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Department of Immigration and
Citizenship

Independent Review of the
National Accreditation Authority for
Translators and Interpreters
(NAATI)

May 2008 ■ ■ ■

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1 Executive Summary

1.1 Overview

The Department of Immigration and Citizenship (DIAC or the Department) has appointed WalterTurnbull to undertake an independent review (the Review) of the National Accreditation Authority for Translators and Interpreters (NAATI).

The Board of NAATI has recently advised that NAATI faces a deteriorating financial position with the possibility of insolvency within 12 months. The Board has submitted a proposal to its funding parties seeking additional funding to address this deteriorating financial position and provide a sustainable long term funding base for the company.

The key objectives of the Review are that the NAATI funding parties are seeking:

- Independent advice on NAATI's existing funding base and work program to provide a sound basis for funding decisions, and
- Recommendations with a view to setting a sustainable funding base, work program and business improvement plan for NAATI.

The full Terms of Reference for the Review are at Section 2 of this report.

1.2 Overall Conclusion

Early in the Review, it was also identified that there was:

- A divergence of views by Members representatives on how NAATI should be structured and how it should achieve its objectives,
- There was no strategic plan with underlying business plans.

In consultation with the Department, and NAATI, it was agreed that without these building blocks in place, to conclude on an appropriate funding base or model for NAATI is not feasible. It was agreed that NAATI will need to develop a comprehensive strategic plan, with underlying business strategies to support the delivery of the strategic plan, and that full costing of these should occur. Consideration may need to be made of ensuring that NAATI can continue to do the key things that need to be done in the interim, and how this should be funded.

The Review has therefore focused on:

- The financial position and outlook for NAATI, in the context of its financial capacity to be able to continue to operate whilst it develops and implements the strategic plan,
- Consideration of the factors that have led to the reported financial position and outlook for NAATI,
- Consideration of the current cost base of NAATI,
- The issues surrounding the strategic plan and activities of NAATI,

- Identification of issues relating to current business processes and practices, and
- Reasonableness of Board members' remuneration.

1.3 Financial Synopsis

The financial position of NAATI at this time is sound, but it has deteriorated markedly since 2005. Based on data analysed, it should have the financial capacity to maintain operations until June 2009, but at the current rates of losses being incurred, the ongoing solvency of NAATI after that point would start to be questionable.

The most marked change has been the decline in testing revenue after September 2007, and in particular special on demand testing revenue. Whilst NAATI are forecasting to achieve a result not materially different from the original budgeted loss for 2008, the composition of that loss is highlighted by significantly reduced testing revenue, and associated variable revenue, as well as a containment of costs.

NAATI has indicated that it is concerned that these trends in special on demand testing are not temporary for the foreseeable future and have raised a number of compelling arguments that need to be carefully considered.

The market for translating and interpreting is characterised by people with a limited opportunity to make significant earnings due to the low rates paid for such services. Such people are predominantly working in areas with a social focus in the community, such as welfare and health sectors. The ability and willingness to pay fees by the market is limited. There also appears to be an underlying level of applicants who have used accreditation as a means of obtaining permanent residency who do not continue on with work in the profession. Another important factor is the ability for NAATI to generate fees in the absence of government regulations enforcing the use of NAATI accredited translators and interpreters. These factors significantly limit the ability of NAATI to generate a profitable and non-volatile stream of income from this source.

In addition the introduction of improved screening of potential applicants may have led to a reduction in test revenue.

There also appears to have been a shift in the cost base of NAATI, that appears to be tied to increases in certain fixed costs associated with property and IT infrastructure, board remuneration, as well as to the introduction of independent marking and revalidation in the 2007 financial year, although these last two are harder to quantify. Since 2005, this shift is in the order of \$400,000 for operating expenditure, and in addition we have seen that testing expenditure has not dropped proportionally to income since 2005, but is harder to quantify from NAATI's systems. By benchmarking against testing revenue trends since 2005, we have roughly estimated that the shift in the testing expenditure cost base could be about \$90,000, and would appear to relate to the introduction of independent testing.

However in the absence of a clear agreed position for NAATI (refer to Section 1.4) and limitations in the available financial information, it is difficult to accurately estimate the appropriate cost base for NAATI. The estimated costs (approximately \$3,900,000 excluding test related expenditure) for 2008 would appear to be towards the bottom end for the current structure and operations. Indications are that NAATI are operating in a fairly minimalist

cost environment within the current structure and have made certain cost savings throughout the current year. However the costs we have identified do not factor in required business improvements, recommendations of the Cook Report or investment in appropriate information technology. Additional investment would be required to support these areas.

In summary, there appears to sufficient reserves to allow some time to enable NAATI to implement the recommendations of the Review, provided they are done so by 30 June 2009, and consideration of funding as appropriate is made for key things that still need to be done by NAATI in the interim.

1.4 The Core Issue

During the course of the Review it became apparent that there was no clear, agreed strategic vision for NAATI amongst stakeholders, which had been translated into a comprehensive strategic plan and implemented into the planning and operations of NAATI.

A common theme that emerged from the consultations was a real desire for the existence of NAATI and its importance in ensuring that an essential social and community service in the form of high quality translators and interpreters was maintained. However, there were alternative views expressed on how NAATI should be structured to achieve its objectives that have major implications for how the business is structured and how it should deliver its core activities. In what form, and how that might work, has not been agreed nor can it be within the scope of this Review.

The Review found that significant work had been performed on the mission, objectives and outputs of NAATI's in a report that was submitted to the Sub-Committee (Sub-committee Report 2002) of the then Ministerial Council of Immigration and Multi-cultural Affairs in March 2002. The mission and objectives resulting from this work were, in fact, translated into a revised constitution for NAATI.

The Review was advised that the NAATI Board had begun such a process this financial year, and originally envisaged engaging the Members at the November 2007 Annual General Meeting. But due to the deferral of the AGM to 2008 and the current financial issues this engagement has not yet occurred.

Unfortunately, this work was never translated into specific strategies for their achievement, nor was any costing undertaken to determine NAATI's financial or other capacity to implement required strategies and achieve the outputs.

Consultations across a wide range of stakeholders demonstrated a lack of awareness of the Sub-committee Report 2002. Internally, there was, likewise, a lack of awareness by the Board and management of the same, which predated the current Board and Chief Executive Officer (CEO).

A review of the current funding agreement likewise shows a disconnection between the key objectives of NAATI and outputs as documented in the Sub-committee Report 2002. In addition, from a financial perspective, the only reference to actual financial information in the funding agreement is quantification of the Government's contribution, with no reference to the budgeted costs required to deliver the agreed outputs.

We were able to observe that the funding model to date has not distinguished between core activities; introduction of new activities with a permanent impact on the core costs (for example revalidation or independent marking);

and one off or new initiatives to deal with emerging issues. In any future development of the funding model this issue need to be taken into account.

Without these building blocks in place, to conclude on an appropriate funding base for NAATI is not feasible.

1.5 Other Matters

The Review has identified a number of other matters for consideration:

- The Constitution has a number of unusual features that transfer powers normally reserved for the Board to the Members, which may effectively restrict the ability of the Board to meet their obligations under *Corporations Act 2001*,
- The ownership structure of the Corporation, combined with the structure of the funding agreement and number of stakeholders appears overly complicated and places significant demands on NAATI, particularly considering the size of the organisation and the total level of revenue and funding involved,
- There are a number of areas where the business practices and processes could be improved, but most changes would be contingent on addressing the issues identified in Section 1.3 above. The exception to this is the potential to remove annual testing programs and move to only offering continuous testing,
- Consistent with the comments on the funding model above, there has been an absence of a discipline of developing business cases or proposals to deal with new activities with permanent impact on core costs or for one off or new initiatives. This discipline needs to be introduced consistently and to work within an agreed funding model. The risk is that NAATI may attempt to undertake these activities, but not be able to deliver them adequately due to insufficient funding,
- The suggested remuneration model for the Board is not considered unreasonable.

1.6 Recommendations

The Review has focussed on making a small number of key critical recommendations to provide a pathway for NAATI.

