



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

## SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT  
LEGISLATION COMMITTEE

**Reference: Australian Wool Innovation - expenditure of funds under statutory  
funding agreement**

WEDNESDAY, 17 SEPTEMBER 2003

CANBERRA

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Wednesday, xx September 2003

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**SENATE**

**RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE**

**Wednesday, 17 September 2003**

**Members:** Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Colbeck, Ferris and O'Brien

**Participating members:** Senators Abetz, Boswell, Brown, Carr, Chapman, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Harradine, Harris, Hutchins, Knowles, Lightfoot, Mason, Sandy Macdonald, Mackay, McGauran, McLucas, Murphy, Payne, Ray, Santoro, Stephens, Tchen, Tierney and Watson

**Senators in attendance:** Senators Colbeck, Ferris, Heffernan and O'Brien

**Terms of reference for the inquiry:**

For inquiry into and report on:

- a) the administration and operation of the Statutory Funding Agreement dated 28 December 2000, between the Commonwealth of Australia (represented by the Minister for Agriculture, Fisheries and Forestry), Australian Wool Innovation Pty Limited and Australian Wool Services Limited;
- b) the expenditure and application of funds paid to Australian Wool Innovation Pty Limited under the terms of that agreement; and
- c) other relevant matters arising from the reference.

**WITNESSES**

**CATTANACH, Mr Gavan James, Manager, Science and Innovation Policy, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry.....106**

**SAMSON, Dr Cliff, Executive Manager, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry .....106**

**TAYLOR, Mr Michael John, Secretary, Department of Agriculture, Fisheries and Forestry .....106**

**WILLIAMSON, Mr Greg John, Acting Executive Manager, Food and Agriculture, Department of Agriculture, Fisheries and Forestry.....106**

**Committee met at 5.03 p.m.**

**CHAIR**—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. This is the committee's fourth hearing to consider matters in relation to its inquiry into application and expenditure of funds by Australian Wool Innovation Ltd pursuant to a statutory funding agreement. This matter was adopted on 26 May 2003 by the committee for inquiry pursuant to Senate standing order 25(2)(b), which empowers the committee to inquire into all matters administered by agencies and departments within the committee's responsibility.

The specific subject of this inquiry is the administration and operation of the statutory funding agreement dated 28 December 2000, between the Commonwealth of Australia—represented by the Minister for Agriculture, Fisheries and Forestry—Australian Wool Innovation Pty Ltd and Australian Wool Services Ltd; the expenditure and application of funds paid to Australian Wool Innovation Ltd under the terms of that agreement; and any other relevant matters arising from the reference.

To date, the committee has published 14 written submissions. In addition, the committee has obtained from Australian Wool Innovation Ltd, and subsequently published, two other documents which were provided pursuant to orders for production of documents issued by the committee under standing order 25(15). These documents are an audit review comprising three separate documents and a deed of separation between AWI and Mr Colin Dorber. The committee has placed all published documents on the committee web site.

Today's hearing is public and open to all. A *Hansard* transcript of the proceedings is being made, which will be available next week from the committee secretariat or via the Parliament House Internet home page. It should be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of committee proceedings.

Before the committee commences taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Any act by any person which may operate to the disadvantage of a witness on account of evidence given by him or her before the Senate or any committee of the Senate is treated as a breach of privilege.

While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of that evidence to the Senate. The Senate also has the power to order production and/or publication of such evidence. I should add that any decision regarding publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

[5.06 p.m.]

**CATTANACH, Mr Gavan James, Manager, Science and Innovation Policy, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry**

**SAMSON, Dr Cliff, Executive Manager, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry**

**TAYLOR, Mr Michael John, Secretary, Department of Agriculture, Fisheries and Forestry**

**WILLIAMSON, Mr Greg John, Acting Executive Manager, Food and Agriculture, Department of Agriculture, Fisheries and Forestry**

**CHAIR**—I welcome the honourable and venerable officers of the Department of Agriculture, Fisheries and Forestry. Before we commence the proceedings for which we are here, I understand that Senator O'Brien would like to ask a couple of questions. Then you may care to make an opening statement on the issue of Australian Wool Innovation.

**Senator O'BRIEN**—Has there been a name change while I have been away? Someone said that it is not AFFA anymore; is that right?

**Mr Taylor**—We are the Department of Agriculture, Fisheries and Forestry.

**Senator O'BRIEN**—It is not called AFFA; is that right?

**Mr Taylor**—It has been quite conscious that we have had the government provide a level of consistency right across government agencies and to also have a naming consistency. In a practical effect, our name has always been legally and formally the Department of Agriculture, Fisheries and Forestry. Our other expression was one of our prior choosing.

**Senator O'BRIEN**—So is it AGDAFF or AFFA?

**Mr Taylor**—We would prefer the Department of Agriculture, Fisheries and Forestry.

**Senator O'BRIEN**—So no-one is going to confess who is calling the department something different or whether there has been a decision to—

**Mr Taylor**—The reality is that we have formally always been the Department of Agriculture, Fisheries and Forestry. We chose to have a shorthand version of that—Agriculture, Fisheries and Forestry Australia—but that was not a formal departmental name. It was something selected within the organisation, not by the government.

**Senator O'BRIEN**—On the question of the live sheep shipment, can you confirm for us that the shipment remains stranded off the coast of the United Arab Emirates port of Al Fujarah.

**Mr Taylor**—Senator, I do not want to give you any price confirmation at this moment. There has been detailed work going on by the Australian government in the interests of the animal welfare of the sheep. The Australian government does not own or control either the sheep or the ship, but we have taken a very active interest in the interests of the animal welfare of the sheep, and that is certainly under active negotiation right now.

**Senator O'BRIEN**—Do you know if they are still stranded off that port?

**Mr Taylor**—Certainly our negotiations are aimed at finding an unloading port, but I cannot bring you up to date as to where that is at the minute, other than to say that there is seriously active negotiation going on on that matter.

**Senator O'BRIEN**—So you do not know where the ship is?

**Mr Taylor**—The ship is certainly located near the Arabian peninsula. I do not want to give you an undertaking that it is sitting right there off Al Fujarah right now because I am not in a position to say that with confidence. Was it there recently? Yes, it was.

**CHAIR**—It is at sea, though?

**Mr Taylor**—It is certainly at sea.

**Senator O'BRIEN**—Can you confirm the mortality level as now just below 4,000, as of this morning?

**Mr Taylor**—I can certainly confirm that the mortalities have risen from far less than one per cent, when the ship first arrived at the original port but where they were not discharged. Certainly there have been subsequent

mortalities. I would much prefer to come back to you with a precise number on that, Senator, rather than just guess.

**Senator O'BRIEN**—The master of the vessel advises you daily, so you would have to be fairly up to date.

**Mr Taylor**—I am sorry, Senator, I have come from a meeting in Sydney. I have not sought to get that advice. I am happy to go and get the advice subsequently.

**Senator O'BRIEN**—The department gets the advice every day.

**Mr Taylor**—I have not come equipped with that, I am sorry.

**Senator O'BRIEN**—Can you confirm that you were advised in person on 20 August that Australian exporters were about to confront major problems accessing the Saudi Arabian market?

**Mr Taylor**—I cannot confirm that at all, Senator. When this shipment first left Australia, it was expected—as with every one of the shipments—to comply with all of our animal health and animal welfare requirements, and it was certainly expected to be discharged without question when it arrived at the Saudi Arabian end of its journey. There was never any expectation that it would be other than straightforward.

**Senator O'BRIEN**—So you were not told the Australian exporters should expect major problems accessing the—

**Mr Taylor**—Certainly not prior to the ship leaving, and I cannot say that there have not been some subsequent discussions because I am not aware of them. What I can say is that the ship was to comply with all requirements in terms of animal welfare and animal health from our point of view and with the expectation that they would be discharged normally.

**Senator O'BRIEN**—Are you implying you were told that after the ship left?

**Mr Taylor**—No, I am not implying that. I am just saying that I do not have any advice about it. I am telling you, though, what our decisions were prior to—

**CHAIR**—Is this all about scabby mouth?

**Mr Taylor**—In our view, the sheep are well within any question of scabby mouth—

**CHAIR**—Scabby mouth is the simplest thing to vaccinate against.

**Mr Taylor**—I think it is worth saying that there has been a debate about scabby mouth previously in Saudi Arabia. I do not want to go into that because I was not present at the time. We do know that we have a memorandum with respect to sheep going to Saudi that requires the sheep to have a less than six per cent presence of scabby mouth. I think one of the difficulties is that what is diagnosed at the Saudi end as scabby mouth and what we would describe as scabby mouth might well be two different things. The difference between chapped lips—

**CHAIR**—Having vaccinated tens of thousands of sheep—

**Mr Taylor**—Yes, but what I am saying is that chapped lips on sheep might constitute scabby mouth in the eyes of others, not in ours. What we do know is that, rather than the number being anything like five or six per cent, we were talking about a number well less than one per cent. So they certainly complied.

**Senator O'BRIEN**—I look forward to the information, if you can get it to us somehow.

**CHAIR**—Mr Taylor, would you care to make an opening statement?

**Mr Taylor**—Thank you, Mr Chairman. I am not sure I can make an opening statement. I am certainly here to assist senators in any shape or form.

**CHAIR**—We are very grateful for that.

**Mr Taylor**—I came at the request of the committee. My colleagues, as you know, have provided assistance to the committee earlier, but I am happy to do whatever I might this afternoon to assist you further.

**Senator O'BRIEN**—I want to go to the role of the department in monitoring the expenditure of nearly \$80 million of grower levies in taxpayer money. In the *Weekly Times* today a spokesman for the minister, Mr Truss, said that any legal action in relation to the misuse of funds was the industry's responsibility. Is it not the case that the misuse of taxpayer funds is a matter for the government to address?

**Mr Taylor**—First of all, I will deal with what is probably a short quote from the minister rather than a comprehensive one. Clearly, if there is anything that has been undertaken within AWT's activities that is

contrary to legal oversight within the government purview, we would take legal action if the advice of our lawyers suggested that was the appropriate way to go. It is important to get that context correct.

The second issue is that the AWI itself equally has a legal responsibility within the Corporations Act and its supervision by the Australian Securities and Investments Commission to take appropriate action as well. So there are some respective responsibilities, and I suspect that second point is the one you have picked up from the quote in the *Weekly Times*.

