the brass lamp and bare wires in his hand [the current passed] up his right arm, across his shoulders and neck and exited from his neck and chin. Fortunately the lamp was plugged into a standard Australian GPO so the fuse blew and the current was cut off saving my son's life. ... My son sustained third-degree burns to his thumb, index finger and palm of his right hand. He also sustained burns on his chin and shoulder where the electricity exited his body [and] spent five weeks in the care of a doctor during which time we were not sure whether he would retain the use of his hand or even his arm" (Evidence, p. S345).

"At the time we arrived, the Australian Police Attache, Police Liaison, and his wife mentioned that their son was sleeping on the floor in their room because they were waiting to have the air conditioner in his room replaced. It seems that just before we arrived at the post, the boy's air conditioner leaked freon gas into his bedroom during the night. ... when ... went upstairs to bed she smelled the gas and was able to get ... out before he suffered any serious effects" (Evidence, p. S346).

"Several months ago the LES electrician was working on the electrical panel at the front of the house when he cut an electrical wire that was incorrectly colour coded. The wire was in fact alive and there was a very loud bang and flash. Fortunately, and more by good luck than good management, the electrician was unhurt. ... the junction box outside my house was falling apart and was totally unprotected. The box contained exposed live high voltage bars. Advice at the time indicated that the box was extremely dangerous, especially as the area was constantly wet. Thankfully the High Commission promptly erected an enclosure to restrict access" (Evidence, p. S350).

"To rub salt into our wounds, the maintenance budget for housing this year has been cut from the \$220,000 requested to \$110,000 initially, then with another slash to \$85,000 as chancery renovations had to come from the same vote this year" (Evidence, p. S338).

"For 21 years we have been temporarily accommodated in the old aid warehouse with no windows. Because for at least 12 of those years we have been on the point of building a new chancery, no one has been prepared to commit money to make major structural improvements like windows. Why is it that Islamabad seems to be passed over year after year for more sexy places?" (Evidence, p. S338).

8.13 This case provides further evidence that overseas postings are not all champagne receptions and cocktail parties but there is no indication that the complaints from Islamabad are representative of the general standards of housing provided to officers on postings. Indeed, the responses to the FSFA survey from other posts contained few references to accommodation problems. Neither the Public Sector Union nor the Foreign Affairs and Trade Association raised accommodation as an issue in their initial written submissions. Representatives of the two staff associations and the FSFA did not convey the impression in their oral evidence that deficient residential accommodation was the major problem facing officers overseas.

8.14 This does not mean that accommodation standards are always high. It is probably the case that standards of accommodation vary markedly. Officers at some posts may be tolerating accommodation of a standard that would not be acceptable in Australia but which is the best that can be supplied in the location of the post. There may still be cases where the Australian Government has so far failed to correct accommodation defects that could be corrected, although it is heartening to note in the Islamabad case that the

problems did not relate to the management of accommodation by Australian Government agencies.

8.15 OPG informed the Committee that as at June 1991 it controlled 1311 residences, of which 820 were leased and 491 owned by the Australian Government. Officers are required to make a rental contribution in most cases. The Committee was told that there are five categories of residential accommodation supplied by OPG depending on the rank of the officer (Evidence, p. 429). The two issues of potential concern to the Committee were the necessity for the Government to supply residential accommodation to its officers overseas rather than to fund their accommodation, and the allocation of government-supplied accommodation amongst officers.

8.16 There are clearly many locations where it would be difficult, time-consuming and costly, or sometimes impossible, for officers to find their own accommodation for the duration of their posting. In such cases, it is sensible for the Government to maintain a stock of owned or leased residential accommodation at the post. In other locations, however, suitable residential accommodation can easily be rented and there might be scope for it be left to officers posted to those locations to find their own accommodation and to be paid an allowance to cover excess costs. This is already the practice in relation to some postings in North America and the UK. In cases where officers are able and willing to seek their own accommodation without undue diversion of time and effort from their work, they may be able to find housing that suits their needs better than that which would have been supplied by OPG. In such cases there might also be reduced administrative costs to the Government. There could be a significant number of posts at which it would make sense for the OPG stock of accommodation to be reduced and for a proportion of the Australian Government officers who are posted there to be allowed to find their own accommodation subject to payment of an allowance.