Recommendation	Priority	When By
1. As a pre-requisite to developing a sustainable funding model for NAATI, the Members need to provide the Board a joint view on a number of focusing questions, to enable the recommencement of the development of an agreed strategic plan for NAATI, including: ▪ What is the reason for NAATI's existence? Does NAATI exist essentially to provide a community and societal good, or is there some other view? ▪ To what extent do Members expect that NAATI provide testing services? What standard do the Members expect for testing? Do Members expect to be able to provide testing or access to testing for translators and interpreters for emerging or less	Critical	30 June 2008

Recommendation	Priority	When By
common languages? If NAATI does not provide the testing services it currently does, who would? ▪ Do Members expect NAATI to have offices located in each State and Territory? ▪ What are Members expectations on how NAATI will fund its activities? To facilitate the above, the Members should be provided appropriate information about the underlying costs of NAATI which as a minimum will include estimates of the current costs of testing and the costs of the existing National, State and Territory office structure.		
2. The Board and CEO of NAATI should develop a strategic plan with appropriate consultation with the Members, and other stakeholders. They should also develop underlying business plans for the delivery of the strategic objectives and outputs for NAATI. As a starting point, this process should have regard to the framework reported in the Sub-committee Report 2002 as a starting point, along with the work undertaken to date by the Board and the CEO.	Critical	30 September 2008
3. As part of the development of the strategic and business plans, NAATI should undertake a detailed costing of its functions in order to determine its costs between variable, semi variable and fixed, as well as by National, State and Territory Offices. It should also cost delivery of its core activities. This will assist in determining the appropriate funding base for NAATI, as well as enable the development of work plans that align with strategic objectives. It will also to assist in making decisions about any organisational readjustments and restructuring that are required to deliver the plan. It should be noted that revision to the financial systems are required to provide better and more streamlined information to assist the Board and management in the decision making process.	Critical	30 September 2008
4. The funding agreement should be revised to reflect the new strategic plan. The funding agreement should be significantly rationalised to reduce the number of outputs to be reported. In addition, the full costing of NAATI, as a whole, identifying the costs to deliver the strategic plan, along with funding sources should be reflected in the funding agreement. The funding agreement should identify the costs of NAATI existing and the costs of NAATI delivering its outputs. Sufficient funding should feature to enable NAATI to operate efficiently, effectively and to fulfil its objectives at acceptable standards.	Critical	30 September 2008

Recommendation	Priority	When By
5. Any revision of the funding model should ensure that new activities Members require NAATI to deliver or the Board wishes to deliver, which result in a permanent increase to the cost base (or result in savings), are reflected in a revised level of funding. Any one off or new initiatives that the Members request of NAATI should be separately funded based on an appropriate business case.	Critical	30 September 2008
6. The strategic and business plans will need to be progressively implemented. Adjustments and restructuring of the business as appropriate would form part of the implementation process.	Critical	30 June 2009
7. Members should consider how they could contribute to strengthening the market base of translators and interpreters, enforcing revalidation and increasing the credibility of NAATI through regulating the requirement to use NAATI accredited people.	High	30 June 2009
8. The Constitution should be reviewed to ensure that the powers the Board require to operate in accordance with the <i>Corporations Act 2001</i> are in fact held by the Board.	High	30 June 2009
9. As part of reviewing the Constitution and funding agreement, consideration should be made of how to simplify the ownership structure and funding agreement with regard to simplifying the current arrangements.	High	30 June 2009
10. NAATI should remove its annual testing programs and only offer testing on a continuous basis. This will require careful management of the transition for the business and the clients of NAATI.	High	30 June 2008

The Review has not made specific recommendations on the costs or quantum of funding that may be required to assist with the implementation of the recommendations. However, recognition should be made that there are cost implications and funding assistance may be required.

2 Background and Terms of Reference

2.1 Introduction

The Board of NAATI has recently advised that NAATI faces a deteriorating financial position with the possibility of insolvency within 12 months. The Board has submitted a proposal to its funding parties seeking additional funding to address this deteriorating financial position and provide a sustainable long-term funding base for the company.

The funding parties are seeking independent advice on NAATI's existing funding base and work program to provide a sound basis for funding decisions.

2.2 Background

NAATI's role

NAATI sets and maintains the national standards for the translation and interpreter profession in Australia. NAATI's role is to promote and develop high quality skills in translation and interpreting from one language into another, especially where one of these languages is English. NAATI accreditation is the only credential officially accepted for the profession of translation and interpreting in Australia.

NAATI's activities include:

- accrediting translators and interpreters who meet specified standards;
- conducting translator and interpreter accreditation tests in various cities;
- approving translating and interpreting courses at tertiary institutions;
- providing advisory services on translating and interpreting service delivery; and
- providing a Directory of Accredited and Recognised Translators and Interpreters available for work.

Governance arrangements

NAATI is an independent company jointly owned by the Commonwealth and state and territory governments.

NAATI was initially established in 1977 by the Commonwealth Government as part of the then Department of Immigration. On 1 July 1983 it was incorporated as a public company, limited by guarantee, under the Australian Capital Territory Companies Act 1981 and on 31 May 2002, NAATI's Memorandum and Articles of Association were replaced with a new Constitution under the Commonwealth Corporations Act 2001.

The 'Members' of NAATI are the Ministers responsible for multicultural affairs in each jurisdiction. Each Member appoints a person as their Representative. The Members' Representatives are usually a senior officer within the Department of Immigration and Citizenship of the Commonwealth Government and the Chief Executive Officers of the Multicultural Affairs Commissions or like bodies in the state and territory governments.

The key responsibilities of NAATI Members include appointing Directors to the Board, and setting strategic direction, annual outputs and reporting

requirements. Outputs set by Members do not form the totality of NAATI's activities, as government funding is only a small proportion (28% in 2006-07) of NAATI revenue.

Board and staffing

NAATI has a Board of 5 directors. Directors are selected by a panel of Members based on merit and expertise against selection criteria. Directors are formally appointed by the Commonwealth Minister based on a resolution endorsing the selection of Directors. Directors are appointed for a period of three years and are eligible for no more than 2 consecutive terms.

The Board exercises all powers of the company that are not required by the Act or the constitution to be exercised by the company at the Annual General Meeting or at a general meeting of Members.

NAATI day-to-day operations are managed by the Chief Executive Officer. NAATI has headquarters in Canberra and offices in each state and territory.

Funding

Annual funding is provided by the Members to NAATI through a funding agreement. The current agreement applies for the period July 2006 to June 2009. Funding from NAATI Members accounted for 28% of NAATI's total revenue in 2006-07. NAATI secures most of its income through application and testing charges for NAATI accreditation.

2.3 Previous related activity

NAATI's funding agreement with Members requires that it submit for each financial year an independently-audited financial statement clearly showing how all funds received by NAATI from its Members under the funding agreement have been spent for the year. The financial statement for 2006-07 was audited by Hardwicke's Chartered Accountants.

2.4 Stakeholders

The stakeholders for this review are NAATI Ltd, the NAATI Board and NAATI Members' representatives:

NAATI:

- Dr Lindsay Heywood, CEO, NAATI
- NAATI Board
- Ms Susan Bures, Chair, NAATI Board

NAATI Members' representatives:

- Ms Kate Pope, First Assistant Secretary, Citizenship, Settlement and Multicultural Affairs, Department of Immigration and Citizenship, Australian Government
- Dr Stepan Kerkyasharian, Chairperson, Community Relations Commission, NSW
- Ms Trish Angus, Executive Director, Policy & Coordination. Department of Local Government, Housing and Support, NT
- Mr Garry Page, A/g Executive Director, Multicultural Affairs, QLD
- Mr Simon Forrest, Executive Director, Multicultural Affairs, SA

- Ms Janet Ong, Manager Multicultural Tasmania, Department of Premier and Cabinet, TAS
- Mr George Lekakis, Chairman, Victorian Multicultural Commission, VIC
- Mr Ellis Griffiths, A/g Executive Director, Office of Multicultural Interests, WA
- Mr Nic Manikis, Director, Office of Multicultural, Aboriginal and Torres Strait Islander Affairs, Department of Disability, Housing & Community Services, ACT.

2.5 Objective/requirements

NAATI funding parties are seeking recommendations with a view to setting a sustainable funding base, work program and business improvement plan for NAATI.

2.6 Scope

This review is being commissioned to consider the following aspects of NAATI:

- funding base
- revenue from activities
- financial reserves and capital
- work program
- other activities undertaken at the direction of the Board
- business practices
- business structure
- remuneration of Board members.

The CEO and Board of NAATI are expected to give all reasonable assistance and access to the reviewers.

2.7 In House resources

In-house resources such as office space will need to be agreed with the NAATI CEO. Access to NAATI staff and offices and timing of access will need to be agreed between the NAATI CEO and the reviewer.

2.8 Reporting requirements

DIAC requires a written report detailing the findings of the review. This report should be provided in draft form in the first instance, with a subsequent final report pending DIAC's agreement.

An oral presentation should also be delivered to a general meeting of NAATI Members' representatives, to enable enquiries to be answered. This meeting will be held at the DIAC offices in Canberra, with those Members' representatives not able to attend in person participating by teleconference.