**Senator O'BRIEN**—So they did not publish the full response?

**Mr Taylor**—I am unaware of how the question was asked or of the full quote. I am just explaining to you that, to the extent that we saw and have obtained legal advice to indicate there was something that was illegal and prosecutable, we would take action. A very important thing to note about AWI is that AWI has very serious responsibilities under the Corporations Act and the Australian Securities and Investments Commission equally in overlooking the governance of corporations. In our situation, ours relate much more to the statutory funding agreement and looking to issues where there might be questions with respect to funds spent inconsistently with the research and development levy framework.

**Senator O'BRIEN**—Do I understand you to say that you would seek to take action if you established that taxpayer funds had been misused?

**Mr Taylor**—And legal advice indicated it was appropriate. As you would be aware, Senator, in the end when we take action we do it through proper legal processes rather than just—

**Mr Taylor**—So if the legal advice says that moneys have been inappropriately spent, the obligations of the statutory funding agreement have not been met, the department would seek to recover those funds? Or would you seek advice as to whether—

**Mr Taylor**—We would seek advice on what we should do.

**Dr Samson**—Senator, I think we would seek advice on the issue, as we have done. It is then open to the government under the terms of the statutory funding agreement to consider a range of options that go from recovering all the moneys, part of the moneys, the cancellation of the funding agreement or some other course of action. It would very much be assessed by the minister on a case by case basis to determine a course of action appropriate to the breach of the statutory funding agreement.

**Senator O'BRIEN**—It is clear now that there is more information available about the operations of this company under the management of Mr Dorber and the oversight of the old board that was not considered by PricewaterhouseCoopers. That is clear from the evidence to the committee of Mr van Rooyen. So how should we take the comments of the minister's office in relation to those matters? Should we take them to mean that the government will not take any action in relation to this matter?

**Mr Taylor**—It is very important to realise that we are in the middle of a series of questions and investigation. It is probably worth my describing a little history which might help us. The issues identified subsequent to the change of board of AWI in November 2002 and their commissioning of the PWC report have given rise to a number of issues for which we think there are some questions that need to be considered. That report, as you know, became available only in more recent times. Those issues which would go to some questions we would ask about the statutory funding agreement largely relate to the period of September, October and November 2002. They are events that took place right near the change of board within AWI.

It is wise to make sure we have a comprehensive laying out of all those issues, which we are in the process of doing right now. We have the PWC report. We have the Senate's inquiries. When we have taken all of those collectively we will make a judgment about the best way to proceed. It is important to recognise that the PWC report was undertaken following a letter from the minister to the new chairman about governance matters in November 2002. That report was delivered in mid-2003. We have had the Senate commission its inquiry, and we need to take them collectively into account.

**Senator O'BRIEN**—So I take it you are not ruling out any further action in this matter?

**Mr Taylor**—Not ruling it out or ruling it in.

**Senator O'BRIEN**—Have you initiated the seeking of any legal advice in relation to the matters which have been raised in this inquiry that you have not heard about before?



**Mr Taylor**—We have to make sure, when we consider anything where we take legal action, that we have taken all the evidence into account, and quite clearly the Senate committee has not completed its deliberations. They would certainly be issues we would want to make sure we took on board as well.

**Dr Samson**—It is fair to say, Senator, as you are aware, that the legal advice we have obtained to date has very much revolved around the contents of the PricewaterhouseCoopers's report. We are obviously aware of the submissions and the statements that witnesses have made to this committee. We would be seeking to pick up on some of those issues in our discussions with AWI, which will take place when we have received from AWI its detailed response to Minister Truss's letter.

**Senator O'BRIEN**—I would be surprised if you chose not to take action if there was no legal impediment to taking any action. I am trying to understand your reference to legal advice telling you whether it is appropriate to take action. That could mean a lot of things. Appropriate because you have legal grounds or appropriate for other reasons?

**Dr Samson**—The thrust of some of our legal advice to date certainly has raised the issue of what level of action on the part of the government is commensurate with the alleged breaches of the statutory funding agreement. Indeed, I would have thought one of the considerations that the government would take on board would be who you would be penalising for events that have happened in the past and that perhaps have been contributed to by people who are no longer members of the board of AWI.

**Senator O'BRIEN**—There may be legal ramifications, but presumably directors who take actions which are not appropriate leave themselves open to legal action.

**Dr Samson**—That certainly will be the subject of our discussions with the present management of AWI. One of the things we need to ascertain from AWI—and which in part will be contained in its letter to Minister Truss, which we hope to receive shortly—is what action AWI has taken, particularly in terms of possible recovery of moneys that may have been misappropriated.

**Senator O'BRIEN**—Misappropriated or misallocated?

**Dr Samson**—Spent not consistent with the terms of the statutory funding agreement.

**Senator O'BRIEN**—Mr Taylor, it would be correct to say, would it not, that the department has a key role to play in ensuring that AWI complies with the terms of the statutory funding agreement?

**Mr Taylor**—That is quite true.

**Senator O'BRIEN**—And it would be correct to say that AWI has an obligation to properly report to the department and therefore the minister in terms of its compliance with the statutory funding agreement.

**Mr Taylor**—That is true too, Senator.

**Senator O'BRIEN**—Would it also be correct to say that the department has a responsibility to assess those AWI reports to ensure that the terms of the statutory funding agreement are fully met?

**Mr Taylor**—That is true, too.

**Senator O'BRIEN**—If there were concerns or matters arising about the performance of AWI that emerged from that assessment process, or were raised by a third party, then the department would be obliged to properly investigate those matters.

**Mr Taylor**—That is both true and certainly what we have done.

**Senator O'BRIEN**—Am I also correct in saying that the department would have a direct interest in any alleged or actual breaches of the Corporations Law—

**Mr Taylor**—Yes, we certainly would, but with a view to the appropriate authorities under the Corporations Law also taking action.

**Senator O'BRIEN**—I think 5.3 of the statutory funding agreement obliges you to consider compliance with the Corporations Act.

**Mr Taylor**—I just indicate both parties, Senator.

**Senator O'BRIEN**—Dr Samson advised us in June that the department was seeking legal advice on what section 5.3 of the statutory funding agreement actually meant. Has that advice been received and, if so, has it been provided to the committee?

**Dr Samson**—I would have to refresh my mind on that. Could you possibly refer us to a page in *Hansard*?

**Senator O'BRIEN**—Yes. It is 23 June, page 4.

**Dr Samson**—We have not as yet, Senator. We have now received that omnibus advice from the government solicitor. The immediate action taken, having received that, was for the minister to write to the chair of AWI in the first instance seeking a response from the company as to what action they are taking. The matter referred to in *Hansard* will probably be picked up in the context of where to from here when we have received that.

**Senator O'BRIEN**—So you have not sought the advice or you have not received it?

**Dr Samson**—We have not sought it as yet, Senator. I would envisage, after we have had the opportunity to study the letter that AWI will send Minister Truss, that we will have discussions with AWI. I would imagine at that point there may well be a range of issues that we would wish to seek advice on. We would certainly pick that issue up at that point.

**Senator O'BRIEN**—So what time span are you looking at?

**Dr Samson**—The latest indication we have is that the letter from Mr McLachlan to Minister Truss is imminent—within a week or two, I think.

**Senator O'BRIEN**—I am trying to understand where that places your seeking of legal advice. Are you saying that, depending on what responses you get from the company, you might seek that advice?

**Dr Samson**—In part, the response we get from the company will determine the nature of the advice that we seek.

**Senator O'BRIEN**—I am a little troubled. I thought the purpose of seeking legal advice was that the department was not clear on what section 5.3 meant in legal terms. Now you are telling us you have not sought that advice.

**Dr Samson**—No, what I am saying is that we will, in the course of seeking other legal advice, include that issue. So we will be getting that legal advice. We have not sought it as yet.

**Senator O'BRIEN**—And you will not be seeking it until after you hear from Mr McLachlan.

**Dr Samson**—That is the intention at the moment. The issue is one of trying to maximise the efficiency of the process. We have every expectation that Mr McLachlan's letter may raise a series of issues supplemented by any issues that come out from our conversations with AWI, and it seems more efficient to then go back to the government solicitor seeking a comprehensive set of advice.

**Senator O'BRIEN**—This committee would be interested in what that advice said. I must say we were expecting that you had sought the advice, because you indicated in June you were seeking it and you still have not sought it.

**Dr Samson**—We have not sought it.

**Senator O'BRIEN**—Getting back to the general theme, there are a number of avenues through which the department scrutinises these public funded private companies—firstly, formal reporting by the company; secondly, its own assessment of the company's compliance with the statutory funding agreement; and, thirdly, investigation of any areas of concern raised by third parties, including the minister. Is that a fair summary of the areas scrutinised?

**Dr Samson**—Yes, that is a fair summary, Senator.

**Senator O'BRIEN**—Mr Taylor, would it be correct to say that you have had a personal interest in the development of the AWI arrangements? It is clear from the material the committee has been provided that you had a direct role.

**Mr Taylor**—It is probably better to put it in a slightly different context. I have had a very strong view both about my own department and that of the statutory bodies for which the portfolio has coverage on issues around governance and the way in which we use levies in respect of research and development. We undertook an initiative with Stephen Skehill in the broad range of governance for statutory bodies. So you could say I have certainly taken a strong interest in that across the whole breadth. We would certainly include AWI within that umbrella. We tend to do that when we meet regularly—at least six monthly—with the chairs and CEOs of those research and development corporations.

**Senator O'BRIEN**—The reason I asked the question is that you signed off a number of letters to Mr Dorber and you met with Mr Dorber on a number of occasions—

**Mr Taylor**—Senator, could I provide some background? In every one of the situations we have been strong about wanting to have proper frameworks for how bodies operate—certainly in terms of development of strategic and operational plans. Early in the history of AWI, I wrote to Mr Dorber about some issues we had about the way in which both the strategic and operational plans were being developed. That related to the 2001-02 year. We had a number of discussions. My colleagues also had discussions and liaised with AWI's consultants in this matter. We subsequently put a lot of energy into the development of the arrangements for the 2002-03 year. That was done principally because we were part of the way through the 2001-02 year.

I think it is fair to say that, in the preparation of the 2002-03 year framework that sits with the statutory funding agreement—the strategic and operational plans—AWI were much improved on what they did in 2001-02, in their first, fledgling year. That has not been an unusual experience with others, but we certainly did want to put pressure on the way in which they developed those strategic and operational plans and frameworks for both the way in which they communicated with their shareholders—the wool producers of Australia—and the way in which they complied with the expenditure of funds in terms of the wool levy.