8.17 The Committee took no evidence on the possibility of making greater use of allowances in lieu of government-provided accommodation. It has become aware, however, that the issue has arisen in an ANAO efficiency audit which is due to be reported soon. Unless the ANAO finds definitively against the concept, **the Committee recommends that DFAT, OPG and the Department of Finance jointly review the feasibility of allowing at least some officers to receive an allowance and rent their own accommodation instead of residing in government-supplied residential accommodation at posts where it could reasonably be expected that officers do so.**

8.18 On the issue of fair allocation of residential accommodation amongst officers, the Committee believes that effective post property committees are essential. These committees are a consultative and complaints-handling mechanism and there has been an increasing trend to their establishment at posts in recent years. Given the existence of such committees and the range of other public service appeal and grievance mechanisms, particular cases of inequitable allocation should quickly be detected and remedied. The Committee accepts the Department's assurance that post property committees are now mandatory and are being established at all posts where they have not previously existed.

Passports

8.19 Two passports-related issues were raised in evidence. The Australian Federation of Travel Agents (AFTA) argued that passport charges should not be set, as they currently are, above the cost of production and the DFAT Reform Group argued that diplomatic passports are elitist and wasteful.

8.20 AFTA commended the efficiency of DFAT's passports operations but argued:

AFTA is concerned about the ever-increasing cost of obtaining a passport. While we do not object to cost recovery, we believe that the passport application fee should not become a source of profit for the government i.e. a de facto tax on overseas travel (Evidence, p. S523).

However, there has in fact been an acknowledged element of taxation in passport charges under successive governments for many years.

8.21 The fee for an adult passport was \$30 from 1981 until the 1986-87 budget, when it was increased to \$60 while the validity period was simultaneously increased from five to 10 years. The fee for frequent travellers' passports was increased to \$100 while the number of pages was increased from 48 to 60. At the same time, the Government decided to index the fees in future to increases in the CPI. The fees for 1991-92 were \$87 and \$122 respectively. Figures on passport costs in other countries supplied by DFAT suggest that the Australian charge is not abnormally high (Evidence, p. 310).

8.22 There are no published figures on the current costs of passport production. However, the Harris Report (1986, p. 51) estimated costs in 1985 as \$25 per passport at a time when the adult passport fee was \$30. The Harris Report also canvassed the possibility of increasing passport fees "to enable a fuller recovery of consular costs" (Harris 1986, p. 52). The rationale for the 1987 increase and for the indexation of charges since then has included an argument that part of the fee is to cover the cost of consular services.

8.23 The cost of consular services is difficult to separate from other DFAT costs. The Harris report estimated the consular workload in 1985-86 at 35 A-based and 71 LES staff years overseas, and 18 staff years in Australia (Harris 1986, p. 47). If this estimate remains reasonably accurate, it would suggest a total cost for consular services in the range of \$10 to 15 million, a small proportion of which would have been offset by the charges levied for certain specific consular services. If the production cost of passports has remained about the same in real terms since 1985 (it may have gone down as staff numbers involved in the process have), the production costs would be of the order of \$30 million. Passport fee revenue in 1990-91 was \$65.8 million, suggesting that the fees not only cover the costs of passport production and consular services but continue to involve an element of taxation.

8.24 To calculate the tax component with reasonable accuracy would require more up-to-date estimates of the costs of passport production and consular services. It would also be necessary to decide whether to match consular costs to passport revenue fees on

a pay-as-you go basis or whether the consular component of the passport fee should be set as an insurance premium. For this Committee's purposes, it is sufficient to note that the fee includes cost recovery for two types of service - passport issue and consular services as well as a taxation component.

8.25 The question of whether there should be any tax component in the fee is a policy question for government. Although AFTA opposed the tax, its representatives advanced no substantive arguments against it. If it is accepted that Australia faces balance of payments difficulties, there is a good argument for what amounts to a tax on overseas travel. In any case, the Committee was not disposed to reject the policy adopted on this question by successive governments.