2.9 The Review

The Review was conducted over April and May 2008, and involved consultations with the Stakeholders listed in Section 2.4 of this report as well as:

NAATI:

- Administration Manager, National Office
- Accreditation Manager, National Office
- Manager, NSW Office
- Education Officer, NSW Office
- Testing Officer, NSW Office
- Manager, Victorian Office
- Administration Assistant (Testing), Victorian Office
- Manager, South Australia Office
- Manager, Tasmania Office (Telecon)

Department of Immigration and Citizenship:

- Brendan Dowling, Acting Director, Settlement Policy and Co-ordination (Project Officer)
- Alex Foulds, Acting Assistant Secretary, Settlement Branch
- Peter Vardos, First Assistant Secretary, Migration and Temporary Settlement

A Discussion Paper was provided to NAATI at the conclusion of the fieldwork to confirm the factual accuracy and to provide commentary prior to development of the report. An exit meeting was held with the CEO on 16 May 2008 to obtain feedback on the Discussion Paper. A copy of the Discussion Paper was provided to the Department for information purposes. In addition a meeting with the Board was held on 22 May 2008 to discuss the main issues arising.

3 Financial Position and Profitability

3.1 Overview

The major reason for the initiation of the Review was based on a submission (the SCIMA Submission) by the Board of NAATI to Standing Committee for Indigenous and Multicultural Affairs (SCIMA)¹. The SCIMA Submission by the Board was developed after the Board had earlier advised SCIMA that it faces a deteriorating financial position with the possibility of insolvency within 12 months. The SCIMA Submission to the funding parties seeks additional funding to address this deteriorating financial position and provide a sustainable long-term funding base for the company.

At the commencement of the Review we sought to establish the financial position and profitability of NAATI and undertook a detailed review of the forecasts and outlook with reference to the supporting assumptions supporting.

Whilst a formal budget had been approved by the Board for 2008, no formal revision of the budget had been made. During the course of the Review, we worked with the CEO to establish a probable revised forecast for 2008. In addition the Review projected the potential financial position at 30 June 2008, based on the revised forecast.

3.2 Qualifications

The Review has relied on the financial information contained within:

- Audited financial statements for 2005 to 2007,
- Unaudited financial statements for the nine months ended 31 March 2008,
- Approved budget for NAATI 2008.

The Review has not audited the financial information and cannot attest to its reliability or accuracy. The analysis and commentary are based on the financial information referred to above.

The results to 31 March 2008 were initially projected out on a pro-rata basis to 30 June 2008. The CEO and Administration Manager reviewed and adjusted the projections and provided detailed commentary supporting those adjustments. The Review applied a series of analytical tests to assess the reasonableness of those adjustments which resulted in the NAATI Revised Forecast for 2008. The Review then applied the Revised Forecast profits to forecast a balance sheet at 30 June 2008. The resultant forecasts have been used below for analysis.

¹ *Proposal to SCIMA: A Sustainable Funding Model for NAATI*, 28 February 2008, NAATI

3.3 Financial Position

The balance sheet shows the financial position of an organisation at a particular point of time, and is a key tool used to assess the solvency of an organisation. The following summarises the financial position of NAATI²

	2008 NAATI Revised Forecast	31 Mar 08 Unaudited	2007 Audited	2006 Audited	2005 Audited
	\$	\$	\$	\$	\$
CURRENT ASSETS					
Cash assets	1,443,790	1,594,273	2,057,067	2,246,068	2,030,118
Receivables	50,000	222,028	12,411	135,171	175,107
Other	50,000	2,498	53,227	60,728	31,234
Total Current Assets	1,543,790	1,818,800	2,122,705	2,441,967	2,236,459
NON-CURRENT ASSETS					
Property, plant and equipment	750,173	848,173	457,147	289,087	246,376
Total Non-Current Assets	750,173	848,173	457,147	289,087	246,376
TOTAL ASSETS	2,293,963	2,666,973	2,579,852	2,731,054	2,482,835
CURRENT LIABILITIES					
Payables	325,000	333,246	438,074	300,174	383,766
Lease liability - Deakin Fit out	89,915	89,915	0	0	0
Provisions	250,000	240,591	316,561	245,997	220,874
Total Current Liabilities	664,915	663,752	754,635	546,171	604,640

² The forecast position is based on NAATI's unaudited balance sheet at 31 March 2008 and forecast profit for 2008.

	2008 NAATI Revised Forecast	31 Mar 08 Unaudited	2007 Audited	2006 Audited	2005 Audited
	\$	\$	\$	\$	\$
NON CURRENT LIABILITIES					
Lease liability - Deakin Fit out	359,659	359,659	0	0	0
TOTAL LIABILITIES	1,024,574	1,023,412	754,635	546,171	604,640
NET ASSETS	1,269,389	1,643,561	1,825,217	2,184,883	1,878,195
EQUITY					
Retained Earnings	1,269,389	1,643,561	1,825,217	2,184,883	1,878,195

Solvency Indicators	2008 Forecast	31/3/08 Unaudited	2007 Audited	2006 Audited	2005 Audited
Liquidity ratio	\$ 2.25	\$ 2.74	\$ 2.74	\$ 4.36	\$ 3.65
Working capital	\$ 2.32	\$ 2.74	\$ 2.81	\$ 4.47	\$ 3.70
Debt to equity	\$ 0.81	\$ 0.62	\$ 0.41	\$ 0.25	\$ 0.32

Key issues arising:

- The balance sheet shows a declining financial position from 2005 to 2008, with a marked decline from 2006 to 2007,
- Whilst the position at 31 March 2008 and 30 June 2007 has not changed substantially, in terms of working capital, the overall net asset position has deteriorated,
- Due to the seasonality of profit flows, current reserves (at 31 March 2008) will need to substantially fund the last quarter of the year, leading to a further deterioration in working capital and net assets. This trend is consistent with prior years,
- Working capital at 30 June 2008, is forecast to be about 2.47 times lower than at 30 June 2006, and at 31 March 2008, is 1.72 times lower.

Overall, the balance sheet shows a significantly worsening financial position for NAATI due to sustained and increasing losses this year and last year. At

the current rate of losses, the position of NAATI at 30 June 2009, in terms of solvency and ongoing ability to pay debts as and when they fall due would need to be questioned. The reasons for this comment are explained in more detail in the analysis of profitability below.

However, if a similar loss was to be incurred for 2009 as is forecast for 2008, net assets would be reduced to around \$700,000 and working capital to \$1.64. The position is further compounded by the need NAATI has identified to invest substantially in the company to improve its operations. The above analysis does not reflect the impacts of such investment. Whilst still solvent at that point, continuing trends for the subsequent year and potential increasing losses if the company was to invest in improvements would be the reasons the Board would need to start questioning ongoing solvency.

3.4 Profitability

The income and expenditure statement shows the profitability or performance of an organisation. The following summarises the profitability of NAATI from 2005 to 2008.

Income and expenditure	NAATI Revised Forecast 2008	2007 Audited	2006 Audited	2005 Audited	Four Year Movement
	\$	\$	\$	\$	\$
Grant revenue	1,057,674	981,923	967,238	942,197	115,477
Test related revenue	1,139,506	1,547,789	1,623,854	1,458,756	(319,250)
Other revenue	883,282	989,323	1,112,330	805,962	77,320
Total revenue	3,080,462	3,519,035	3,703,422	3,206,915	(126,453)
Test related expenditure	537,558	742,546	746,449	606,783	(69,225)
Operating expenditure - employee costs	1,695,280	1,821,150	1,572,276	1,353,478	341,082
Operating expenditure - other	1,403,452	1,315,005	1,078,009	1,010,151	393,301
Total expenditure	3,636,290	3,878,701	3,396,734	2,970,412	665,878
Net (Loss) Profit	(555,828)	(359,666)	306,688	236,503	(792,331)

The following table summarises the revised forecast against the original budget for 2008 and 2007:

Analysis of Budget and Forecasts	Budget 2008	NAATI Revised Forecast 2008	2007 Audited
	\$	\$	\$
Grant revenue	1,006,472	1,057,674	981,923
Test related revenue	1,731,976	1,139,506	1,547,789
Other revenue	1,078,958	883,282	989,323
Total revenue	3,817,406	3,080,462	3,519,035
Test related expenditure	785,265	537,558	742,546
Operating expenditure - employee costs	1,760,150	1,695,280	1,821,150
Operating expenditure - other	1,883,525	1,403,452	1,315,005
Total expenditure	4,428,940	3,636,290	3,878,701
Net (Loss) Profit	(611,534)	(555,828)	(359,666)

Key issues arising from the above analysis:

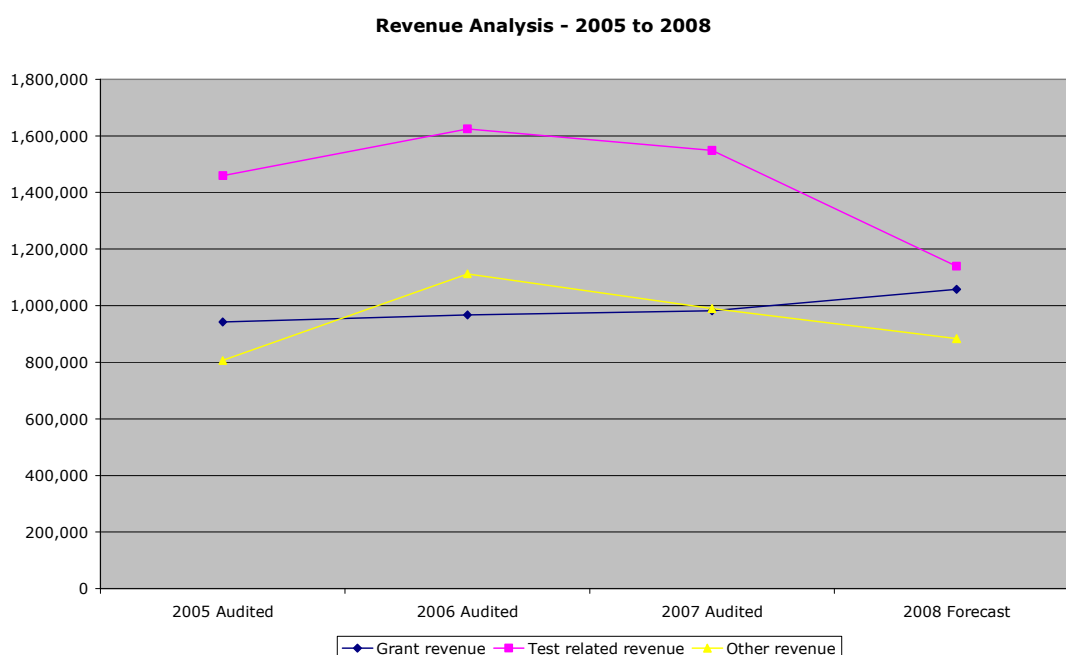
- Since 2005 there has been a 6.7% decline in total revenue and 23.2% increase in costs,
- NAATI originally budgeted for a loss of \$611,534 for 2008 representing a decrease in profitability of \$251,868 on 2007. The main reason for this was an anticipated increase in general operating expenditure of \$568,520 from 2007 with total income only anticipated to increase by \$298,371 from 2007,
- The most notable areas of budgeted increases in the general operating expenditure were property rental (\$187,657); refurbishment and relocation expenditure (\$126,000); and SAM enhancements and maintenance (\$199,597) accounting for \$513,254 of the budgeted increase in costs,
- The revised forecasts for 2008 see a slightly better result compared to the original budget, but with major variations in non-grant revenue and expenditure,
- The forecast test related revenue for 2008 is \$592,470 less than originally budgeted and \$408,283 less than 2007. This has been the singularly biggest impact on the profitability of NAATI,
- The revised forecasts, however, also see a major reduction in expenditure, which largely offsets the decline in revenue compared to the original budget. This has been as a result of reduction in variable expenditure associated with testing, along with decisions to not proceed with some projects in light of the worsening revenue position and not to replace vacant positions,

- Profits have declined by \$792,331 since 2005 and are forecast to be a loss of \$555,828 for 2008. The quantum and potential continuing nature of these losses are of significant concern.

Our analysis of the forecast, with reference to preliminary results for April 2008, prior year trends, including consideration of the final quarter non grant revenue as a proportion of the total revenue for the year indicates that the revised forecast loss for 2008 of \$555,828 may be potentially on the high side, but is not unreasonable.

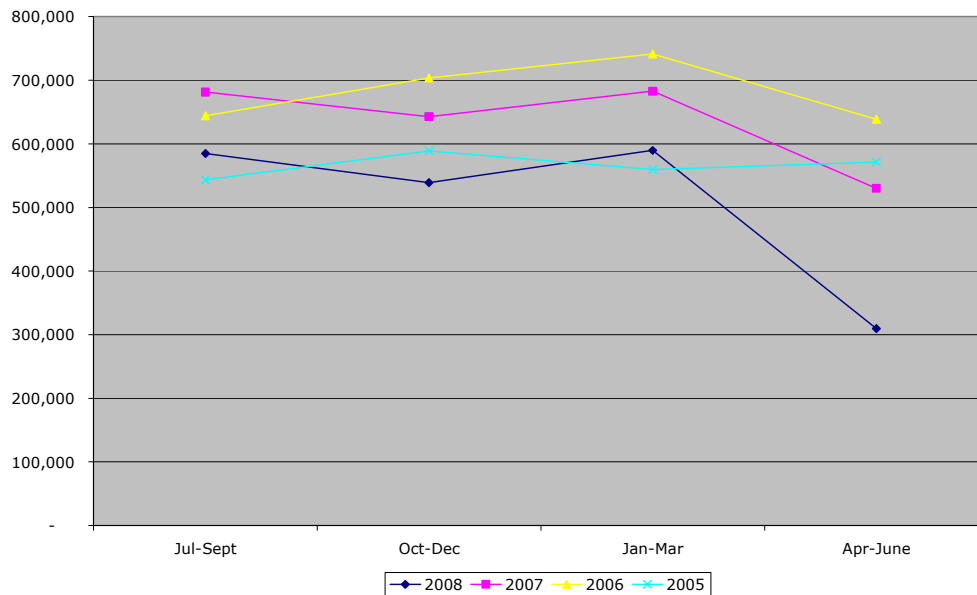
3.5 Revenue analysis

A key factor in the downturn has been the major decline in revenue. The following graph summarises revenue from key areas from 2005 to 2008:

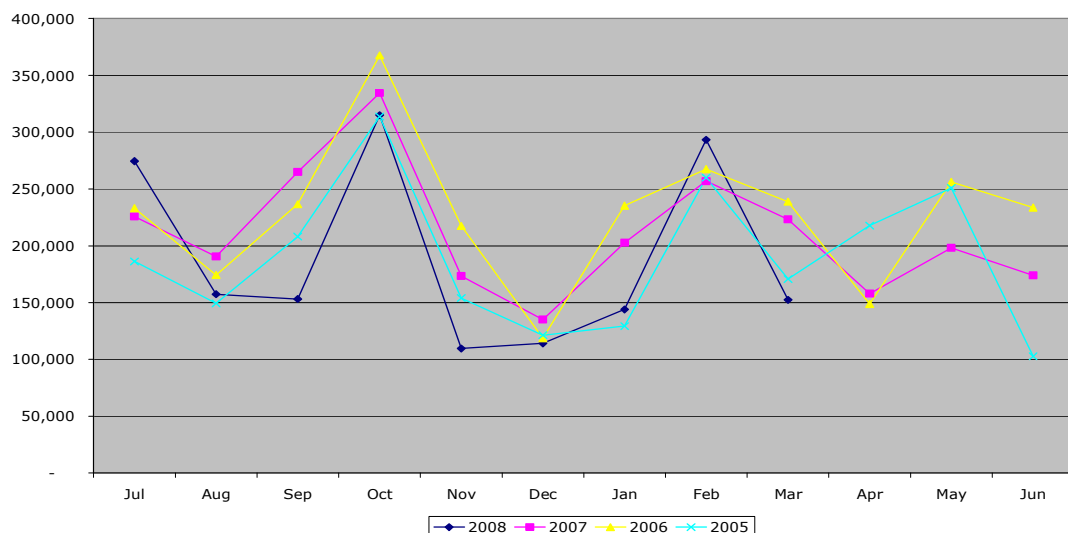


Revenue Summary	2005 Audited	2006 Audited	2007 Audited	NAATI Revised Forecast 2008	Four Year Movement
	\$	\$	\$	\$	\$
Grant revenue	942,197	967,238	981,923	1,057,674	115,477
Test related revenue	1,458,756	1,623,854	1,547,789	1,139,506	(319,250)
Other revenue	805,962	1,112,330	989,323	883,282	77,320
Total revenue	3,206,915	3,703,422	3,519,035	3,080,462	(126,453)

The overall revenue base for NAATI has declined by \$126,453 or 3.9% since 2005. The most significant feature has been the decline in test related revenue of \$319,250 or 21.8% since 2005. Other than grant revenue, NAATI is highly reliant on revenue from testing, accreditation sales of publications and other sources, which are strongly linked. The following charts maps the quarterly non-grant revenue trends from 2005 to 2008:

Quarterly Non Grant Revenue Trends 2005-2008

The above chart shows non-grant revenue has remained significantly below levels of prior years in each quarter. Our analysis of the prior year trends, and the last quarter shows that most years have a substantial drop in the final quarter's revenue. However, it would still appear that the final quarter's forecast revenue for 2008 as shown above is potentially understated, taking into account April 2008 indicators and prior year trends. The following chart shows the month trends for non-grant revenue from 2005 to 31 March 2008.