**Senator O'BRIEN**—Does that mean that you were satisfied with the way they responded in 2001-02 but not 2000-01?

**Mr Taylor**—We went through an organisation in its infancy in 2001-02. I do not think we thought it was sufficient to move the group forward. We certainly thought it was much better to get the plans for 2002-03 properly straightened out. It is worth saying, though—

**Senator O'BRIEN**—Were you satisfied with them?

**Mr Taylor**—We quite clearly thought we could move forward on 2001-02 in terms of what was happening, that it was complying legally but it needed significant improvement. That is why we put the energy into 2002-03 and particularly also wanted to drive the process of consultation. It is fair to say, though, that to the extent that we clearly have issues—where we might question whether or not funds were expended consistently or otherwise with the statutory funding agreement—they were not in any shape or form condoned or foreshadowed by the statutory or operational plans. All those issues which we have questions around are in fact outside that operational and statutory planning framework.

**Senator O'BRIEN**—In your letter of 17 October to Mr Dorber you advised that, despite the new ownership structure, 'the expected standards for planning, setting objectives and reporting against them remain the same as those required of statutory authorities'. That was your view then. So the system with regard to dealing with the department mirrors the accountability requirements imposed on statutory authorities?

**Mr Taylor**—What we are trying to get in terms of delivery against expenditure of research and development moneys is very much the same in both frameworks. We tend to treat them in the same frameworks. The important bit about the corporations framework is that it gives the shareholders—the producers in this case—much greater stake and much greater say in the way in which the company evolves over time. We have seen that quite clearly with the decisions that were made towards the end of last year.

**Senator O'BRIEN**—They have not had much of a direct role. They have changed the directors after a whole lot of things happened.

**Mr Taylor**—As we have now discovered, two things happened. There were some disputes in respect of some of the commitments to research and development projects but which were not inconsistent with the act. On the other hand, we have certainly had some events that took place in September, October and November, and perhaps one other event in June which has only come to light because of the subsequent investigation. It is fair to say that most of the issues that we will probably investigate literally took place in the last couple of months of the old board.

**Senator O'BRIEN**—On that question of the statutory authority reporting requirements, the difference between the two models—that is, a statutory authority and this Corporations Law company receiving taxpayer and grower funds—is that their accountability to the parliament, unlike statutory authorities, is very limited indeed. It is fair to say, is it not, that the difference between the two models is not accountability but who they are accountable to?

**Mr Taylor**—Quite clearly, Senator, the parliament set up the framework for AWI.

**Senator O'BRIEN**—Yes. That is certainly a fair comment; the parliament did. That is the difference, is it not?

**Mr Taylor**—I am saying that that is what was set up by the parliament.

**Senator O'BRIEN**—I am not suggesting you set it up, Mr Taylor. Do not get me wrong. I am not trying to say that somehow that is your responsibility. It may be that you played a role in recommending structures, but the parliament ultimately had a role in making a decision as to what the structure would be. Is it feasible under the arrangements between the company and the Commonwealth to require the company to appear before the estimates committees?

**Mr Taylor**—That is a reasonable question which I would prefer to take on notice, rather than give you an off-the-cuff answer.

**Senator O'BRIEN**—There may be some procedural reason here why we cannot do that.

**Mr Taylor**—Rather than chance my hand, I would much prefer to just give some good advice.

**Senator O'BRIEN**—In that exchange—that is the correspondence we were referring to earlier—in a very long letter dated 14 November 2001, Mr Dorber said on page 3:

I believe it is pertinent to record this information, given the suggestion made to me that AWI had not provided adequate information to the Federal Government about its activities.

Can you provide the committee with some detail of the inadequacies of the AWI reporting arrangements? Some of those concerns were outlined in your letter of 17 October. What I am interested in is the detail of those deficiencies that Mr Dorber referred to.

**Mr Taylor**—I am not too sure precisely what was in Mr Dorber's mind, so I cannot help you there. Let me at least try to be helpful from our point of view. We had a newly forming corporate body in which, in implementing the statutory funding agreement, we wanted to see well developed both strategic and operational plans, developed in conjunction with the stakeholders. We also wanted to make sure that we had clear information being provided to us, consistent with the statutory funding agreement, and that that information was being backed with the signatures of the chief executive and chief financial officer, as one would expect—in the same way as when we provide information from my department to the parliament. So we were seeking it in that form. I do not know what was precisely in Mr Dorber's mind, but I certainly know what was in my mind. We wanted information, well backed and consistent with what we needed, from both the CEO and CFO, and we wanted a proper framework in which we had both strategic and operational planning setting down the way in which they would operate and which had been well developed with the stakeholders.

**Senator O'BRIEN**—I go to a letter signed by you to Mr Dorber dated 5 February 2002 in which you say that the material provided by Mr Dorber on 14 and 19 November was considered 'an adequate response to the requirements of the statutory funding agreement'. Should the committee take that to mean that the reporting and accountability arrangements in place at that time were satisfactory?

**Mr Taylor**—I think we ought to take it exactly as it says, Senator. It was 'an adequate response'.

**Senator O'BRIEN**—Adequate to satisfactory?

**Mr Taylor**—I think 'adequate' is the right word.

**Senator O'BRIEN**—It was not satisfactory?

**Mr Taylor**—I am saying it was adequate. The important point—I gave some emphasis to it before—is that this was a company in its stages of development. Importantly, we had made seriously positive progress with AWI's consultants at that stage in the preparation of the 2002-03 strategic and operational planning, and we had AWI doing what we thought was particularly important—that is, engaging with its shareholders in terms of its future directions.

**Senator O'BRIEN**—Just so that I understand where we are: 'adequate' means it could be better but it met the requirements?

**Mr Taylor**—I think 'adequate' means adequate.

**Senator O'BRIEN**—'Adequate' means what it means. I am trying to understand why you differentiate between 'adequate' and 'satisfactory'.

**Mr Taylor**—I did not differentiate. I used the word 'adequate' at the time.

**Senator O'BRIEN**—You are very reluctant to say it was satisfactory.

**Mr Taylor**—I chose the word 'adequate' at the time, Senator, because I thought it was appropriate. I still believe it is the appropriate word.

**Senator O'BRIEN**—And should we understand it to be something different from satisfactory?

**Mr Taylor**—I think the word is different to satisfactory; it was adequate.

**Senator O'BRIEN**—So it was not satisfactory?

**Mr Taylor**—Senator, I did not use the word 'satisfactory'; it was adequate.

**Senator O'BRIEN**—I am asking you: was it satisfactory or not?

**Mr Taylor**—It was adequate for the purposes—

**Senator O'BRIEN**—No, I am asking you: was it satisfactory or not?

**Mr Taylor**—Senator, I am sorry if I am being difficult, but I chose the word 'adequate'. I do not see any reason to vary from that word now, some considerable time later.

**CHAIR**—While he might reposition himself on 'adequate' and 'satisfactory', I will move to Senator Ferris, who may have another commitment shortly.

**Senator FERRIS**—I apologise for having to combine my whip's work with this hearing. I am sorry I have not been able to be here for all of the time. I would just like to take you back to the press clipping of, I believe, the middle of last year, when the resignation of Dr Andrew Vizard was received by the board of AWI and an article was published in the *Weekly Times*—on the front page under the heading 'Can of worms'. In your absence, Mr Taylor, I asked Mr Cattnach at the time, when he appeared before us on 23 June, whether he had seen the article in the newspaper, and he said that he had not. That article raised a number of issues related to corporate governance. Did you see that article, Mr Taylor?

**Mr Taylor**—It might help me, Senator, if you could tell me the date of when that article appeared.

**Senator FERRIS**—It appeared in the middle of last year. I do not have with me the actual date of the article, but it was, I believe, around June of last year. It was the first time, I believe, that there had been any publication of an issue which raised, certainly in the wider community, any disquiet about the way in which AWI was operating at a board level. So I am interested to know whether you had the article drawn to your attention.

**Mr Taylor**—I am sure if it occurred in June I would have had it drawn to my attention. I am just interested to know the date of the article. It would probably help.

**Senator FERRIS**—I am sorry I am not able to give that to you now. I do not believe that any of the documents that I have here would be able to assist with that. Mr Cattnach in June this year, when I asked him about it, said that he had not seen a copy of Professor Vizard's letter of resignation, nor had he seen the article. The article raised a number of issues which suggested that Dr Vizard had resigned for reasons related to corporate governance and that they were serious issues. I am interested to know whether you were aware of the article, whether you had it drawn to your attention, and what action you took when you saw the article.

**Mr Taylor**—I have a note here from *Hansard* of 23 June where Senator Ferris said the date of the article was Wednesday, 16 October 2002.

**Senator FERRIS**—I do not believe it was that late. We were referring then, in the estimates hearings, to the Farmhand donation. I know that article had appeared before that. Let us not worry about the date. Let us go to the principle of the matter.

**Mr Taylor**—I think the date is important, Senator. The *Hansard* of 23 June, quoting Senator Ferris, states: Dr Vizard resigned in June. Subsequently in an article in the *Weekly Times* under the heading 'Can of worms: Leaked Vizard letter slams AWI board' ...

And just a little further down you indicate—

**Senator FERRIS**—What page are you quoting from?

**Mr Taylor**—Page 8. The first bit is about a third of the way down, and two-thirds of the way down is the mention of the date of the article.

**Senator FERRIS**—Thank you for drawing that to my attention. I am sorry I did not have it with me. I have now got a copy of it here and it is 16 October. Can you tell me whether you saw that article at the time?

**Mr Taylor**—Certainly I have recollection of quite a lot of debate taking place in the month of October, because that was, of course, the lead-up to the AWI election. I have no doubt in seeing that article that I would have certainly taken some serious note of it. We were certainly observing that process quite closely.

**Senator FERRIS**—When Dr Vizard resigned in June, which was some months before that, were you aware of why he had resigned, given that the grapevine was operating pretty effectively at the time? Were you aware of why Dr Vizard had resigned in June?

**Mr Taylor**—No, I was not aware of why he had resigned in June, but I had certainly had earlier discussions with Dr Vizard in which he had indicated that he was unhappy personally with the way in which the CEO operated.

**Senator FERRIS**—So Dr Vizard had come to see you?

**Mr Taylor**—No, I actually went to see him. I have known Dr Vizard for a long time.

**Senator FERRIS**—That presumably was an informal discussion. It was not a formal arrangement for a meeting.

**Mr Taylor**—Certainly.

**Senator FERRIS**—When he said those things to you, what was your—

**Mr Taylor**—Having sat on a number of boards in the past and not always having been happy myself with that, my response at the time was that there was a very strong responsibility as a member of a board to take appropriate action. In this case, this is a board that sits under the Corporations Act, so I certainly encouraged his strong commitment. I have been very impressed with him over a long period of time, and I have no doubt that he did do that. But I think importantly, Senator, I did not have—nor did he convey to me—anything of substance that I could have taken action on. I suspect that if he had anything formally of substance then he would have taken action himself.