8.26 The Committee was concerned, however, at the lack of transparency in the current charging system. An important rationale for user charging is to make use of price signals. The lumping together of charges for two separate services with a tax on overseas travel obscures the signals that might otherwise promote efficiency in production of the passports or of consular services. Transparency would be increased if the user-charge components of the fee were to be separated from the tax component in the Department's accounts and this should be possible if DFAT has an acceptable cost-accounting system. **The Committee recommends that DFAT account for passport fee revenue in a way that separates the components of the fee which apply to passport production costs, consular services, and the remainder of the fee.**

8.27 The DFAT Reform Group criticised the present practice of issuing distinctive diplomatic and official passports, claiming it is wasteful and not egalitarian (Submission 43, p. 5-18). The Group proposed instead that the standard passports of DFAT officers or other Australians with official standing overseas be endorsed for diplomatic or official use, as is the practice of the British Government. This echoes the views of a former Secretary of the Department, Alan Renouf, who wrote after his retirement:

Such a special passport has become largely useless in its purpose as its purpose is now fulfilled not by the passport itself but by the class of visa inscribed in it ... The problem is that the diplomatic passport has become a status symbol and anyone with an official connection craves for one. ... Appreciating how difficult it would be to reduce the number of such passports, I recommended that they be abolished ... While the Government agreed, the general reaction to the scrapping of the status symbol was so adverse the idea had to be dropped (Renouf, 1980, p. 146).

8.28 The Department responded to the DFAT Reform Group claims by arguing that the costs of issuing diplomatic and official passports are no higher than for ordinary passports. Increased production costs are offset by savings from the waiving of personal interviews and a less detailed investigation of applicants (Evidence, p. S1085). This does not appear to exclude the possibility that issuing a new diplomatic passport rather than endorsing an existing private, standard passport is likely to be more costly, although the Government might be required in many cases to meet the cost of the private passports to be endorsed.

8.29 The Department confirmed that the UK does not issue distinctive passports to diplomats and officials but added that a survey of the practices of 50 countries in 1986, including all the major OECD countries found that all the countries surveyed except the UK, Belize, and St Vincent and the Grenadines issued diplomatic passports (Evidence, p. S1086). The Department expressed the view that:

to issue diplomatic passports is normal and appropriate international practice, giving some advantage in quick identification and facilitation for the bearer, and in the issue of diplomatic visas and the prima facie establishment of representation or status (Evidence, p. S1086).

8.30 In oral evidence to the Committee, DFAT's First Assistant Secretary, Corporate Services Division, Bill Farmer acknowledged that there were at least two arguments for the abolition of diplomatic passports. There had been, he said, disputes about the entitlement to various types of passport, leading to some administrative difficulties. Another consideration was that, if the holder of a diplomatic or official passport were to become involved in a terrorist incident, it would be possible that the distinctive passport could be a disadvantage (Evidence, p. 867). Mr Farmer conceded that diplomatic and official passports offer no legal protection beyond that supplied by an ordinary passport but, on balance, he supported the continued issue of the documents. Mr Farmer told the Committee:

We are talking about our understanding. ... Understandings in other places, particularly difficult places where we are asking people to serve, may be different. For example, in relation to access to airports, that can certainly be facilitated by the holding of a diplomatic passport - not in legal terms but just in terms of practice. ... at the margin, in the difficult circumstance where you are trying to say get to the airport in San Salvador, the endorsement in English may not mean much to the ... conscripted peasant soldier (Evidence, p. 869).

8.31 The Committee did not find the arguments for continuing the issue of diplomatic and official passports particularly convincing. The rare occasions when a visibly distinctive travel document might be of real benefit to a DFAT officer are likely to be offset by the equally rare occasions when it might be a disadvantage. There is clearly some administrative effort and, possibly, some additional cost associated with the issue of non-standard passports, especially as diplomatic passports are issued to a variety of persons who are not officers of DFAT or other overseas operating agencies. Although the Committee did not consider this to be an issue of much significance, on balance it **recommends that Australia have a standard passport with a system of endorsements to certify the position held by or status of the person to whom the passport is issued. The Committee also recommends that there should also be the option of some distinctive endorsement to be embossed on the covers of passports issued to Australian officers posted overseas, especially where such an endorsement might offer operational advantage or increased safety.**

Record keeping

8.32 The matter of DFAT's record keeping was raised with the Committee by the Foreign Affairs and Trade Association. In its written submission, the Association commented:

Not enough attention is paid to information retrieval systems under the new devolution arrangements. The stock in trade of DFAT officers is information. Far too much time is wasted looking for data that, in well maintained archives, should be readily available. Current problems are not the fault of registry clerks. They stem from the failure to mesh the use of computer storage systems with traditional filing systems, the apparent loss of central control over records with the devolution of archival responsibility to divisions and the careless attitude many officers have to record keeping (Evidence, p. S500).

