



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**

MONDAY, 23 JUNE 2003

CANBERRA

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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE

Monday, 23 June 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, McGauran, McLucas, Murphy, Payne, Ray, Santoro, Stephens, Tchen, Tierney and Watson

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

Terms of reference for the inquiry:

To inquire 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, Research and Development Corporation Policy and Portfolio Agencies, Department of Agriculture, Fisheries and Forestry..... 1

MORTIMER, Mr David Kenneth, Executive Manager, Food and Agriculture, Department of Agriculture, Fisheries and Forestry 1

SAMSON, Dr Cliff, Executive Manager, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry 1

Committee met at 7.31 p.m.

CATTANACH, Mr Gavan James, Manager, Research and Development Corporation Policy and Portfolio Agencies, Department of Agriculture, Fisheries and Forestry

MORTIMER, Mr David Kenneth, Executive Manager, Food and Agriculture, Department of Agriculture, Fisheries and Forestry

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

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee and welcome witnesses from the Department of Agriculture, Fisheries and Forestry. This is the committee's first hearing to consider matters in relation to its inquiry into application and expenditure of funds by Australian Wool Innovation Pty 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 the 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, and the expenditure and application of funds paid to Australian Wool Innovation Pty Ltd under the terms of that agreement and any other relevant matters arising from that reference.

Today's hearing is public and open to all. A transcript of the proceedings is being made, which will be available 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 the 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. I again welcome witnesses from the Department of Agriculture, Fisheries and Forestry. Would you like to make an opening statement?

Dr Samson—We do not choose to make an opening statement, thank you. We are happy to answer any questions that the committee may have.

CHAIR—Thank you very much. I wish you an enjoyable evening and I pass over to Senator O'Brien.

Senator O'BRIEN—Can I say at the outset that we will need to get these officers back, once we get the full audit report and other material. You would recall that we discussed the statutory funding agreement with AWI at the last estimates round, and I asked Mr Cattanach what was the quantum of category A payments and category B payments. The answer was that A payments for 2002-03 were estimated at \$55.3 million and B payments at \$16.2 million. It therefore follows that we are dealing with a very large amount of growers' funds and taxpayers' funds, are we not?

Dr Samson—That is correct.

Senator O'BRIEN—And you now have a copy of the AWI audit?

Dr Samson—A copy was provided to Minister Truss.

Senator O'BRIEN—So it went to the minister, not to the department?

Dr Samson—It was provided to the minister.

Senator O'BRIEN—From AWI?

Dr Samson—From AWI.

Senator O'BRIEN—Have officers of the department seen it?

Dr Samson—A small number of officers in the department have seen it, yes.

Senator O'BRIEN—Who are they?

Dr Samson—To my knowledge: me, Mr Mortimer, Mr Cattanach and, I suspect, at least one other member of Mr Mortimer's staff.

Senator O'BRIEN—When was it received?

Dr Samson—The minister received the report on 10 June.

Senator O'BRIEN—And when did departmental officers see it?

Dr Samson—Mr Cattanach will correct me if I am wrong. We physically received the report in the department on behalf of the minister on 8 June, I think.

Mr Cattanach—It was 5 June.

Senator O'BRIEN—Have you provided briefing to the minister or his office on the contents of the report?

Dr Samson—We have not provided a detailed brief to the minister at this stage.

Senator O'BRIEN—Does that mean you have provided some briefing but not a full briefing?

Dr Samson—There was a very preliminary brief acknowledging the receipt of the report and pointing out to the minister that we had referred the report to the Australian Government Solicitor for advice, and that on receipt of that advice the department would provide the minister with a comprehensive brief.

Senator O'BRIEN—Why have you referred it to the Australian Government Solicitor?

Dr Samson—As you may be aware—because some of the contents of it were foreshadowed by the chair of AWI, Mr McLachlan, in a letter that he sent to shareholders—there are clearly a number of issues raised in that report. We feel it necessary for the minister to obtain legal advice as to the significance, or not, of those issues.

Senator O'BRIEN—So now you have the audit report it therefore follows, does it not, that you have details of the 50 research and development grants worth \$20 million that were funded with no formal contracts in place?

Dr Samson—There was a whole range of issues raised in that report. Certainly an issue raised in the report is the one that you mention.

Senator O'BRIEN—And does the report contain details of the grants?

Dr Samson—Not to my knowledge.

Mr Cattanach—No, I do not think so.

Senator O'BRIEN—Can you confirm for me that the new AWI board has frozen or cancelled a number of grants, with the effect that some research organisations now find themselves in financial difficulty?

Dr Samson—I am not in a position to confirm that, Senator. I do not know the answer.

Senator O'BRIEN—Do you know whether any research organisations which are grant recipients have contacted the department or the minister's office?

Dr Samson—I am confident in saying that no such people have contacted the department. I would have no knowledge as to whether they have contacted the minister's office or not.

Senator O'BRIEN—Can you find out and let us know?

Dr Samson—We will, yes.

Senator O'BRIEN—In relation to the legal advice that went to the issue of political activity by the former AWI board, Senator Ian Macdonald said he would ask your legal counsel for a further opinion on this matter. Has that request been made, and has further advice been provided?

Dr Samson—Yes, following our appearance at estimates and the exchange that you refer to, we contacted our legal advisers and asked them to revisit, review, the original advice they provided to the department. Their verbal response to us was that they had done that and that they stood by their original advice.