Non-Grant Revenue Monthly Analysis - 2005 to 31 March 2008

The above shows that:

- A high level of variability in non-grant revenue sources throughout the year, with two major peaks reflecting annual programs of testing for interpreting and for translating,
- Revenue from non-grant revenue sources have remained at lower levels for most months reflecting the downturn in activity overall.

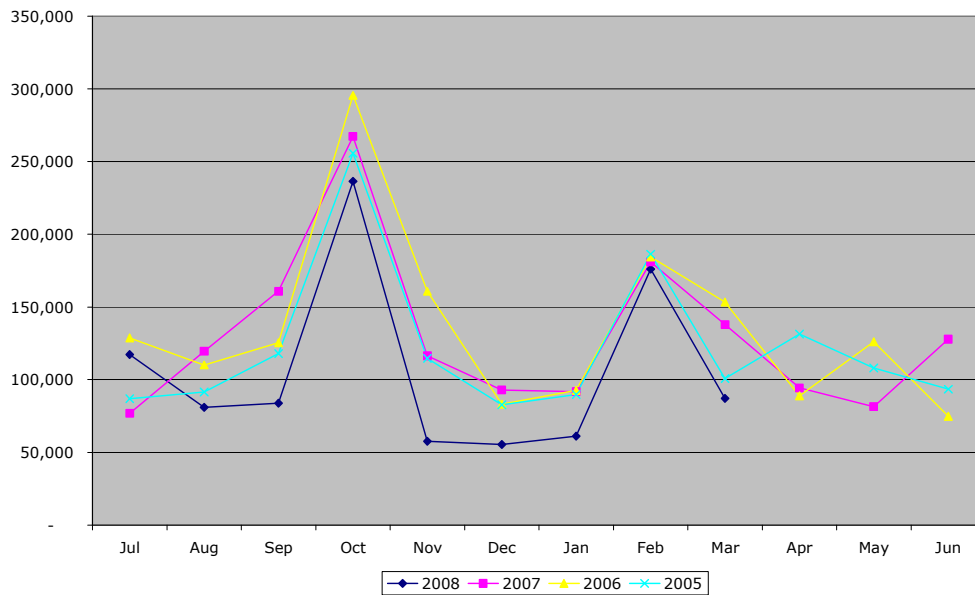
Whilst there has been a general trend downwards in the different classes of test related revenue, the most significant has been in the special on demand testing, which is expected to be \$299,194 less than originally budgeted, and \$269,773 less than actually earned in 2007.

Overall testing revenue has forecast to decline by \$408,283 from 2007 to 2008, with 65.9% of this decline specifically related to special on demand testing.

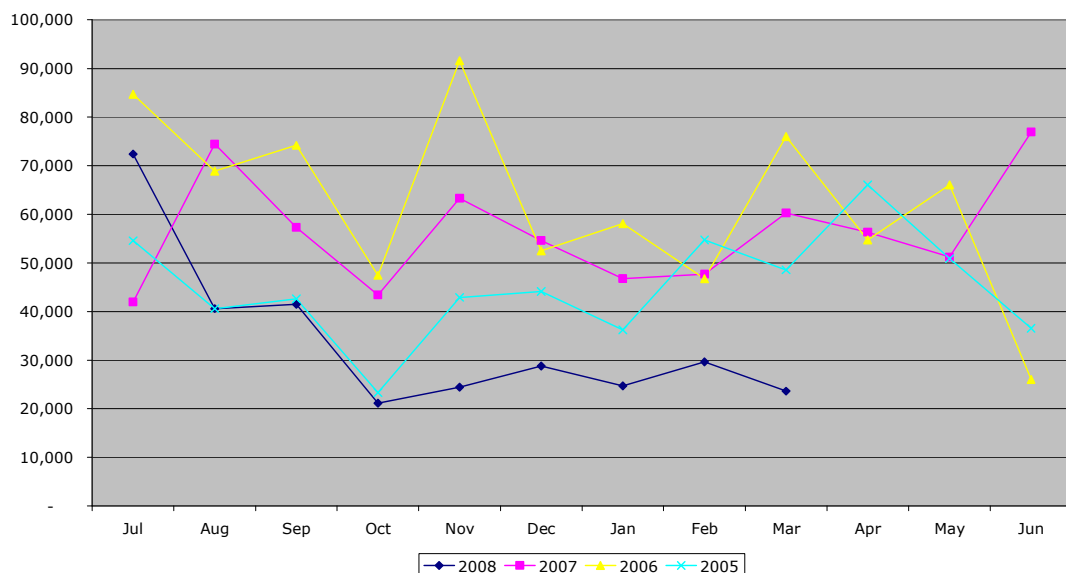
The dramatic decline in Special on Demand Testing is illustrated in the charts below:



The following chart maps the total monthly testing revenue trends, which shows a correlation with prior years, but at consistently lower levels.

Testing Revenue 2005 to 31 March 2008

The following chart illustrates the monthly trends for Special on Demand Testing.

**Special on Demand Testing Revenue
Monthly - 2005 to 31 March 2008**

The above chart shows that in relation to special on demand testing:

- Significant variability in the monthly inflows from this revenue source,
- Inflows in 2006 and 2007 were particularly high averaging \$62,000 and \$56,000 per month, compared to 2005 and 2008 averaging \$45,000 and \$28,000 respectively,

- There has been a massive downturn in the monthly revenue from this source since September 2007, where revenues dropped by half from an average \$51,000 for July to September 2007, to \$26,000 for 1 October 2007 to 31 March 2008.

Discussions with NAATI's CEO and Administration Manager, and review of the SCIMA Submission indicate:

- The revenue trends are supported by the statistical trends for testing,
- NAATI believes that the marked drop in revenue after 30 September 2007 coincided with migration policy changes. More specifically we were advised that the policy change provided an opportunity for non-residents to gain skills in the Australian community prior to applying for skilled migration. NAATI believes that this may have led to people who previously might have applied for testing for immigration purposes to defer their application. If this is part of the cause, then NAATI believes some of these applicants may return to the pool of applicants by March 2009. NAATI reports that the decline in monthly testing revenue corresponds with a similar trend in general skilled migration applications,
- The change in testing revenue may point to an underlying level of applicants that have in the past relied on the process of becoming accredited in order to obtain permanent residency. In the absence of data that could distinguish such sources of applications, it is difficult to conclude with any degree of certainty as to this impact, but it would be consistent with the above point,
- NAATI advised that the revalidation system introduced from 1 January 2007, requires new applicants, or existing ones upgrading a higher qualification, to become part of a system of whereby they would need to have their accreditation revalidated every three years. There has been a general trend downwards across testing revenue which would support this notion,
- NAATI have introduced improved screening of applicants which may have also led to a decline in applicants actually undertaking the tests,
- There has been a growing number of accreditation by course with NAATI approved courses, which may also have contributed to the decline in testing by accreditation. However, NAATI advises that there has been some decline in this area as educational institutions have ceased or diminished their offerings.

3.6 The Cook Report

A comprehensive review of the testing processes of NAATI was conducted in 2005 resulting in a report commonly known as the Cook Report³. The objectives of the Cook review were to:

- Evaluate the efficiency, effectiveness and integrity of NAATI's administrative processes in relation to testing,

³ *A Review of NAATI Administrative Processes Related to Testing, Including Quality Control Processes, AccessMQ, September 2005*

- Evaluate the consistency of applications of the processes,
- Evaluate the transparency of the processes for test administration, and
- Ensure that there are effective quality control processes in place.

The Cook Report made thirty recommendations for improvements covering the following core areas:

- Appointment of examiners,
- Tenure of panel members,
- Qualifications of examiners,
- Training and professional development of examiners,
- Location of panel members,
- Test setting processes and procedures,
- Use of computers,
- Feedback on test and task design,
- Test marking,
- Double marking,
- Translation tests independent marking,
- Great alignment of interpreting and translation test processes,
- Ethics components of testing,
- Marker reliability,
- Length of time to mark tests,
- Test viewing and reviewing,
- System wide implementation of change,
- Additional testing (Readiness Test) instrument.

The recommendations of the Cook Report are identified in the funding agreement as being implemented contingent on additional funding or from NAATI capital reserves. A review of the recent reports to the funding bodies indicate the key recommendations that have been fully implemented by NAATI have been independent marking for translation tests and improved screening of candidates. The first recommendation has effectively led the introduction of a more administrative and logistically complex process whereby all translation exams are marked by two people independently, replacing a process whereby the exam would be marked serially (collegiate marking). The second recommendation has introduced a process to screen potential applicants to assess the suitability that has led to a decline in the number of applicants actually taking the tests. However a number of other recommendations have been identified as in progress, but after some progress appear to have ceased due to funding constraints.