In oral evidence to the Committee, representatives of FATA reiterated the Association's concern but commented "we note that in recent months some new energy has been put in this area; we would like to see that continue" (Evidence, p. 206).

8.33 The record-keeping issue was also raised in the submission and oral evidence of William Bush, a former Foreign Affairs Officer who had headed the Treaties Section. Mr Bush stressed the importance in international legal and treaty matters of a capacity to locate relevant records. He cited cases in his experience where the Japanese Foreign Office, during negotiations with DFA, was able to cite correspondence from the Australian Government which DFA had not located in its own records (Evidence, pp. 290-1). (Quite apart from anything that this example might mean for record keeping, it might also illustrate that lack of continuity of staffing and inadequate specialisation can produce embarrassing lapses in corporate memory.) Mr Bush also claimed that in the Nauru case in the International Court, up to three people were employed full time for a year locating the necessary records (Evidence, p. 285).

8.34 The Committee is also aware that a former officer of the Administrative Law Section of DFAT was found to be in contempt of court in 1989 as a result of documents being located in the Department's files which he had previously certified could not be found. The judgement in that case described DFAT's filing system as "ramshackle" and took into account as an extenuating circumstance the fact that "the filing system of the Department of Foreign Affairs and Trade was, at the relevant time, seriously defective" (*Ditfort v Calcraft*, NSW Court of Appeal, 22 December 1989, unreported). The Court was told that defects in the Department's system had been repaired but this Committee was told that one of the recent leaks investigated by DFAT appeared to involve the removal of an original document from a departmental file, suggesting that there is scope for additional repairs (Evidence, pp. 61-2).

8.35 There are several relevant anecdotes from the early history of the Department. Mr Bush referred to RG Casey and Keith Officer on one occasion in the 1930s being almost buried in an avalanche of unfiled correspondence (Evidence, p. 281). Sir Paul Hasluck, writing about the 1940s, and describing himself as "something of a pedant

regarding documentation" (Hasluck 1980, p. 31) has six entries on departmental filing (all disapproving) in the excellent index to his memoirs. These include references to the discovery of urgently needed papers on Syria in the Tasmania file (Hasluck 1980, p. 4).

8.36 DFAT, in response to Mr Bush's submission, acknowledged that "there is room for considerable improvement in the current arrangements" but claimed to have taken measures to enhance information retrieval and that "improving our information retrieval system is accorded a high priority" (Evidence, p. 283). However, there are echoes of the Casey/Officer incident in the Department's response to the DFAT Reform Group's claim that money was wasted on a consultancy. One of the consultant's duties, according to the Department, was to help to develop "a strategy to clear a backlog of over seven kilometres of files awaiting archiving" (Evidence, p. S1001). DFAT officers also alluded in their evidence to the extension of a contract for "sentencing" of departmental files after 86,700 files had been "sentenced" in a nine month period (Evidence, p. 284).

8.37 Mr Bush acknowledged to the Committee that the general standard of records management in the Australian Public Service is reputed to be low and cited comments by the Coombs Commission in 1976 to that effect (Evidence p. 289). The Royal Commission into the Australian Meat Industry, which reported in 1982, was also extremely critical of the standard of records management in the then Department of Primary Industry. That Commission rejected allegations that incriminating documents had been shredded by public servants partly on the grounds that "in so far as there were apparent gaps, these were just as serious in files having no relevance to the Commission's work as they were in relevant files" (RCAMI 1982, p. 319). It was similarly the case that the members of the Committee's staff who reviewed DFAT files in this inquiry found numerous examples of misfiling and of broken sequences of documents but saw no indication that the faults were systematic or deliberate. Folio numbering, where it had been attempted, which was probably in the minority of files reviewed, was often inaccurate, making it impossible to definitively rule out the possibility that the files had been illegally culled although the overwhelming impression was of bad rather than dishonest record keeping.