**Senator FERRIS**—So nothing that he said to you in those informal discussions led you to think that perhaps an independent audit might be an opportunity for you to see how a third party might view the operation of AWI at the time?

**Mr Taylor**—Very importantly, we are dealing with a corporations company—

**Senator FERRIS**—But we are also dealing with a statutory funding agreement.

**Mr Taylor**—Sorry, I was not finished. We are dealing with a corporations company and a statutory funding agreement. Importantly, for us to intervene beyond normal frameworks we need very substantive evidence to make some sort of move. It had been certainly true—you saw in my exchange with Senator O'Brien—that we had raised questions about the way in which both operational and strategic plans were being drawn. We had worked hard in that infant stage of the board to try to drive a much more thorough process. We had actually encouraged strong interaction with industry.

We also had drawn to our attention that there were some differences with respect to a number of the projects that the AWI board and management had decided to proceed with. We actually sought advice on whether or not they fit within the statutory funding agreement. The answer to that was yes, they did. That did not mean that others—other wool producers—did not rightly have a different view about priority. But that is an appropriate thing to be resolved, as it ultimately was, at the election process. We had no evidence, and no-one provided us any evidence, to indicate anything that would require legal action. Nor did any of my discussions with Dr Vizard before his resignation indicate that.

**Senator FERRIS**—Dr Vizard clearly raised with you some issues that were of great concern to him at the time. He subsequently resigned. Did it not occur to you that he had resigned based on concerns that must have developed further from the conversation he had with you? Did you think to give him a call to discuss those?

**Mr Taylor**—I would have thought Dr Vizard, given the Corporations Act, rather than responding to me would have responded to the Australian Securities and Investments Commission. That is the appropriate body if you have any concerns in terms of governance for a Corporations Law company.

**Senator FERRIS**—Certainly that is an option that was available to him but, given he had raised it with you previously on an informal basis and he had now formalised his concerns in a letter of resignation, did it not occur to you that a conversation with him may have then been appropriate to see whether his concerns had widened or deepened?

**Mr Taylor**—A wide range of people might have actually raised that. I am not wanting to do this, because I feel quite unfair about how I am about to say this, but if Dr Vizard had felt that he should speak to me further, it would have been possible to in fact potentially afford to me, the minister or ASIC itself a copy of his letter of resignation, which appears, at the point of the *Weekly Times* article in October, to indicate that he did have

some serious concerns. But I think in fairness to both myself and others, you would expect the person who was resigning to take some proactive action there, particularly when they are alleging certain things.

I am not a mind-reader; I did not know the reason he had resigned. He did not choose to send me a copy of the letter. I am not being critical of that, but I think it is not reasonable to suggest that when someone resigns they should be followed up. I am going to have to say that the complaints—most of us have had some interaction with Mr Dorber—were about style rather than about what was actually being done in terms of it not conforming. That is not a basis on which I would have actually gone back. Style is not a basis.

**Senator FERRIS**—When did you first see Dr Vizard's letter of resignation?

**Mr Taylor**—I have to say that I have never formally sighted a copy of the letter. What I am aware of is the article in the *Weekly Times* that occurred in October.

**Senator FERRIS**—So when the article in the *Weekly Times* was drawn to your attention, what did you do then?

**Mr Taylor**—I think it was very clear that we were in the middle of what was an extraordinarily tense battle in terms of the future board leadership of AWI. We were literally in the last fortnight of that. It was not appropriate without any substantive evidence. It is easy to say 'Can of worms', but there was no substantive evidence. However, you will recall that at that time an issue did arise which we did think was substantive. That was a donation to Farmhand. We sought AWI's advice on that.

**Senator FERRIS**—At the same time, there was also, as you say, a particularly tense election taking place. A good deal of advertising was taking place in the rural media and also, I believe, through other means—radio interviews and so on. Did you think about how that might have been funded? When the Farmhand issue came up—that showed that the statutory funding agreement was being very widely interpreted—did anybody in the department look at those advertisements and wonder whether the funding of them fit within the structure of AWI and the funding agreement in particular?

**Mr Taylor**—Yes, we did. Perhaps it might be useful to have Dr Samson respond to that.

**Dr Samson**—I think the main issue you are alluding to was the article that brought to our attention whether AWI funds were being used inappropriately for agropolitical activity, which I think was an issue that this committee raised with the department at our last appearance at Senate estimates. We went over that issue last time we met here.

**Senator FERRIS**—Yes, I remember it very well. I asked you some questions about it. I am not really wanting to explore that aspect of it. What I am trying to build up here is a picture of, if you like, the bush telegraph being particularly active in reporting a wide range of issues related to AWI which were causing substantial disquiet to wool producers such that we were getting phone calls about them and had been for some months, even before Dr Vizard's resignation. I find it very curious that these concerns were not being raised with any of your people, Mr Taylor, because they were being raised all over the place.

**Mr Taylor**—I have indicated that there were concerns being raised. Let me go back and reiterate. There were concerns we ourselves raised about the nature of planning processes. So we were quite proactive in that and quite proactive early. We worked very strongly in terms of wanting to make sure that the planning processes, both operational and strategic, were much more proactive in involving wool producers. That certainly took place in the first half of 2002.

We also, using that bush telegraph, had a number of concerns raised with us regarding particular projects that were being commissioned. We also sought advice on that. While, as I indicated before, one could understand some wool producers disagreeing with the priorities of AWI, they were not in fact inconsistent with the statutory funding agreement.

We certainly had suggestions raised about style, but we had no suggestions raised of a governance nature or of an improper or illegal nature. I need to make that point very clearly. There were certainly issues raised. Where they actually raised questions with respect to the statutory funding agreement we took action and we got clarification. We certainly understood the issues about style, but I have to say that there have been organisations forever and a day that have had different styles of CEO, chair and board operation. That is not a basis for taking formal investigatory action. It is instructive, I think, with hindsight, to know that we certainly took action on any of the public issues as soon as they became reasonably available. Farmhand is a very good example.

**Senator FERRIS**—Yes, and I would just like to say at this point that it was a great relief when you told me at the estimates hearing that day that wool growers' money had been returned. If you recall, that was an issue that Senator O'Brien and I pursued very enthusiastically on behalf of wool growers. It seemed to me, though, in retrospect—I agree with you that hindsight is a wonderful thing—that that almost was the top of the iceberg in the sense that what that brought about, in my office anyway, was a flood of phone calls from people who said, 'This is yet another example'—not the first—'of expenditure which is inappropriate.' Unfortunately, because of the way board confidentiality works, it was not possible for Dr Vizard in any public sense to discuss, obviously, the concerns that he had expressed to you much earlier in the year.

**Mr Taylor**—First of all, the concerns that he expressed to me were about style, not about anything of any substance that I could take action on. If I could go back and complete the discussion, in relation to the Farmhand matter we as a department sought AWI's advice on that matter and, as you have outlined, subsequent responses. I think importantly, soon after that letter, we actually did have a change of board operation. The new chairman was approached. The governance issues were raised. Importantly, certainly with our full understanding, they commissioned a detailed review.

What is interesting about the PWC review in terms of the issues we are discussing here is that most of the issues which seemed to be of a questionable nature with respect to the funding agreement seemed to have occurred from September 2002 onwards, not prior. The one incident that occurred prior appears to have been one that took place in June, which I think related to a grant to a high school. What I am saying is: the events that took place that raised concerns in terms of consistency with the funding agreement appear to have taken place, at least on the evidence we have to date, in September 2002, October 2002 and November 2002.

**CHAIR**—In the election period.

**Mr Taylor**—It is in the election period. That is the point I am trying to make. There is no doubt there were questions raised about style in earlier times and there is no doubt that we were raising questions about driving better planning frameworks and much better consultation with industry. There were certainly questions about the appropriateness in terms of priority of particular projects, but none of those projects in fact were outside the statutory funding agreement requirements. So we did not have anything that occurred in that period that would have given us a basis.

I am not disagreeing that there were issues about the style, but that was not a basis on which we could have taken any further action. Certainly on anything that was raised with us—I particularly use the projects as an example—we went and sought advice. The advice was that it was consistent with the statutory funding agreement—maybe not within some producers' view about priority.

**Senator O'BRIEN**—So issues were not raised with you prior to September 2002 that raised questions in your mind about performance of Mr Dorber and/or the board of AWI?

**Mr Taylor**—People forever raise with all sorts of organisations whether they think investments in particular research and development projects are the best allocation. It is an issue that producers have raised over a long period of time. Under both the statutory bodies established by parliament and the corporate bodies established under the parliamentary framework, we actually empower boards to make judgments. Provided they allocate those funds consistent with the statutory funding agreements or with the statutory framework, they are within power.

**CHAIR**—Were you concerned that if you had stepped very publicly into the 'can of worms' during the election you may have been seen to be trying to influence the outcome of the elections?

**Mr Taylor**—Quite clearly on the issue of Farmhand we saw that as a quite separate and clear-cut action. But I think we were clearly faced in that last two or three weeks with a Corporations Law company going through a fairly ferocious debate as to who would be the most appropriate leader. We certainly did not think it appropriate to intervene in that last week and a half.

**Senator FERRIS**—Given what has now transpired in those final three months, and given that the statutory funding agreement is due to expire at the end of this year, can you tell the committee whether you are looking to make any substantial changes? I suppose one area that I am thinking of is one that I explored with Dr Samson in the estimates process—that is, defining what is legally meant by agropolitical activity. It is now clear that that is a somewhat ambiguous activity—certainly open to interpretation. Given the way in which the statutory funding agreement defined it, how it was legally defined subsequently and how the money was in fact used, is that an area you are looking to define more closely in relation to these statutory funding agreements?



**Mr Taylor**—I think it is fair to say—I certainly said it a little earlier; I am not sure whether you were here when I said it—that quite clearly we will be looking in very close detail at the PWC report, and we have already been doing that and taking advice. We will be looking at all of the deliberations of the Senate. We will also be taking a broad thinking approach in terms of the sorts of considerations the community and government have been raising in respect of a raft of corporate governance as we actually look to the way in which we operate into the future. So I can assure you that we will be taking on board the breadth.