NAATI commissioned a Costing Review⁴ be undertaken of the implementation of the Cook Report recommendations. The Costing Review performed a

⁴ Costing Review on Cook Report Recommendations, KPMG, October 2006

costing process as a means of establishing the robustness of the cost estimates for a five year period provided in the Cook Report, as well as undertaken by NAATI, for the implementation of the Cook Report recommendations. A summary of the analysis is provided below:

	Cook Report	NAATI	Costing Review
Recurrent (5 year)	\$1,908,600	\$2,450,000	\$1,750,000
Recurrent annualised	\$381,720	\$490,000	\$350,000

The Costing Review in its estimates has removed \$480,000 over the five years from the costing as these costs are dependant on a feasibility study. However, it is likely that such costs may need to be factored into future operations if the feasibility studies support these recommendations.

The implementation of the independent marking of translation tests, which we identified above has been implemented, was estimated to be:

	Cook Report	NAATI	Costing Review
Recurrent (5 year)	\$590,000	\$590,000	\$475,000
Recurrent annualised	\$118,000	\$118,000	\$95,000

There does not appear to have been a clear agreed position on the extent to which the recommendations of the Cook Report should be implemented. In development of the strategic plan for NAATI there needs to be an agreement on which recommendations are to be implemented and a decision made on how these will be funded made. The risk of leaving key items as "contingent" on funding presents a real risk to failure of NAATI to provide a standard of testing that is acceptable and credible.

Reliance on testing revenue in the current and foreseeable climate to fund these recommendations would not appear to be an appropriate strategy.

The Cook Report is predicated on NAATI continuing to undertake testing activities broadly in its current form, but at improved standards. This needs to be determined through the strategic planning process. If it is to do so, then prioritisation of the recommendations needs to be made, and those to be implemented need to be funded. The Review notes that there is a substantial lead time for some of the Cook recommendations which will require feasibility studies to commence in the short term.

The Cook Report also has a major impact on the potential financial outlook and appropriate funding levels for NAATI. Agreement of which recommendations are to be implemented and how they are to be funded needs to be made.

3.7 Conclusion on financial position and outlook

The financial information indicates that:

- NAATI is incurring losses at a rate that are unsustainable for another one to two years,
- The marked decline in profitability has been primarily due to a decline in non-grant revenue and most notably special on demand testing revenue,
- Whilst NAATI is solvent, continued profitability at the current levels would potentially lead to its solvency being questioned by 30 June 2009. However, it has sufficient reserves to enable time to implement the recommendations of this report in regards to strategic planning, provided this is done within a reasonable timeframe, and consideration of funding as appropriate is made for key things that need to be done by NAATI in the interim,
- The company is operating in a minimalist fashion with a number of recognised important operational improvements as detailed in the Cook Report being put on hold or not pursued due to the current rate of losses. Many of these initiatives will not generate additional revenue but are focussed on quality improvements. The introduction of some of these, such as revalidation, improved applicant screening and independent marking appear to have led to revenue decreases and cost increases for NAATI,
- Adoption of any of Cook Report recommendations, or part thereof, will increase future costs of NAATI,
- Decisions about the financial future of NAATI and actions to be taken to address these will need to be considered after undertaking the appropriate strategic planning and associated costing.

4 Funding Base, Work Plan and Other Activities

4.1 Strategic plan

Findings

Fundamental to determining an appropriate funding base for NAATI is clear definition of its strategic objectives and associated outputs. NAATI has been operating without a strategic plan or associated business plans. There is no comprehensive document that pulls together these aspects and the associated costs that we could make reference to in order to determine an appropriate funding base. This further inhibits any meaningful analysis of the work plan and other activities that NAATI should be undertaking.

From our consultations with DIAC during the Review we were provided a report to the Ministerial Sub-committee of the then Ministerial Council on Immigration and Multicultural Affairs, which was submitted at a meeting on 28 March 2002. The report (Sub-committee Report 2002) was on the outcomes of a review of NAATI, which was conducted by the Commonwealth and three of the Ministerial representatives, and covered:

- Defining the vision and strategic objectives of NAATI,
- Revision of the constitution,
- Revision of the management structure,
- Revision of the roles, responsibilities, functions and powers of all key parties, including Members, Board and the CEO,
- Development of a common contractual arrangement between contributing governments and NAATI as a new basis for funding.

The review developed some definitive objectives and outputs for NAATI. The overall mission for the company was defined as:

"The mission of the Company is to set and maintain high national accreditation standards in translating and interpreting to enable the existence of a pool of accredited translators and interpreters responsive to the changing needs and demography of the Australian culturally and linguistically diverse society."

The objectives of NAATI were defined as:

- Set and maintain high national standards in translating and interpreting,
- Maintain and enhance a nationally recognised accreditation system that is responsive to the changing needs of the Australian community and accreditation applicants,
- Raise community awareness of the value and appropriate use of accredited translators and interpreters,
- Establish accreditation processes that are accountable and externally validated through suitably recognised and independent institutions,
- Provide opportunities for accredited translators and interpreters to revalidate / upgrade their accreditation level, and

- Provide advisory and consultancy services in relation to translating and interpreting.

The vision and the objectives have been built into the constitution of NAATI. For these objectives a series of outputs were developed. These are reproduced against each of the above objectives at Appendix A to this report.

The key working document that has been used to direct NAATI has been the Funding Agreement, which contains detailed Work Plans as schedules.

The Review has analysed the Sub-committee Report 2002 and the Funding Agreement, and held a range of discussions with Stakeholders in relation to the strategic vision and objectives for NAATI and the operation of the Funding Agreement. The major issues identified in relation to these aspects are:

- The current Board, CEO and management of NAATI were unaware of the Sub-committee Report 2002, as were the majority of Members Representatives',
- NAATI has not developed a strategic plan with detailed strategies and underlying business plans for the achievement of the objectives and outputs as set out in the Sub-committee Report 2002,
- The CEO has commenced development of a strategic plan for NAATI in conjunction with the Board,
- The costs of achieving the objectives and delivery of the outputs have never been quantified,
- There are numerous and detailed outputs defined in the Sub-committee Report 2002. An analysis of these shows that some of these outputs are more reflective of high level strategies for achieving the objectives, rather than outputs as such,
- The current funding agreement shows a disconnection between the key objectives of NAATI and outputs as documented in the Sub-committee Report 2002. There is no clear link between the above objectives and outputs and the work plans detailed in the funding agreement,
- The funding agreement is extremely prescriptive and detailed in the quantum and level of reporting required at the output level, with some 30 outputs to be reported for continuing and new activities, and some 10 outputs for activities subject to funding availability,
- In addition, from a financial perspective, the only reference to actual financial information in the funding agreement is quantification of the Government's contribution, with no reference to the budgeted costs required to deliver the agreed outputs. The funding agreement appears to have been developed with reference to delivery of the outputs in the work plans contained in its schedules. However, it does not clearly show how NAATI is to be funded to operate and funded to deliver the outputs.

A review of the Sub-committee Report 2002, consultations with Members Representatives, Board members and management revealed the following common themes:

- There was a real desire for the existence of NAATI and recognition of its importance in ensuring that an essential social and community service in the form of high quality translators and interpreters was maintained,

- There was recognition that NAATI could not achieve self-sufficiency⁵. In some cases, the view was that NAATI should not be seeking this as a goal, as NAATI was primarily providing an essential service to society and the community,
- The market for translating and interpreting was characterised by people with a limited opportunity to make significant earnings due to the low rates paid for such services. Such people were predominantly working in areas with a social focus in the community, such as welfare and health sectors. The ability and willingness to pay fees by the market is limited. There also appears to be an underlying level of applicants who have used accreditation as a means of obtaining permanent residency who do not continue on with work in the profession,
- There is no government regulations enforcing the use of NAATI accredited translators and interpreters,
- There was a range of views on whether the NAATI should primarily remove itself from the actual testing process and focus on accreditation of educational institutions courses as the means by which accreditation of translators and interpreters occur, and
- The Board indicated it was important for NAATI to be able to increase the credibility of NAATI through mechanisms such as the establishment of a Professional Reference Group to assist the Board in evaluating policy decisions that have an impact on the profession.

The above issues are fundamental issues that need to be resolved by the Members of NAATI in order to enable further progress to be made. Of particular importance is agreement on the second last point above. If the strategic decision was made that NAATI moves away from actual testing, this has major implications for the organisational structure, existence of State and Territory Offices, information technology infrastructure, resources and staffing. It would be a fundamental shift in the business model and would require detailed reengineering of the business. It also may have major ramifications for the ability of the community to access appropriately qualified translators and interpreters. For educational institutions to run such courses, it is likely they will need to be able to generate a profit, in an area where there has been formal recognition that self sufficiency is not achievable, and the ability or willingness of people to pay fees is limited. Careful consideration would need to be made of how to address new and emerging languages, or less common languages if such a move was made. In addition, the languages which are most likely to be successfully run through institutions may be the languages that might actually be profitable for NAATI.