8.38 Whatever may be the general standard of record keeping in the public service, the Committee was strongly of the view that DFAT should improve its performance in this area. It agreed with Mr Bush that the quality of its records is a particularly important matter for a foreign service. The Committee was heartened by evidence from both DFAT and FATA that past neglect has been at least partly rectified in recent times. **The Committee recommends that DFAT comment in detail in its 1992-93 Annual Report on the measures it has taken to improve its records and information-retrieval systems and provide evidence of the success of those measures.**

Taxation of locally engaged staff at posts

8.39 The DFAT Reform Group claimed to the Committee that DFAT had been party to tax evasion by some of its officers and locally engaged staff (LES). The Group asserted that no member of the LES had been issued with a group certificate or statement of earnings in the last 50 years (Evidence, p. 538). As a result of this, the Group claimed, Australians employed as LES, including the spouses of DFAT officers, had been able to

not declare payments in respect of that employment in their income tax returns. The Group also alleged that some officers evaded Australian income tax by failing to report their spouses' incomes when claiming their spouses as dependants for income tax purposes (Evidence, pp. 537-8; Submission 43, pp. 5-11/12). Related claims by the Reform Group about payments to spouses from representation funds are discussed in Chapter 11.

8.40 The general issue of tax liability of LES was raised by Senator Chapman at an estimates committee hearing in September 1990, shortly after the ORC had commenced its activities, when he asked DFAT to comment about a "tax rort" arising from LES not having tax deducted from their wages (Senate Estimates Committee B Hansard, 18.9.90, p. B104). At the succeeding round of estimates committee hearings in May 1991, DFAT officers conceded that not all Australians employed as LES had had tax deducted at source and group certificates issued. The problem had arisen from confusion about the role of DFAT in collecting tax on behalf of the Australian Taxation Office (ATO). DFAT told the Committee that the problem had been resolved with the ATO agreeing that DFAT should deduct tax from all Australian employees (Senate Estimates Committee B Hansard, 1.5.91, pp. B126-7).

8.41 This Committee raised the issue of LES taxation with DFAT which responded that the action taken in 1991 in relation to Australians employed as LES had been almost immediately superseded by an amendment to the Income Tax Assessment Act affecting tax liability for income earned outside Australia (Evidence, p. S1015). While the implications of the change were being assessed, DFAT had advised its officers that spouses and dependants seeking employment with Australian missions overseas should contact the ATO directly regarding their possible liability for Australian income tax (Evidence, p. S1015). The Department also told the Committee that:

In terms of LES who are not considered to be Australian residents (and who are normally citizens of the host country) the Department's policy and practice has been to observe the requirements of local law, which of course varies widely from country to country (Evidence, p. 1016).

8.42 Officers of the ATO were asked at a subsequent public hearing to explain to the Committee DFAT's responsibilities under Australian taxation law in relation to payments to LES employed at missions overseas. The ATO made it clear that the 1991 legislative change had substantially reduced the number of cases in which there might be an Australian taxation liability (Evidence, p. 715). The ATO representatives were of the view that there might be cases "very few in number" in which DFAT should be making pay-as-you-earn income tax deductions from payments to Australian residents employed as LES and "some cases" where statements of earnings should be issued (Evidence, pp. 713-4). However, the scope for tax evasion by Australian residents employed as LES now appeared to be small.

8.43 The ATO accepted a substantial share of the blame for the delay in clarifying what is admittedly a complex area involving relatively small amounts of possible revenue. Assistant Commissioner Michael Monaghan of the ATO told the Committee:

There certainly has been advice through our offices which has led DFAT to believe that it has been doing the right thing. It has been trying to get the right advice and do the right thing. I accept that we in the Tax Office have probably not helped them as much as they might have liked, and we are trying to put all that onto a proper plane now (Evidence, p. 715).

8.44 The Committee accepts that the system prior to 1990 was one in which DFAT's administration of its taxation responsibilities as an employer, both in relation to Australian and overseas taxation legislation, could easily have fallen short of the ideal. However, the Department's attempts to rectify the problem in relation to Australian resident LES after the issue arose in Senate estimates committee proceedings in 1990 were clearly hampered by the contemporaneous change to Australian taxation legislation and the low priority accorded the matter by the ATO. A particular complication lay in the identification of which members of the LES might have an Australian income tax liability. The situation in regard to non-Australian resident LES is less clear but the Committee believes that DFAT should be a model employer in the countries in which it operates. One implication of this is that its system for paying LES should not be such as to transgress local taxation law or become implicated in practices in relation to income tax which would not be acceptable in this country. **The Committee recommends that the Government response to this report outline the measures taken by DFAT to ensure that its methods of payment of locally engaged staff do not breach or facilitate breaches of taxation law in Australia or overseas.**

Use of telephone message system

8.45 At a late stage in its inquiry, the Committee received a short written submission from a Canberra-based lobbyist, L.G. Stroud. Mr Stroud, noting that his frustrations had overcome his hesitation at raising a comparatively minor matter with the Committee, complained about excessive use of the telephone message system by DFAT officers. Mr Stroud wrote:

My company represents a number of tourism organisations. I frequently have to contact DFAT on a range of issues and speak to officers at all levels within the Department. It seems that in about 80% of the calls I make I get a recorded message. When I leave a message, my call is returned in about half the instances.