What we have not yet done is define, or even in draft form define, what any change, if any, might be. I do not think there is any doubt that we are taking a very careful look at the breadth of things. That is not to say that, because most of the issues we have with AWI occurred in September and October, we would have been better able to act, but we certainly want to make sure that any lessons that are there are taken on board.

**Senator FERRIS**—The tragedy of all of this, of course, is that most of the expenditure—I would have to say that wool growers are reeling from the news all over this country—has been made in such a way that it is not possible to recoup that expenditure. Obviously the department has no role to play in that, but I think it is fair to say that, unfortunately, the train was at full speed by the time the new board was able to get a grip, clearly, on what happened. From looking at the AWI submission it is very clear that several activities which happened in the last week of the former managing director's employment have cost wool growers in this country hundreds of thousands of dollars, and nothing appears to be able to be done about it. I suppose the lessons to be learned there relate to a whole range of things.

**Mr Taylor**—We share exactly the same view. I think it is fair to say—and I do not think you are suggesting other than this—that it was not within anybody's reach, within government or within the Australian Securities and Investments Commission, to have taken action or to have intervened. I, like you, ask the question: what else could have been done?

**Senator FERRIS**—That is something this committee is considering.

**Mr Taylor**—And could we have acted earlier? For what it is worth, I sought the advice of the Australian Government Solicitor in respect of our own actions. If you were prepared, I would be happy to table a copy of that letter, which relates to what we might have reasonably or not reasonably have done in those events.

**Senator FERRIS**—I think we would be grateful for that tabling.

**Mr Taylor**—There is nothing in that letter that suggests we could have done any more but, like you, we are not at all happy when we see what we think are very hard-earned moneys not well—

**Senator FERRIS**—Substantial abuse of corporate power.

**Senator O'BRIEN**—How did the Australian Government Solicitor fully understand what your role was? How was the Australian Government Solicitor briefed? Did you give them a written brief?

**Mr Cattanach**—I spoke to the Australian Government Solicitor. He was the same person who had given us advice in relation to the PWC report, so we had had extensive dealings with him.

**CHAIR**—So you can make that letter available?

**Mr Taylor**—Yes.

**Senator FERRIS**—I would be interested to have a look at that letter before I ask further questions. I appreciate the frankness with which you have answered my questions, Mr Taylor.

**CHAIR**—The letter is received into evidence.

**Senator O'BRIEN**—Mr Taylor, I was asking some questions about a letter you sent to Mr Dorber on 5 February 2002. We had an exchange about the words 'adequate' and 'satisfactory' and whether they meant the same thing or not. Specifically, what assessment did you make of the arrangements put in place to meet the requirements of section 4 of the statutory funding agreement? That section relates to the management of funds.

**Mr Taylor**—I would like to take a look at the agreement, if I could, to refresh my mind. Just bear with me for a second to make sure we are on the same wavelength. My apologies for that.

**Senator FERRIS**—Mr Taylor, in point 6 of this letter, which I am just reading very quickly, there is a sentence that says, 'Indeed, it was not until the PWC report was prepared that any evidence of breaches of the statutory funding agreement became apparent to the department.' That is clearly not true since the PWC report was not prepared until earlier this year and the Farmhand breach was in October last year.

**Mr Taylor**—I think you recall the letter that I sent to AWI was fairly carefully couched not to say whether or not a breach had occurred. At the time—and I cannot recall the actual words—it was really to put the onus on AWI. I think AWI in this sense spoke for themselves by their subsequent behaviour. But we did not have a formal judgment. What we certainly did was have a view—at least in our own mind—about what might have been, but we did not have any formal evidence.

**Senator FERRIS**—It must have been awfully close to formal evidence, Mr Taylor.

**Mr Taylor**—I think you had a chance to read my letter and you will recall that the in way the letter was couched the onus was put very much on AWI.

**Senator FERRIS**—It certainly had the desired effect—very quickly, as I recall?

**Mr Taylor**—It did.

**Senator FERRIS**—Something between morning tea and lunchtime, as I remember.

**Mr Taylor**—It did. I do not think that we have quite the information, but please, if you ask the question again, Senator O'Brien, I am sure that I can help you with the generality of it.

**Senator O'BRIEN**—I am asking: what assessment did you make of the arrangements put in place to meet the requirements of section 4 of the statutory funding agreement, which goes to the management of funds? You said the material provided by Mr Dorber on 14 and 19 November was considered to be an adequate response to the requirements of the statutory funding agreement. I am asking specifically: what assessment did you make of the arrangements put in place—

**Mr Taylor**—My apologies. If I had listened to you more carefully—and I do apologise—I might have been able to proceed more quickly before. I was, in a sense, pursuing what the words of that section said. I am talking about the period that you have described. In the early part of 2002 there was no suggestion in any shape or form that the board or the CEO was performing irregularly and, with hindsight of reports by auditors, there was no evidence that they did perform in any shape or form other than consistent with their Corporations Law responsibilities.

What we were looking at at the beginning of 2002 was certainly reputable people on the board and reputable processes but a need in our view to improve the consultation with respect to the strategic and operational planning framework. We certainly saw that they had processes in place for the proper keeping of accounts and the proper preparation of financial information. So there was no reason to suggest in any shape or form that, in terms of the management of funds, they had other than proper procedures in place.

**Senator O'BRIEN**—They were required to have such accounting systems, procedures and controls as are necessary to ensure (a) the funds are used only in accordance with this—

**Mr Taylor**—I think I am in agreement and I think I actually indicated to you a little earlier that we have gone out of our way to seek the sign-off from the CEO and the chief financial officer of that consistency with the act—consistency with the agreement.

**Senator O'BRIEN**—It also says that they have to be established such that an auditor is able to readily verify that the funds have been used only in accordance with this agreement.

**Mr Taylor**—And I think, importantly, there was no suggestion in the annual audit report that there was anything other than that in place.

**Dr Samson**—I think that was part of a broader suite of activities that the department was undertaking with the company. You may recall some of the documentation we provided to the committee when answering one of the questions on notice from the last time. I think it was Senator Ferris who asked if we could provide documentation to detail the ongoing discussions that the department had with AWI, which Mr Cattnach was principally engaged in.

All of those things taken together were about ensuring that there was conformity with the reporting requirements—that the annual operating plans, strategic plans and the processes were in place for the company to report appropriately. So it is part of the overall package that, as Mr Taylor said earlier, we were working virtually continuously with AWI to ensure that, from what was admittedly a fairly low base, we were satisfied that there was ongoing improvement in their planning and reporting regime.

**Mr Taylor**—It might help if I can table an email which led to that ultimate situation dated 7 November 2001 and an attached foreword which puts the framework around the requirement for them to conform with

that statutory funding agreement. It was part of that process that led up to that sign-off that you described before.

**Senator O'BRIEN**—We will get that in a minute. Mr Taylor, when did you become aware of the concerns being raised by WoolProducers, at least, about decisions being taken by the former AWI board and the former manager, Mr Dorber?

**Mr Taylor**—Sorry, when did I become—

**Senator O'BRIEN**—When did you become aware of the concerns raised by WoolProducers? There was a letter to the minister—

**Mr Taylor**—I think that it is worth saying that WoolProducers in late 2001 were raising issues of approach and style concerning AWI. They had raised publicly what they felt about election processes. So WoolProducers had been raising issues for quite some considerable time. Certainly, I had open dialogue with Simon Campbell, representing WoolProducers. I think, importantly, while understanding the issues around style, the issues which went to substance—and that certainly related to some of the issues relating to project expenditures—were ones which we took very seriously and we followed up on in terms of those issues that WoolProducers raised with us. But, as I indicated earlier, they were still ones, when advice was obtained, that sat within the statutory funding agreement requirements. Importantly, they did not sit within WoolProducers' view of what priorities ought to have been. I understand their having a difference of perception, but that is not a basis upon which to act. I think it is important to emphasise that issue.

There is no doubt also that WoolProducers had a view—and this being subsequently successful in terms of the way in which the board membership changed—that there was a different style of board operation, a different style of board member that they would prefer to see. They certainly exercised their democratic right as shareholders.

**Senator O'BRIEN**—That may or may not be the case, but we are talking about your letter to Mr Dorber on 5 February. I am asking you when you became aware of the concerns raised by WoolProducers. I am asking particularly because there was a letter to the minister with a detailed attachment dated 4 February. The detailed attachment referred to a number of concerns that they had with the operation of AWI. The letter was requesting an opportunity to meet with the minister to discuss the considerable concerns as detailed in the rest of the letter—that is, the attachment. What would happen to such a letter? I presume that it was sent to the department for advice.

**Dr Samson**—I might be able to assist you with that. Indeed, as you correctly say, the minister received that letter from Mr Campbell on 4 February. In that letter, Mr Campbell did request a meeting with the minister. From memory, the closing line of the letter was Mr Campbell indicating that one of his staff would contact the minister's office to try to arrange a meeting. I understand that a meeting between WoolProducers and the minister and his office occurred in June. As I understand it, AWI governance issues were not discussed at that meeting, but the WoolProducers chose to discuss—

**Senator O'BRIEN**—That is not what WoolProducers' evidence is. They did not have a meeting about the letter, but there was a discussion in which the minister said words to the effect that, 'This is a matter for the industry to sort out.' That is what their evidence is.

**Dr Samson**—My understanding—

**Senator O'BRIEN**—And the passage that you refer to in the letter says that Sharon Turner will contact you in the week beginning 4 February to arrange a mutually suitable time to discuss these issues further.

**Mr Cattnach**—The advice that was on the letter that came to the department asked if we could we provide urgent advice and they hoped to meet with WoolProducers the following week.

**Senator O'BRIEN**—So the department received that letter on what—4 or 5 February?

**Mr Cattnach**—I cannot remember the exact date, but it was pretty quickly afterwards.

**Senator O'BRIEN**—It would have been, with the content of the letter. Given the gravity of the concerns raised in that correspondence, one would have thought that it would have happened quickly. It would not have gone through some normal process; it would have been expedited, would it not?

**Mr Cattnach**—They come down to the department marked 'urgent'. I do not know about how it came to the department. We were asked to provide urgent advice.

**Senator O'BRIEN**—So you were asked to provide urgent advice. Who dealt with that piece of correspondence?

**Mr Cattanach**—I did.

**Senator O'BRIEN**—Did you refer it to Mr Taylor?

**Mr Cattanach**—No, I did not.

**Senator O'BRIEN**—It contained some fairly serious matters, did it not? The minister thought that he needed urgent advice on it.