4.2 Cost Base

Findings

An important consideration in assessing an adequate funding base is assessment of the cost base for NAATI. NAATI's financial systems do not routinely provide sufficient detail on costs of operating State and Territory Offices nor do they strictly attribute costs between testing activity, accreditation activity and fixed costs. The financial statements do attribute

⁵ This position is formally recognised in the Sub-committee Report 2002

some direct costs to testing activity, but there are other costs that are contained with employment costs and other operating expenditure which should be attributed to testing and accreditation activity. It is therefore not possible to easily extract an estimate of the fixed cost base of NAATI nationally nor by States and Territories as a starting point for the analysis within the scope of this Review. However, we have provided an analysis of core costs below.

At the highest level we can analyse the expenditure of NAATI for 2005 to 2008, which is summarised below:

Expenditure Classification	NAATI Revised Forecast 2008	2007 Audited	2006 Audited	2005 Audited
	\$	\$	\$	\$
Test related expenditure	537,558	742,546	746,449	606,783
Operating expenditure - employee costs	1,695,280	1,821,150	1,572,276	1,353,478
Operating expenditure - other	1,403,452	1,315,005	1,078,009	1,010,151
Total expenditure	3,636,290	3,878,701	3,396,734	2,970,412

Key features include:

- Test related expenditure has dropped significantly, as would be expected given the decline in testing income, but with the introduction of independent marking, this has not dropped proportionally to the income. If test related expenditure had dropped proportionally since 2005 we would expect costs to be in the order of \$450,000, which may indicate an underlying increase in the cost base of \$90,000,
- Employee costs have increased since 2005 (\$341,802), but have declined significantly on 2007 (\$125,870). The Collective Agreement allows for a 4% annual increase with an additional 2% bonus. This would account for the majority of the increase since 2005 (approximately \$300,000). Positions have not been replaced as they have become vacant during 2008, and the full annual effect of cost savings in this respect is not yet reflected in the forecast for 2008. The number of full time equivalent employees for the period are as follows:

Year	FTE
2005	26.1
2006	27.0
2007	26.7
2008	24.7

- Other operating expenditure has increased significantly since 2005 (\$393,301) and are also up on 2007 (\$88,447). Key areas of variance include:

Expense	Movement 2007 to 2008 ⁶ \$	Movement 2005 to 2008 \$
Directors remuneration	na	100,866
Photocopier lease and charges	na	54,797
Property rental	58,259	94,242
Relocation	21,064	21,064
SAM enhancements and maintenance	106,189	73,839
IT Support and maintenance	36,928	53,323
IT lease agreement	38,563	42,461
Special projects	(32,859)	na
Depreciation	(45,648)	na
Business consultant / research	(29,814)	na
Printing – other publications	(23,013)	na
Publicity and functions	(26,135)	na
Total	\$103,554	\$440,592

An analysis of the above would indicate that there has been a shift in base costs from 2005 to 2008 in the order of \$400,000, as the majority of costs relate to recurrent items, and our review of the expenditure for 2008 would not indicate any major one off projects being included in those costs. The introduction of revalidation from 1 January 2007 will also have an impact in these areas, but no separate figures have been developed monitored to assess the actual impact,

- Whilst the information is not routinely available from the financial systems, information provided to us during the Review would indicate that the costs of maintaining a State and Territory network actually exceeds the funding from the related Government,
- It is not possible within the scope of this review and the limitations of the financial systems to determine the extent to which excess capacity may exist (if any) given the current levels of testing and accreditation activity

⁶ Items designated as "na" indicate that these were not considered significant movements for the period

Through our consultations with, and visits to, State and Territory Offices, and National Office, it would appear that NAATI operates on a fairly minimalist infrastructure and operating budget. The question of any cost rationalisation needs to come after agreeing on a strategic plan for NAATI and how it will operate in the future.

We were able to observe that the funding model to date has not distinguished between core activities; introduction of new activities with a permanent impact on the core costs (for example revalidation or independent marking); and one off or new initiatives to deal with emerging issues. In any future development of the funding model this issue needs to be taken into account.

However in the absence of a clear agreed position for NAATI and limitations in the available financial information, it is difficult to accurately estimate the appropriate cost base for NAATI. The estimated costs (approximately \$3,900,000 excluding test related expenditure) for 2008 would appear to be towards the bottom end for the current structure and operations. Indications are that NAATI are operating in a fairly minimalist cost environment within the current structure and have made certain cost savings throughout the current year. However the costs we have identified do not factor in required business improvements, recommendations of the Cook Report or investment in appropriate information technology. Additional investment would be required to support these areas.

5 Business practices and processes

5.1 Overview

A high level review was undertaken of current business practices and processes. A fundamental piece of work in reviewing core business activity is reflected in the Cook Report (refer Section 3.6), and the recommendations for business changes contained therein need to be considered.

In addition, agreement needs to be reached on how NAATI will operate in the future, prior to determining what changes to business processes would be appropriate.

We have limited our findings to observations and have not made specific recommendations subject to agreement on the core issues raised earlier in the report.

5.2 Constitution

NAATI is incorporated as a company limited by guarantee under the *Corporations Act 2001*. The membership of NAATI comprises the Ministers responsible in each jurisdiction for multicultural and / or ethnic affairs. The members may appoint a representative to exercise the member's powers under the Constitution and the *Corporations Act 2001*.

The Constitution is written in a manner that it prescribes certain business practices, and it is therefore appropriate to cover it as part of this part of the Review.

There are a number of unusual features of the constitution, particularly in regards to the powers of Members and the relationship to the Board. These powers are contained within Clause 7 of the constitution. In effect the constitution is giving a series of fundamental powers to the Members that would normally be reserved for the Board in order to enable the Board to govern the company and to fulfil their duties and responsibilities and to meet their obligations in the management of the affairs of the company as directors under the *Corporations Act 2001*. A summary of the unusual features is provided below:

- The Members are able to approve or reject the appointment of the CEO and may also approve the terms and condition of the appointment. They are also able to remove the CEO,
- The Members may approve membership of committees of the Board, and require such committees to produce their findings,
- The Members may set the strategic direction of NAATI, and approve or reject the business plan of the company. They may also require the Board to implement and report to the Members on the business plan on a regular basis. The constitution of NAATI defines the business plan to be "*the plan proposed by the Board and approved by the members which describes the strategic directions of the company, the activities to be undertaken by and on behalf of the company and how and when the directions and activities are expected to be implemented and completed*",

- The Members may approve or reject the budget prepared by the Board setting out all expected income and expenditure of NAATI relating to the implementation of the business plan. The constitution defines the budget to be *"the budget prepared by the Board and approved by the members which sets out all expected income and expenditure of the company relating to the implementation of the business plan"*,
- The Members may approve or reject any by-laws or regulations proposed by the Board in accordance with the constitution. This specifically refers to Clause 22 of the constitution, which states that *"subject to the approval of the members, the Board may from time to time make such by-laws as are in its opinion necessary and desirable for the proper control, administration and management of the company's affairs, operations, finances, interests, effects and property."*

The constitution has been developed in a manner that creates a significant shift in power from the Board to the Members. In our opinion, it opens up a serious risk to impeding the Board from operating efficiently and effectively, as well as being able to fulfil their roles and responsibilities, and to meet their duties and obligations as Board members under the *Corporations Act 2001* in an unfettered manner. The key powers transferred to the Members are important for the Board to do so, creating the situation where the people with the powers bear none of the risks associated with the associated obligations.

5.3 Organisational Management

The Review revealed that management across NAATI had a limited understanding of the mission, objectives and strategic goals of NAATI. In many cases, State and Territory Managers were even unaware of the requirements of the funding agreement. This appears to be due to a historical style of operation.

The Review noted the efforts of the current CEO to commence implementation of a more inclusive management style, starting with strategic and business planning. Consultations with State and Territory offices indicate an appreciation by their offices of the efforts in this regard.

There is a lack of documented policies, procedures and delegations structured in a manner conducive to the operational and financial management of an organisation with a State and Territory Office structure. Operations have historically tended to be driven and controlled centrally.