There have been occasions when I have gone into the Department and the attendants at the counter have had great difficulty in making a call to an extension that is answered by a real live human being who can come down and sign me in. It must make their job very difficult (Evidence, p. S1346).

The telephone system in DFAT's Canberra office incorporates an electronic message system. Several members of the Committee were aware from personal experience that Mr Stroud's complaints of excessive or inappropriate use of the system are well founded. It is important that all public sector agencies project a professional image and telephone

answering technology can be managed so as to avoid the types of problems identified by Mr Stroud and also experienced by some Committee members. It should be possible for DFAT to specify basic rules for the management of the message system and to ensure that its officers comply with them. While this clearly is not a major issue, the Committee commends it to DFAT's attention.

Internal audit

8.46 The internal audit function in DFAT is combined with internal evaluation. It is the responsibility of a section with 12 staff. The Evaluation and Audit Section is located in the Resources Branch of the Corporate Services Division of DFAT but the Section reports to the Departmental executive through an Evaluation and Audit Committee, chaired by a Deputy Secretary who does not have line responsibility for the Corporate Services Division and comprising "managers in all programs" (Evidence, p. S1018; DFAT 1992b, p. 79).

8.47 DFAT removed the responsibility for fraud prevention, a closely related area to internal audit, to a separate section in 1990 (Evidence, p. 606). The Committee was told that this was partly to ensure that the large number of allegations raised by the ORC were dealt with seriously and partly so as to give proper attention to the education of DFAT staff on fraud issues. The Department was of the view that most Australian Public Service departments now have separate fraud control units (Evidence, p. 606). The Department told the Committee that the Fraud Prevention and Discipline Section and the Evaluation and Audit Section work closely together (Evidence, p. 621) and there was evidence in at least one of the cases raised by the DFAT Reform Group and investigated by the Committee's staff that this was the case.

8.48 The DFAT Reform Group expressed serious criticisms of internal audit in DFAT in its evidence and the Committee reviewed the claims in some detail. Some of the Reform Group claims and DFAT's responses are summarised in Case 3 in Appendix III. The Group's concerns involved perceptions of

- . a lack of independence of the Evaluation and Audit Section;
- . inadequate and inappropriate staffing of the Section; and
- . inadequate scope and conduct of audits.

As reported in Chapter 5, specific, serious Reform Group criticisms of the head of the section were subsequently withdrawn and directed against another person who had not worked in the Section. This called into question the credibility of the Group.

8.49 The claims by the Reform Group that DFAT's Evaluation and Audit Section lacked independence from management appeared to be based on a misunderstanding on the part of Group members of the status and function of internal audit. The Group's submission incorrectly claimed that "internal audit is, in fact, legally responsible to the Auditor-General, not DFAT management" (Submission 43, p. 2-23). The Group provided the Committee with an exchange of correspondence between a former head of the then

Audit Section and a senior officer in the Corporate Management Division which it said was illustrative of improper management interference in the audit function (Submission 43, attachment to chapter 2). The Committee concluded that the Reform Group had misunderstood both the content and significance of the exchange of correspondence it supplied with its submission. There was nothing improper in the correspondence provided by the Reform Group and no other indication of improper management interference in the audit function. The management arrangements for internal audit in DFAT did not appear to be significantly different from those applying in most departments.

8.50 In fact, internal audit sections throughout the public service are created by and answerable to the management of their departments or agencies. They are expected to report to top management and to be free of management intervention in their day-to-day activities. However, they clearly are not independent of the department or agency in which they are created. Internal audit sections are not in any sense legally responsible to the Auditor-General.