**Mr Cattanach**—We provided advice and a copy of that advice is provided to Mr Taylor on the way through.

**Senator O'BRIEN**—When did you provide that advice?

**Mr Cattanach**—It was provided on 1 March; I think that is when it left the department. We had prepared advice for a meeting on 13 February, from memory, but that meeting did not eventuate. So we had a little bit of time to prepare formal advice.

**Senator O'BRIEN**—Did that advice go to Mr Taylor for the meeting that did not take place?

**Mr Cattanach**—No, I do not think that it has any status. It was prepared and it did not—

**Senator O'BRIEN**—Mr Taylor is writing a letter to Mr Dorber, dated 5 February, and the day before that there is a letter, with serious concerns about the operation of AWI referred to the department for advice. Yet Mr Taylor is not made aware of the serious concerns raised in the WoolProducers letter and writes correspondence which indicates that he is satisfied or believes that the company is meeting the terms of the statutory funding agreement.

**Dr Samson**—I think that is quite consistent in that some of the issues raised by Mr Campbell revolved around the Woodlot proposal, the global design awards and the Shear Express proposals. The advice that we would have provided to the minister's office was that those projects were not inconsistent with the terms of the statutory funding agreement. Therefore, in that context, those proposals were consistent with the funding agreement and there would be no reason to elevate that beyond the normal routine of providing advice to the minister's office.

**Senator O'BRIEN**—So, ultimately, the formal advice given to the minister, which would have gone to Mr Taylor, was that all the matters referred to fell within the terms of the statutory funding agreement?

**Dr Samson**—In respect of those specific projects, yes.

**Senator O'BRIEN**—Can you give us the time line of the receipt and transmission of information—letters, advice, et cetera—in relation to this particular matter on notice please?

**Mr Cattanach**—Yes, I can.

**Senator O'BRIEN**—Do you know whether WoolProducers provided a copy of this letter to the department on the day that it was provided to Mr Truss?

**Mr Cattanach**—I have got no record of that.

**Senator O'BRIEN**—Can you check? Surely there is some submission tracking system which would tell us that.

**Mr Cattanach**—I will check that. I do not think that we did, but I will check.

**Senator O'BRIEN**—Thank you for that.

**Dr Samson**—We will check the file, but my recollection is that the only copy of that letter that we have in our possession came from the minister's office.

**Senator O'BRIEN**—So you signed your letter of 5 February without being at all aware of the WoolProducers letter of 4 February?

**Mr Taylor**—I am not aware of the letter of the 4th. I am not saying that I am not aware of issues. If I can put it in these terms so I am being quite clear: certainly I had had open discussions with Simon Campbell on an ongoing basis about a wide range of issues. I think the important point is the one that Dr Samson has just made, which is that Simon Campbell, on behalf of WoolProducers, quite reasonably raised with us issues regarding the National Woodlot Advisory Service, questions around global design awards and Shear Express over a period of time. We actually discussed the fact that those were, understandably, matters or views that the

producers could have had a difference with the AWI board on in terms of their priority. But they were not outside the statutory funding agreement. Certainly, I had informal discussions with Simon Campbell about that. It would have been some time later.

Simon Campbell and WoolProducers also raised issues, as I have indicated earlier, in terms of our approach about what I would call the planning framework—the strategic planning and the operational planning. That was one of the reasons we were taking very proactive action to drive stronger operational and strategic planning and consultation with WoolProducers. It was an issue that we very strongly had and that letter that I wrote around 5 February was very much written around AWI and the consultants they employed being much more proactive in their consultation with WoolProducers and in the preparation of operational and strategic plans.

**Senator O'BRIEN**—So you were generally aware of the issues raised by Mr Taylor in his letter to the minister of 4 February?

**Mr Taylor**—I do not want to say I was aware on that date. I was aware—

**Senator O'BRIEN**—No, that was not the question, if you listen to the question. What I am saying to you is that what you are telling us is, because of the number of conversations you had with Mr Taylor, you were aware of the concerns that he and WoolProducers had prior to the letter of 4 February going to the minister.

**Mr Taylor**—I cannot speak about the specific projects. I was certainly aware that WoolProducers questioned some of the priorities of AWI in terms of project selection. They questioned some of the consultative processes in terms of operational and strategic plan preparation and they questioned some of the issues around style—all issues that we also questioned.

**Senator O'BRIEN**—Did Mr Taylor raise the—

**Mr Taylor**—I think we are actually meaning Mr Campbell here.

**Senator O'BRIEN**—It has been a very long day.

**Mr Taylor**—I understand that.

**Senator O'BRIEN**—Was the National Woodlot Advisory Service raised with you?

**Mr Taylor**—It certainly was raised with me, but in my own mind I do not think it was before. Certainly I think there were issues raised with me around some of the global design awards earlier on in my recollection of events.

**Senator O'BRIEN**—And Shear Express?

**Mr Taylor**—I do not want to go around guessing. They were issues around whether or not these would be the priority projects that WoolProducers thought that AWI ought to be undertaking. It was reasonable that WoolProducers might have a different issue about priority, but it was the responsibility under the framework established for AWI under the Corporations Act for the AWI board and its delegated authority to the CEO to determine what project priorities should be given and, provided they were consistent with the statutory funding agreement, they were not a basis for us to intervene. We actually over time clarified the situation with respect to those and they were consistent with the statutory funding agreement. They were certainly not consistent with WoolProducers' view about priorities, but I remember pointing out the difference that that is not a basis for intervening.

**Senator O'BRIEN**—I understand what you are saying. I am trying to find out which of those issues you were aware of prior to 5 February.

**Mr Taylor**—Sorry, I am not trying to be unhelpful. I do not recall.

**Senator O'BRIEN**—Would you have records to tell you? Did you make notes of these conversations?

**Mr Taylor**—I doubt that I have got records. The generality of each of those issues—I am not shying away from them—is that they were differences that WoolProducers had about the priority settings of AWI. Our ability to act is very much about: were projects being chosen and were funds being expended outside of a statutory funding agreement? We now know with the benefit of hindsight that those funds at that time were not being expended outside of the statutory funding agreement.

**Senator O'BRIEN**—Were not being?

**Mr Taylor**—No. We know that the issues that give us some concern from the PWC report relate principally to activities undertaken in September, October and November 2002 and possibly one in June 2002—certainly nothing that was occurring in January 2002 that I am aware of.

**CHAIR**—In the letter to you of the legal advice—or to Mr Cattanach—the government solicitor says:

... it appears that the auditors of AWI had not themselves noticed any irregularities in the application of levy funds (notwithstanding that the auditors did not give the formal certification required by the SFA).

I suppose at the end of June 2002, had they done that audit, I would be interested to hear why you think they did not.

**Mr Taylor**—I think all of these events, of course, started coming on the table. If we had actually had the auditor's report as of 1 July, we would have had a different view.

**CHAIR**—In any event, the irregularities, or whatever they are described as—question marks—occurred after that auditing period—

**Mr Taylor**—That is right. All the question marks start occurring around September, October and, as we have just discussed earlier, also in the period of the election and change in leadership of the board.

**Senator O'BRIEN**—So, Mr Cattanach, you are telling us that you prepared the response to the six issues raised in the attachment to the WoolProducers letter of 4 February. When was it prepared?

**Mr Cattanach**—It was prepared in mid to late February. It left the department, from my memory, on 1 March.

**Senator O'BRIEN**—Basically you had investigated the matters raised and had come to the conclusion that the matters raised did not raise issues with regard to the statutory funding agreement.

**Mr Cattanach**—The projects were not outside the scope of the statutory funding agreement—that is right.

**Senator O'BRIEN**—Did you advise Mr Campbell that his claims did not relate to breaches of the statutory funding agreement?

**Mr Cattanach**—No. Our instructions were to provide advice to the minister and we did that.

**Senator O'BRIEN**—Was a draft response to Mr Campbell prepared?

**Mr Cattanach**—No, the briefing request was for a meeting with Mr Campbell.

**Senator O'BRIEN**—So the minister did not request you to draft a letter of response in any way?

**Mr Cattanach**—No.

**Dr Samson**—The briefing request that came to the department from the minister's office was quite clear in that it was requesting a briefing for the meeting that was expected to take place at Mr Campbell's request.

**Senator O'BRIEN**—According to Mr Campbell, the thrust of the government's response to his concerns was that it was a problem for the industry and not the government. In terms of accountability, that advice to Mr Campbell from the minister is not in accordance with your advice, Mr Taylor, to Mr Dorber in your letter of 17 October.

**Mr Taylor**—I think there is a little bit of interpretation in that you might be going a little beyond what I think would be fair and reasonable. We were dealing with quite clearly, as a department, some issues around the statutory funding agreement. As we have discussed, when we look back with the value of hindsight we actually find that the AWI conformed with the statutory funding agreement with possibly a transgression in June 2002 and then certainly possibly transgressions in September, October and November. The period we are currently talking around is January or February 2002—five or six months before. There is no evidence of transgressions being made by AWI, even with hindsight, at this point in time.

So there are two issues that are important. One is the compliance with the statutory funding agreement. At that time AWI was almost certainly correct. We will continue to investigate off the back of these committee deliberations and further advice that we get from the new AWI board, but we have no evidence at this stage to say that. There is of course, though, a very important issue back in February 2002 where WoolProducers, less than satisfied with the then AWI board, were entitled to start contemplating shareholder action within the Corporations Law framework. I have no doubt that it was in the mind even then of Simon Campbell and his colleagues that they might contemplate standing in an election against the incumbent board. To the extent that that was there and that was discussed, that is certainly an argument for saying that, yes, there were decisions that wool growers could take within their own hands—that is, within the Corporations Law framework.

**Senator O'BRIEN**—What I am keen to know from you is that, given the advice to Mr Campbell from the minister that it was basically a problem for the industry, not the government, how does that stack up with your letter of 17 October to Mr Dorber, when you linked the accountability requirement for AWI with those of statutory authorities?

**Mr Taylor**—I do not believe that the minister has in any shape or form at any time shied away from the absolute requirement that, whether it be a Corporations Law company or a statutory body, it comply with our statutory funding agreements and to expect that the department would be overlooking that. I think that any suggestion that the minister is suggesting that that does not apply must have been taken out of context. I certainly know from my dealings with Minister Truss that he has been absolutely adamant at all times about the requirement for us as a department on his behalf to make sure that we actually have those compliance frameworks in place. So while Mr Campbell may have paraphrased some of the words that Mr Truss has said—that industry needs to take some action if it wishes to think about a different form of board leadership—he certainly would not have been taking away from the idea that we would continue to oversight the legal obligations within the statutory funding agreement.