5.4 Review of business process

Annual Program

NAATI current uses a system by which it offers annual program of testing for translating and for interpreting, along with special on demand tests. In addition it is supported by a less expensive fee for the annual program tests. We believe there is significant scope for re-engineering the business process by removing the annual programs. The issues we see in the current process include:

- The infrastructure of NAATI is placed under significant strain when the annual programs are being undertaken. Some of the offices, notably Sydney and Melbourne, cannot conduct the annual testing programs in

house and have to hire venues to perform the tests, thus actually adding to the costs of testing. Removal of annual programs would remove the need to hold off-site testing and increase the use of the existing infrastructure,

- The resources of NAATI are placed under significant strain when the annual programs are being undertaken with a significant increase in the volume of applications being processed and after the tests the number of tests that need to be marked. This actually draws resources away from being able to meet special on demand tests during these periods, which are higher paying,
- Processing of applications and transactions are made more complex by having seven different fees for the annual programs in Australia and seven different fees for New Zealand. Removal of annual programs would remove fourteen fee types having to be accounted for, processed and receipted,
- The existence of an alternative less expensive fee structure for customers would lead to a significant number customers opting to take the annual program at an effective loss of revenue to NAATI. Removal of the annual program and having one fee structure has significant potential for increasing revenue to NAATI. It is not known the extent to which potential customers would opt out of doing the tests all together,
- The ability of introduction of computer based testing and increased use of appropriate technology for testing is severely limited by having an annual program. Removal of the annual programs would enable the flow of customers to be controlled by NAATI and implementation of appropriate technology at the State and Territory Offices within the existing infrastructure.

Our consultations revealed that there would appear to be no reason for the need for annual testing programs, nor an expectation that there be one.

Information Technology

NAATI's core information technology infrastructure appears to be outdated and suffers a range of performance issues and limitations. Also the use of information technology for the delivery of its testing services is significantly limited. These are areas requiring significant investment.

5.5 Business case development

A notable feature of the business practices of NAATI has been an absence of a policy and practice for the development of business cases to support new initiatives or activities. A number of one off projects and new initiatives (e.g. revalidation) illustrate an absence of a business discipline to assessing the viability of new proposals or activities before their adoption.

The Cook Report does deviate somewhat from this general trend in that a full costing was commissioned by NAATI, however funding was not secured before implementation of some of its recommendations.

6 Board remuneration

In the Board Paper "A Sustainable Funding Model for NAATI" Agenda Item A7, the NAATI Board recommend that directors' remuneration be reviewed and a different model for remunerating directors be taken with a corresponding increase in annual retainers paid to the Chair, Deputy Chair and Directors.

The current model for Board remuneration involves an annual retainer and a Per Diem rate. The following table sets out what we understand to be the current rates. We understand that these rates were last reviewed on 17 November 2004.

	Annual Retainer	Per Diem Rate
Chair	\$10,930	\$503
Deputy Chair	\$5,465	\$448
Directors	\$2,186	\$448
Teleconferences 2-3 hours	3/5 of the Per Diem rate	
Teleconferences 1-2 hours	2/5 of the Per Diem rate	

The 2006-07 Audited Financial Statements identify Directors Remuneration as:

- 2005-06 \$49,900
- 2006-07 \$59,013.

Board related expenditure from 2006-07 accounts identifies the following:

Expenditure	2006-07	2005-06
Chairperson honorarium fees	\$13,700	\$12,800
Directors' remuneration and other costs	\$107,794	\$85,073
Total	\$121,494	\$97,873

The model being proposed by the Board involves an annual retainer and no remuneration on a per diem basis. It is argued that this approach would be more predictable for budgeting, and other organisations such as the General Practice Education and Training Ltd remunerates their directors in this fashion.

Reference is made in the Board paper to the Remuneration Tribunal and Determination 2007/10: Remuneration and Allowances for Holders of Part-Time Public Office.

The Board has chosen to refer to the Remuneration Tribunal to provide some context for remuneration rates paid to part time chairs and directors (Commonwealth public officers).

It should be noted that the role of the Remuneration Tribunal is to determine, report on or provide advice about remuneration, including allowances and entitlements that are within its jurisdiction for the following:

- Federal Parliamentarians, including Ministers and Parliamentary office holders;
- Judicial and non-judicial offices of federal courts and tribunals;
- Full-time and part-time holders of various public offices; and
- Principal Executive Officers.

The remuneration rates for holders of Part-Time Public Office (chairs and directors) vary considerably. As reported in the Board paper annual fees for directors range from \$5,720 to \$81,610 and for chairs \$7,560 to \$167,730.

The Board paper recommends the following remuneration for directors from 1 July 2008.

Officer	Annual Remuneration	Sitting Fees
Chair	\$24,730	Nil
Deputy Chair	\$19,206	Nil
Director	\$17,460	Nil

The Board's suggested remuneration is aligned with the low end of the spectrum of rates in Determination 2007/10: Remuneration and Allowances for Holders of Part-Time Public Office. The following organisations have the same rates as those suggested by the Board.

- ARC College of Experts; and
- Australian Sports Drug Medical Advisory Committee.

Organisations with similar chair rates and slight lower director rates include:

- Australian Business Arts Foundation;
- Aboriginal Hostels Ltd;
- Australian National Maritime Museum Council;
- Australian War Memorial Council;
- National Gallery of Australia Council;
- National Library of Australia Council; and
- National Museum of Australia Council.

Rates for deputy chairs also vary considerably. Most deputy chairs receive a premium of between 11-81% on the director's rate. The Board's suggested approach of a 10% premium for the Deputy Chair is seen as conservative in the context of those applied in the Determination.

Based on reported expenditure in the 2006-07 financial statements Directors Remuneration is stated as \$59,013. The recommended package under the new remuneration model equates to \$96,316. This is a variance of \$37,303

on the 2006-07 directors remuneration expenditure. The new model appears to provide relatively greater financial benefit to the directors and the deputy chair than to the chair.

Greater financial recognition for directors can benefit not for profit organisations by enabling them to attract and retain skilled and experienced Board members.

Appendix A – Objectives and Outputs from Sub-committee Report 2002

The following outputs were developed and reported in the Sub-committee Report 2002 for each of NAATI's objectives.

Objective	Outputs
Set and maintain high national standards in translating and interpreting	▪ Develop and publish a set of standards at various levels for translators and interpreters; ▪ Establish a review mechanism to ensure standards are maintained; ▪ Enhance translating/interpreting standards through close links and cooperation with relevant professional and educational bodies; and ▪ Include Translators and Interpreters' Code of Conduct as part of the accreditation.
Maintain and enhance a nationally recognised accreditation system that is responsive to the changing needs of the Australian community and accreditation applicants	▪ Accredit competent translators and interpreters over a range of professional and para-professional levels by: testing, approval of courses at tertiary institutions, assessment of overseas qualifications; ▪ Develop close relationship with all stakeholders government/private service providers to enable identification of their needs; ▪ Be responsive to service providers' changing accreditation needs for translating and interpreting in current, new and emerging community languages at appropriate levels as identified by governments/service providers; ▪ Promote interest for obtaining accreditation and upgrading among potential applicants; ▪ In a cost effective manner be responsive to candidates' needs for NAATI T/I accreditation; and ▪ Provide for equitable accreditation opportunities – directly or indirectly (i.e. through appropriate institutions) – across Australia despite geographical remoteness.
Raise community awareness of the value and appropriate use of accredited translators and interpreters	▪ Raise community awareness in relation to the need for using accredited translators/interpreters for effect communication; ▪ Raise service providers' awareness of the importance of using accredited translators/interpreters in the provision of services to their clients; ▪ Keep and make publicly available an updated list of all NAATI accredited translators and interpreters; ▪ Provide information to all relevant/interested users on how to use

Objective	Outputs
	translating/interpreting services; - Encourage governments/service providers to use translators and interpreters who meet NAATI standards; and - Provide governments/service providers and the community with an updated list of languages available for testing.
Establish accreditation processes that are accountable and externally validated through suitably recognised and independent institutions	- Liaise and cooperate with relevant organisations and individuals in pursuit of this objective; - Put in place accreditation processes supported by independent validation; - Pursue continuous improvement of all procedures and processes through streamlining, regular benchmarking and better use of advanced technology; - Ensure language panels' competency through: engaging examiners of high qualifications; maintaining uniformity across various language examiner panels in the interests of consistent high standards in all languages; inclusion of external auditing processes; informing all NAATI examiners of probity and code of conduct requirements and enforcing these requirements through monitoring and taking appropriate action in cases of breach; and - Advise candidates of the testing process and opportunities for review.
Provide opportunities for accredited translators and interpreters to revalidate / upgrade their accreditation level	- Processes requiring periodic re-validation of accredited translators/interpreters' qualifications; - Inform relevant community organisations/service providers of the validity of NAATI accreditation; - Inform accreditation applicants of re-validation requirements and processes; - Inform applicants of professional development activities; and - Inform governments/service providers and community on the number of upgrades in NAATI status.
Provide advisory and consultancy services in relation to translating and interpreting	Provide advice/consultancy on: - Translating/interpreting standards; - Accreditation process; - Translators/interpreters' code of conduct; - Role of the translator/interpreter as an independent, impartial communicator; - Translating and interpreting skills in various media, in various settings, utilising various techniques;

Objective	Outputs
	▪ Cultural sensitivity in performing translating/interpreting tasks; and ▪ Education or other institutions' Translating/Interpreting course content.