8.51 The Reform Group had complained that inadequate numbers of qualified staff were employed on internal audit in DFAT. However, the Committee was told that, of the 12 staff of the Evaluation and Audit Section, three are qualified accountants and five have accounting training and wide experience in financial management in Canberra and overseas. Four were said to have many years of experience in internal and external audit and three experience in a wide range of policy areas in the Department (Evidence, p. S1018). Given the dual responsibility of the section for evaluation and audit, this appears to be an appropriate mix of skills and experience. The size of the Section's staff in relation to DFAT's total staffing and the proportion of internal audit staff with formal accounting qualifications closely match the Commonwealth public sector averages revealed in the Auditor-General's 1989 survey of internal audit (Auditor-General 1990b, pp. 38, 59). The Committee could find no reason to believe that the Evaluation and Audit Section is inadequately or inappropriately staffed.

8.52 The question of the effectiveness of internal audit in DFAT was more difficult to resolve. Apart from its denunciation of an apparently unintended victim, most of the Reform Group's specific criticisms of DFAT's internal audit performance related to perceived failures to detect particular instances of fraud or to audit areas that the Group considered prone to fraud. This criticism is unfair. Detection of particular instances of fraud or maladministration is not the primary role of internal or external audit. Internal audit is expected to test systems to an extent sufficient to reasonably assure the absence of fraud and to ensure that management systems are such that any fraud will require the collusion of at least two people. However, it is many years since auditors were expected to check every voucher and only such a check can assure the detection of specific cases. Internal auditors should detect particular cases of malpractice and fraud but should not be expected to detect all such cases.

8.53 DFAT has conceded that there were significant management systems problems in the Department in past years. However, the Department's internal auditors did not appear to have played a leading role in exposing these problems. The Reform Group's complaint that internal audit had failed to audit effectively the most vulnerable systems therefore had substance.

8.54 At a public hearing of the Committee, Douglas Lennie, Executive Director, and Graham Koehne, Senior Director, of the ANAO, repeatedly declined to give their opinions of DFAT's internal audit processes on the grounds that the ANAO had not specifically evaluated the processes and had not used the output of the internal audit section in their recent audits of DFAT's financial statements (Evidence, pp. 557-561). In later written evidence, the ANAO clarified this point, commenting that no internal audits had taken place in 1990-91 in the passports and contributions to international organisations areas, which accounted for 70 per cent of the Department's revenue and 72 per cent of its expenditure in that year. The ANAO therefore focussed on those areas in its financial statements audit for the year. DFAT and the ANAO have since had discussions on areas that internal audit could address to reduce the ANAO's workload (Evidence, p. S1410). Nevertheless, the ANAO's evidence was of concern to the Committee.

8.55 The Committee's Deputy Chair, who has accounting qualifications and experience, and its Secretary, while reviewing departmental files relevant to some of the Reform Group allegations, examined a sample of internal audit working papers. These appeared to be complete and of an acceptable standard, although parts of the summary report of one audit could have been expressed in terms that would have allowed greater reliance to be placed on it by external audit. The Deputy Chair wrote to DFAT on that matter and was later informed by DFAT that the Department was considering seeking professional advice on that aspect of internal audit work.

8.56 However, the Committee believes that the quality of internal audit in DFAT is now of an acceptable standard. It is true that none of the large number of flaws in departmental management that have come to light in recent years and are documented in this report appear to have been exposed by internal audit. That is disappointing but it is predictable that an internal audit section will be influenced by the culture of the department of which it is a part. There is ample evidence that the management culture in DFA/DFAT has not until recently been one in which the types of systemic problems outlined in this and other reports would be given the degree of attention required. The Committee accepts that recent changes in relation to internal audit, including the grouping of the function with evaluation, are intended to rectify past weaknesses.

8.57 The recent actions to devolve various aspects of management to overseas posts and to organisational units in Australia increase the need for an effective internal audit system in DFAT. It may be too soon to tell whether the recent changes to internal audit in DFAT have been sufficient to assure the future effectiveness of the function. The Committee notes in this regard advice from the ANAO that it would consider, after its review of the 1991-92 financial statements, whether there is any need for a full review of internal audit in DFAT (Evidence, p. S1410).