**Senator O'BRIEN**—So Mr Campbell's recollection is incorrect? Is that what you are saying?

**Mr Taylor**—Not his recollection, but perhaps the words that came forward did not totally describe the breadth of the circumstance of the discussion.

**Senator O'BRIEN**—Mr Campbell was fairly adamant in his evidence. I will come back to answers to questions on notice shortly. I think you have already said that you had personal contact with Mr Campbell of WoolProducers about their concerns with the management of the AWI board and the CEO before 4 February 2002. I am gathering that they were by phone or in person; is that right?

**Mr Taylor**—Both.

**Senator O'BRIEN**—Were there email contacts?

**Mr Taylor**—Probably email contacts, too. I think it is fair to say—and I have explained it already—that we shared conversations regarding the issue of operational and strategic planning. We certainly shared discussions about how that could be much better done and there could be much better consultation with WoolProducers. Certainly that is something that you will know from my earlier discussions we were very strong about. Importantly, we also shared views about whether or not projects were of appropriate priority. We also would have had discussions about projects not necessarily being of appropriate priority in wool producers' mind but still consistent with the requirements in terms of the statutory funding framework, which we were overlooking. We certainly also had discussions about style.

**Senator O'BRIEN**—Were there letters and/or emails between you and Mr Campbell about the issues that he was raising on behalf of WoolProducers?

**Mr Taylor**—I am sure there were.

**Senator O'BRIEN**—So there are records of some of the issues that were raised?

**Mr Taylor**—I am sure there are.

**Senator O'BRIEN**—I thought one of your earlier answers was that you did not have any records of the matters that you discussed.

**Mr Taylor**—I am sorry, I do not believe that I said that.

**Senator O'BRIEN**—Perhaps I am mistaken. We now have that clarified. Can you confirm that further contacts from the industry about AWI not only went to the issues raised in Mr Campbell's letter but also raised other matters of concern, that is, contacts from people other than Mr Campbell?

**Mr Taylor**—On reflection, I certainly raised the issue that I had a discussion with Dr Vizard. Certainly, from my point of view, I value strongly my industry relationships, but I tend to deal with the leaders of those organisations. So I certainly dealt with Simon Campbell. I am not suggesting that even when we might have had a meeting there were not other colleagues present, but what is clear in my mind is Simon Campbell. I cannot say I can turn and nominate somebody else. It was much more Simon Campbell relating to me.

**Senator O'BRIEN**—Have you checked the notes of those meetings before today's hearing?

**Mr Taylor**—A number of the meetings were quite informal. Simon and I would have had breakfast together on a couple of occasions.

**Senator O'BRIEN**—People other than Simon Campbell?

**Mr Taylor**—In that sense, I do not recall anyone—and I am not being totally black and white, but I am pretty certain that no-one else in terms of wool producers raised those issues with me. But in a sense, when Simon raised them with me, I took that on the basis of being general wool producers rather than just Simon Campbell in his own right. So I took that as a breadth of view. That is one of the reasons why I took very seriously the issues that he was raising in terms of his concerns about the lack of involvement in WoolProducers in terms of the way in which AWI was preparing its operational and strategic plans, the way in which it was listening to WoolProducers' priorities and their style of operation. That was one of reasons why we were working hard to get AWI to respond to that set of circumstances. We shared that view. But we did not have any basis at all of illegal or nonconformance with the statutory funding agreement.

**Senator COLBECK**—In item 7 of the letter of legal advice from the Australian Government Solicitor you refer to substantial evidence. What would you regard as substantial evidence for taking action?

**Mr Taylor**—While I purposely said that we did not prejudge, the first time that we actually saw anything that was in any shape or form public was a donation made to Farmhand reported in the newspapers. The reason we were careful about how we couched the letter is that the documentation that existed in respect of that donation was very much in the public press. I think it is pretty easy to see that we took some pretty quick action when that occurred. We saw that as substantive.

It is quite clear when we got past the date of the board election and we were able to write to the new board with respect to governance and very much precipitate the PWC inquiry that there were a number of issues in that PWC review that we certainly think are substantive. One issue, the sum of \$4,000, relates to a decision made in June. The rest of those decisions relate to September, October and November. I think we have indicated that we have already sought the AWI's board's view about what action it might take, which will be principally within the Corporations Law act, and in the light of that advice we will also determine, I suspect, some additional action of our own. But I am making the point quite clear that as soon as there was a significant event, we took immediate action.

**Senator COLBECK**—My question is perhaps a little more generic than specific to the current case. The advice goes on to say that you were given credible assurances that all matters were in hand. The advice goes on to say 'provided that corrective action might be taken'. Is there some perception or some view of at what point after perhaps two or three of these issues arising that a closer look at the whole show might be thought worth it?

**Mr Taylor**—The only issues that sat outside what I would call credible behaviour in the period leading up to September 2002 was the one incident in June 2002 and the only other issue was an issue that we were very active in, and that is the preparation of operational and strategic planning frameworks, and we were very active on that. But that was a continuous exercise. It had been driven very strongly from October. It had been something that we had taken subsequent action with AWI and their consultants. In that sense, there was actually a serious response. It certainly was not a response under a Corporations Law company or even a statutory body that would have said other than that this is a body that is responding to better delivering on its strategic operational and planning frameworks. So it was not a basis on which we could have intervened.

If we had had incidents that were in our knowledge occurring in September, October and November, yes, we would have taken action. I agree with you. But let us put this in the right context. The incidents that occurred in September and October, apart from the Farmhand one, were not in the public domain until long after that period. Straight after the election—we did not want to get involved in the election process—we took action with the board to pursue the governance issue. Because the board took very strong proactive action in appointing PWC, we did not conduct a parallel process but we followed that process with the board. So I do not think there is any doubt that we agree with the point you are making.

**Senator COLBECK**—Not being specific to the AWI situation but a bit more generic with respect to the advice you have received in this particular case, you were talking earlier in response to Senator Ferris about lessons learned and perhaps looking at the wording of statutory funding agreements. Is there a generic nature to these agreements across different bodies of this type?

**Mr Taylor**—Yes, there is. I think there is a major challenge sitting in front of both private and public administration about which we observe the Australian Securities and Investments Commission and ourselves asking questions. We put in place processes with which we expect both Corporations Law companies and statutory bodies to comply. We have in place processes that deal with noncompliance. There is always a



question—whether it is the Australian Securities and Investments Commission or government—about whether we are actually going to wind up being shadow directors of these companies.

I think what is quite clear at the minute is that we are asking questions. Can we actually seek more information but not actually seek to be directing those companies? I think that is a question we will all have to address, as you have rightly said, on a generic basis. It is a question that has been asked both within Australia and overseas in the last couple of years pretty strongly.

**Senator COLBECK**—What sort of process do we have in place to modify these agreements if it is at all necessary? Is there a negotiation situation? As I see it, that would be desirable, given what I have seen over the last 18 months of different groups.

**Mr Taylor**—In the light of our consideration of the Senate's work, the PWC report, AWI and some of the other material that is also being considered in the public domain, we will re-evaluate the current circumstances. If we believe they should be modified, we will certainly modify them. I do not think that would be a major issue. I have to say that, whether it be the Corporations Law bodies in respect of research and development or the statutory bodies, they are all very constructive in our dealings with them. I would expect that if we proposed changes, whether they be purely of an administrative nature or not, they would be positive. If they were of a regulatory or legislative nature, obviously we would deal with them within a parliamentary framework. I have observed nothing other than cooperative behaviour with the other bodies.

**Senator O'BRIEN**—I would like to follow up the issue of the WoolProducers letter to the minister and some other allegations that may have been made. Would you check your records to advise the committee what allegations had been made about AWI to you, Mr Taylor, prior to the letter from WoolProducers on 4 February and communicate that to the committee?

**Mr Taylor**—Yes.

**Senator O'BRIEN**—Thank you for that. As I understand it, the advice to the minister with regard to that letter of 4 February went to the minister on 4 March.

**Mr Cattnach**—That is right.

**Senator O'BRIEN**—I want to gather the details of answers to questions provided to the committee by the department from the hearing on 23 June. Question No. 2 asked about what action followed formal advice from WoolProducers that an AWI director had received illegal payments as a director of Shear Express Pty Ltd. The answer did not advise what action followed the provision of that information. The answer referred to a request for a meeting also made in that 4 February letter. You advised that Mr Truss's office could not schedule a meeting in response to that request until 19 June. That is correct, is it? There is not some mistake there? We have a request for an urgent meeting and it does not take place until 19 June—four months later.

**Dr Samson**—The answer, to the best of my knowledge, is correct. I think, as perhaps Mr Cattnach or Mr Taylor said earlier, the issue was to schedule a meeting at a mutually convenient time. The department has no knowledge of what iterative process led to the meeting actually occurring in June.

**Senator O'BRIEN**—Thank you for that. In your answer to question No. 3 from those hearings you say that Mr Truss was not aware of the payments to Mr Dorber as a director of Shear Express and that Mr Truss was not aware of those payments until advised through a letter from Mr McLachlan to shareholders on 5 June 2003. Is it not true that the issue of Mr Dorber as a director of Shear Express was raised with Mr Truss on 4 February by WoolProducers?

**Mr Cattnach**—The issue of Shear Express was raised, and I think the issue of—I am going from memory here—Mr Dorber's directorship was raised, but there was no discussion about payment.

**Senator O'BRIEN**—Mr Truss has advised that Mr Dorber planned to take the chair of Shear Express and questions were raised about the obvious conflict of interest that would flow from that arrangement. You investigated those concerns, Mr Cattnach, raised by WoolProducers in relation to conflict of interest and concluded there was no problem. Is that right?

**Mr Cattnach**—I cannot remember.

**Senator O'BRIEN**—Check that and let us know?

**Mr Cattnach**—Yes.

**Senator O'BRIEN**—In answer to question No. 5 you say that the minister sought advice on the contents of the 4 February WoolProducers letter. We know that it is the view of the department that the Woodlot project

complied with the statutory funding agreement. I take it that that view was formed based on advice from Mr Dorber.

**Mr Cattanach**—From AWI.

**Senator O'BRIEN**—So you sought advice from Mr Dorber about that concern?

**Mr Cattanach**—We sought advice from AWI. I am not sure whether it was Mr Dorber or one of his program managers.

**Senator O'BRIEN**—Okay. He or they gave you a copy of the project statement?

**Mr Cattanach**—They did, yes.

**Senator O'BRIEN**—You advised that the department reviewed that statement and decided the project complied with the statutory funding agreement and advised the minister accordingly?

**Mr Cattanach**—That is right.

**Senator O'BRIEN**—What test was applied to Mr Dorber's statement? How did you ascertain that it was factual?

**Mr Cattanach**—We read the documentation, we spoke to the company and we formed a view that it was not inconsistent with the statutory funding agreement.

**Senator O'BRIEN**—So you had the WoolProducers letter and you got information from the company which disputed it and you accepted the company's view? You didn't do any other investigation?

**Dr Samson**—I think what Mr Cattanach is saying is that we got information from the company as to the nature of the projects. I do not think the department would have sought a view from the company as to whether these projects were in the terms of the SFA. We would be seeking factual advice as to the nature of the projects. Having received that, we would have formed our own view about whether they were consistent with the SFA or not.

**Senator O'BRIEN**—And similarly you formed the view that the design awards and Shear Express were okay?

**Dr Samson**—Correct.

**Senator O'BRIEN**—Again, based on advice from Mr Dorber or someone from AWI?

**Dr Samson**—I assume—Mr Cattanach will correct me if I am wrong—based on information we requested from AWI as to the nature of those projects.

**Senator O'BRIEN**—What about the issues raised in points 4, 5 and 6 of the attachment to the 4 February letter, which relate to performance indicators, the AWI operational plan and AWS/AWI board involvement? I want to go to point 6. It states in part:

WoolProducers are concerned that appropriate accountability and a system of internal controls have not been put in place by the Board of AWI ... The Board must be held to account as it is their responsibility alone in ensuring that all expenditure reflects the strategic plan. There is great concern amongst members that substantial funds are able to be expended by the CEO without full knowledge of the Board, and often on projects that do not address market failure or provide net industry benefit.

Firstly, I take you to attachment 2 to the statutory funding agreement. It is correct to say, is it not, that the market failure and net industry benefit tests to be applied to expenditure by AWI must be considered in the context of this paper?

**Dr Samson**—Correct me if I am wrong, but is this perhaps another example of where sections of the industry did have and did express views that were different from those of the board at the time as to what the priorities for investment should be? We have always acknowledged that different sectors of most of the industries we deal with have differing views. At the end of the day—we have reiterated this point all along—it was the responsibility of the duly elected board to make those decisions. Until the minister received the PricewaterhouseCoopers report, as Mr Taylor has said previously, we had no evidence to suggest that anything was going on that was inconsistent with the statutory funding agreement.

**Senator O'BRIEN**—The allegation in the letter that I referred to is that substantial funds are able to be expended by the CEO without the full knowledge of the board. Pretty clearly, that evidence has been confirmed.

**Dr Samson**—I think there are a couple of issues there. Certainly from the evidence that has been presented to the committee, I do not think anybody is now disputing that that was indeed the delegation that the duly constituted board of AWI chose to give the managing director. It of itself is not a breach of the statutory funding agreement.

**Senator O'BRIEN**—So there was a process that you followed to assess that claim against the statutory funding agreement. Can you take me to the part of the statutory funding agreement you rely upon for that statement, or the schedule thereto?

**Dr Samson**—There is not a specific part of the agreement that would make reference to the specific delegations that the board chose to give its managing director. It would be a normal part of the operation of a board, particularly a board of a Corporations Act company, to determine what delegations it chose to give any members of that company.

**Senator O'BRIEN**—Yes, but in terms of management of funds, the statutory funding agreement states says that, 'the company must establish such accounting system procedures and controls as are necessary to ensure that the funds are only used in accordance with this agreement'. The fact that they had delegated seems to me to have detracted from the board's ability to be certain that the funds were being expended in compliance with the agreement.

**Dr Samson**—I think it comes back to Mr Taylor's earlier comment about the degree to which we or the government seek to be shadow directors of a company. In my opinion, the quantum of delegations that a board chooses to give are within the responsibilities of the board.

**Senator O'BRIEN**—It also states that 'all dealings with funds are properly authorised and conducted and accounted for'. So you were satisfied from your interchange with AWI or whoever that the allegation about the ability to expend substantial funds by the CEO without the full knowledge of the board was factual or not factual?

**Dr Samson**—We accepted that the board had given the managing director a delegation, as it was the board's prerogative to do.

**Mr Taylor**—You raise that issue quite properly, but I think there is an important point that Dr Samson is indicating first of all about the board's responsibility in terms of delegating powers. That is an activity that takes place every day of the week across statutory, government, parliamentary and other bodies that delegate powers. But I did circulate—

**Senator O'BRIEN**—To this extent?

**Mr Taylor**—Just bear with me. Delegation of responsibility is one of the things that boards take on. They actually appoint CEOs and delegate to CEOs. If I could come to the statutory funding agreement, earlier I circulated a piece of paper that indicated our requirement, after some negotiation we had had with Dorber earlier, that there would be a sign-off from both the chief executive and the chief financial officer. I think it important, from our point of view, to have some authority with respect to the claims that were made for funding within the terms of the statutory funding agreement. We actually went very properly to get the sign-off of the CEO and chief financial officer.

**Senator O'BRIEN**—What I am understanding is that AWI were aware that the allegation that substantial funds were able to be expended by the CEO without the full knowledge of the board, because of a delegation, was known to AFFA in that period leading up to the report to the minister of 1 March and AFFA believed that that complied with the statutory funding agreement.

**Mr Taylor**—I am not trying to be difficult, but I ask you to take a look at the documentation that we tabled earlier, which I think is at least useful.

**Senator O'BRIEN**—I will certainly do that, but is the question not clear?

**Mr Taylor**—I think what is important about that document is that it points out that the financial controller and the managing director had to sign off about the expenditures being in accordance with the statutory funding agreement. So we have got two legally authorised officers—two senior legally authorised parties—of a Corporations Law company signing off. That is the way in which activities, I have to say, are often undertaken. The question that would arise clearly for auditors at the end of the year would be: were any of the expenditures made by parties in AWI outside their board authorisation? We do not have any evidence that that has occurred.

**Senator O'BRIEN**—I would like to go back to the issue that I raised earlier. It is at page 26 of the statutory funding agreement document that I have. It is in the background paper—market failure and net industry benefit. They are the terms referred to in the attachment to the letter from Mr Campbell. Am I correct in saying that market failure and the net industry benefit test has to be applied to expenditure by AWI?

**Mr Cattanach**—It is one of the many criteria that the board would have to consider.

**Senator O'BRIEN**—So the answer is yes?

**Mr Cattanach**—Yes.

**Senator O'BRIEN**—How did the department test the claim made at point 6 against the provisions contained there?

**Mr Cattanach**—Sorry, I do not understand the question.

**Senator O'BRIEN**—How did you test the expenditure of funds by the CEO without the full knowledge of the board and often on projects that do not address market failure or provide net industry benefit? How did you test that? How did you satisfy yourselves that the projects did address market failure or net industry benefit or the public benefit test?

**Dr Samson**—As we tried to explain the last time, I think the issue that you are addressing here goes directly to what level of involvement the department had in the operation of this company. As I endeavoured to explain the last time, we do not, and neither was it ever intended to, go to the level of detail of examining each and every project that the board undertakes to pursue.

**Senator O'BRIEN**—But, given that there were issues being raised by a significant player in the industry, there would have been some special attention to the matter, would there not? Or would there? Was it simply that if you had not applied yourself to these issues earlier—

**Mr Taylor**—Perhaps I can help. As I understand it, the Woodlot Advisory Service was an issue. In terms of whether there was both market failure or net industry benefit, almost certainly you can make an argument for that, given that we have a range of research and development bodies undertaking work in natural resource management issues. It has been one of the government's important requirements, whether it is Backing Australia's Ability or within research and development corporations, to undertake and encourage activity within research and development organisations in the natural resource management area. So I think that we might have a view about whether it was the most appropriate priority, but it certainly would be in that category.

In relation to the funding of global design awards, I am sure that we could have an argument about priority, but there has long been an argument about bodies like AWI and Meat and Livestock Australia expending money in the nature of promotion on the grounds that there is inadequate promotion—that is, market failure. Again, we could have a debate about whether the priority was right. But I think the argument can be made that, yes, they fitted into the test within the statutory funding agreement. Whether they fitted your priority, my priority or WoolProducers' is a very legitimate question.

**Senator O'BRIEN**—My questions are going to whether they fit the statutory funding agreement.

**Mr Taylor**—I think I have just explained that they do—that is, they do meet the market failure test. So to that extent they well and truly meet the statutory funding agreement.

**Senator O'BRIEN**—But that was assessed and a positive finding was made in that regard. That was the earlier question that I asked.

**Mr Taylor**—I think that Dr Samson has made a very important point. We do not assess project by project, but certainly those that were raised specifically with us by Simon Campbell were tested in that—

**Senator O'BRIEN**—Sorry. They were addressed and assessed on the basis of the allegation and information provided by the company?

**Mr Cattanach**—That is right.

**Senator O'BRIEN**—If the terms of that section of the statutory funding agreement were complied with, the issues raised in point 6 must have been fairly easy to address—that is, AWI had accounting systems, procedures and controls in place to ensure that funds were used in accordance with the statutory funding agreement.

**Mr Cattanach**—That was our understanding.

**Senator O'BRIEN**—All dealings with funds were properly authorised and conducted and accounted for?

**Mr Cattanach**—So I understand.

**Senator O'BRIEN**—An auditor could easily verify that funds were used only in accordance with the statutory funding agreement?

**Mr Cattanach**—We know that PWC was helping AWI establish its systems.

**Senator O'BRIEN**—But that was not the case then?

**Mr Cattanach**—Sorry?

**Senator O'BRIEN**—But they had not met that test at that time—is that what you are saying?

**Mr Cattanach**—They had not provided the compliance audits.

**Senator O'BRIEN**—So that one could not be satisfied?

**Mr Cattanach**—No.

**Senator O'BRIEN**—with regard to question 7, you say in that answer that the minister requested and received advice—you have told us—on 1 March in relation to the WoolProducers letter of 4 February. That is the exact date?

**Dr Samson**—Correct me if I am wrong, but I think that we undertook earlier to give you a time line on that exchange.

**Senator O'BRIEN**—I think that we have answers—maybe I have misunderstood them—but please provide us with that.

**Dr Samson**—We will provide you with a time line.

**Senator O'BRIEN**—I would appreciate that.

**CHAIR**—Thank you.

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

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

**Committee adjourned at 7.23 p.m.**