8.58 The Committee acknowledges that internal audit is primarily a service to management but considers it most important that the results of internal audits be in a form that will facilitate the investigations made by external auditors. It appears in DFAT's case that the priorities and expectations of internal and external audit have not always matched as closely as could reasonably have been expected. Discussions that have now occurred between DFAT and the ANAO on this issue, and the representation of the

ANAO on DFAT's Audit and Evaluation Committee, could be expected to resolve this problem. To ensure that this is the case, **the Committee recommends that DFAT, in reporting on the activities of its Evaluation and Audit Section in its 1992-93 Annual report, comment on the extent to which its internal audit program has been aligned with the audit priorities of the Australian National Audit Office.**

Program evaluation procedures

8.59 The Committee's terms of reference specifically mention program evaluation procedures but the Committee received little in the way of complaints about DFAT's program evaluation system. However, DFAT provided the Committee with extensive material on its evaluation systems and officers described them to the Committee with evident pride (Evidence, pp. S58-66, 877-87). Because the inquiry developed into a review of criticisms of the Department rather than a complete review of its management and operations, the Committee has not devoted much space to this issue but notes that DFAT believes its performance in this area is good.

8.60 The Department pointed out to the Committee that it has a long tradition of formal evaluation of the work of individual officers and work units (Evidence, p. S58). The structure that has evolved to meet that function has now been integrated into a broader system which incorporates the new public service-wide system of program evaluation. DFAT appears to have made a shaky start in program evaluation. The ANAO, in its submission to this inquiry commented that one of its audits in 1990-91 had disclosed that:

Foreign Affairs and Trade initially resisted the strategy and lacked understanding of, and commitment to evaluation. As a result it made very little progress with the evaluation strategy during the early years. ... In terms of accepting and implementing program evaluations, the Foreign Affairs and Trade portfolio was a late starter compared with the other portfolios examined by the ANAO (Evidence, p. S405).

The Department, in a recent report on a major program evaluation, commented on its evaluation performance in a way not inconsistent with the ANAO finding:

DFAT drew up a probably over-ambitious schedule of portfolio evaluations to meet the [Financial Management Improvement Program] requirement that evaluation be carried out on a program basis. The Department fell behind in the timetable of portfolio evaluations it had set itself and when the steering committee for this first evaluation was set up in early 1991, was already nearly two years behind schedule in its evaluation plan (DFAT 1992b, p. 73).

8.61 It appeared to the Committee, however, that the early difficulties had been overcome. DFAT's first major evaluation report on a policy program - the Relations with Asia Sub-program of the Asia Division - appears to be thorough and methodologically sophisticated. DFAT pointed out to the Committee that this report was the first such

evaluation of a policy division in the Australian Public Service and its approach to the task has been of interest to other departments and agencies (Evidence, p. 10).

8.62 The PSU, in its initial submission to the Committee complained about lack of consultation by DFAT management in most areas of evaluation (Evidence, pp. S296-9). However, some of these complaints appear to have been resolved with the PSU describing a departmental invitation that the Union put its views to Post Liaison Visit teams as a spin-off from this inquiry (PSU 1992, p. 19). No other complaints about the evaluation processes were received except the DFAT Reform Group evidence on internal audit discussed in the preceding section.

8.63 Evaluation in DFAT now appears to be a process which integrates the pre-existing evaluation systems listed below with program evaluation (DFAT 1992b, pp. 73-79):

- . post and divisional evaluation reports;
 - a series of self-assessments, annual for posts and biannual for divisions, used in the budget process;
- . post and divisional liaison visits;
 - large, one-off reviews of the performance of posts or divisions usually undertaken when there are perceived management or resource problems but notionally covering the full range of posts and divisions on a cyclical basis;
- . policy reviews;
 - undertaken as required to test the appropriateness of policy objectives and the effectiveness of policy strategies;
- . staff resource reviews;
 - undertaken biannually in respect of posts;
- . compliance reviews by the internal auditors and the Fraud Prevention and Discipline Section;
 - typically on a cyclical basis for audits and in response to perceived problems in the case of fraud reviews.

In addition, as noted in Chapter 7, DFAT has a well-developed staff appraisal system.

8.64 This range of evaluation processes appeared to the Committee to be rather more comprehensive and better co-ordinated than is common in APS departments. In particular, the system of post and divisional liaison visits and the formal staff appraisal system are of longer standing and wider scope than the equivalents, where they exist, in

other Australian Public Service departments. It appears that DFAT has confronted and overcome the initial difficulties it faced as a policy department in implementing the new program evaluation requirement and has improved the extent to which it consults with its staff on evaluation matters.