Senator O'BRIEN—Did they propose to provide written advice to that effect?

Dr Samson—I do not believe so. It was a verbal exchange.

Senator O'BRIEN—Senator Ferris asked at estimates for legal advice to be sought on AWI spending grower's funds on legal advice. Has that advice been sought?

Mr Cattnach—I thought the question was could we seek AWI's legal—

Senator O'BRIEN—Maybe I have got that wrong.

Dr Samson—We will check *Hansard* and, if that is the case, we will take that on notice.

Senator O'BRIEN—If such advice is made available, can it be provided to the committee?

Mr Cattnach—We have asked AWI informally. We propose to write to them formally and ask them once we have agreed with the committee what the question is that we are taking on notice.

Senator O'BRIEN—Thank you. Has anything been done with regard to the original Minter Ellison advice?

Dr Samson—In terms of the advice we received in respect of the funding of the agripolitical—

Senator O'BRIEN—Yes, the agripolitical activity advice.

Dr Samson—Only what I said earlier, which is that following the exchange at estimates we did go back to them and ask them to—

Senator O'BRIEN—I thought you said the AGS.

Dr Samson—No. The advice that we received on the funding of agripolitical activity was obtained from Minter Ellison, who are AFFA's corporate lawyers. We have referred the matter of the PricewaterhouseCoopers forensic audit commissioned by the new board of AWI to the Australian Government Solicitor for advice.

Senator O'BRIEN—Have you revisited with Minter Ellison the Minter Ellison advice about agripolitical activity?

Dr Samson—Yes. That is what I referred to earlier.

Senator O'BRIEN—And they say they stand by it?

Dr Samson—Yes.

Senator O'BRIEN—It seemed to me and other members of the committee that the legal advice you sought in relation to the agripolitical activities of the former board did not properly go to the issues that should have been addressed. Did you put that to them?

Dr Samson—Mr Cattnach actually talked to them.

Mr Cattnach—I put to them the committee's *Hansard*. They stood by the advice that they had given.

Senator O'BRIEN—Are you seeking other advice?

Mr Cattnach—Not at this stage.

Dr Samson—Not on that issue. At the time the issue came to our notice, we sought their advice and we considered it. The exchange at the estimates hearing obviously caused us to revisit our own thinking. We asked Minter Ellison to revisit their advice, and they confirmed their view. We now accept that advice, as we did at the time the advice was originally received.

Senator O'BRIEN—So, as far as that issue is concerned, at this stage you are happy with the advice you received and you are not going to revisit it?

Dr Samson—At this stage, no. There will be a whole range of things that we are seeking advice on arising from the forensic audit done by PricewaterhouseCoopers at the request of the new board. We will consider that report in the context of the advice we get.

Senator O'BRIEN—When will that view be arrived at? You have the audit, so what is the process now?

Dr Samson—On the minister's behalf we referred the report to the Australian Government Solicitor. We asked them to consider each of the issues raised in that report. We asked them specifically, against each of the issues raised in the report, if the issues were proved to have substance, which of them would constitute a potential breach of the statutory funding agreement in the opinion of the Government Solicitor.

Senator O'BRIEN—At the estimates hearing, Mr Cattnach told us that negotiations on the statutory funding agreement with AWI were under way and that he was meeting with the CEO of AWI the following day, which was 27 May. Where is that process up to? What impact has the audit had on these negotiations?

Dr Samson—Mr Cattanach will come in and correct me I am wrong. My understanding is that that meeting did occur as scheduled. It has been agreed to put those negotiations on hold pending both the outcome of the legal advice that we received from the Government Solicitor and the outcome of this committee's inquiry.

Senator O'BRIEN—What status will that put on the statutory funding agreement? Does it have an indefinite life, or will it run to an end?

Mr Cattanach—The statutory funding agreement ceases to exist on 31 December this year, so we have a bit of time.

Senator O'BRIEN—During the estimates I asked some questions about the resignation of Dr Vizard and the circumstances surrounding that resignation, because the question of corporate governance was linked with that resignation. Mr Williamson said the department was not warned of his resignation. He could not recall any action in response to the associated corporate governance issues but said he would check. Do you know whether that check has been made? If so, what was discovered?

Dr Samson—My understanding was that I would confirm the advice that Mr Williamson gave—that we were not aware beforehand of Professor Vizard's intention to resign. I think the first we knew that he done so was from the coverage in the media. Certainly at the time of his resignation, the reasons given in the media reporting of Professor Vizard's resignation did not give us cause to pursue any course of action.

Senator FERRIS—Did you get a copy of Professor Vizard's letter of resignation?

Dr Samson—Not that I am aware of.

Mr Cattanach—No.

Senator FERRIS—Did you seek one when you read the articles in the newspaper?

Dr Samson—No.

Senator FERRIS—Given that it raised a number of corporate governance issues, did you still feel that you did not need to ask for a copy of the letter?

Dr Samson—When you say 'raised', do you mean the letter or the media reports?

Senator FERRIS—The media report, with what appeared to be a leaked copy of the letter, raised a number of corporate governance issues, which appeared at the time to be pretty serious. I just wondered whether the department decided to ask Dr Vizard whether he would make a copy of that letter available.

Dr Samson—We did not.

Senator O'BRIEN—I want to go to part 5.3 of the statutory funding agreement, particularly the matter of efficient, effective and ethical behaviour by the company. Have you sought legal advice as to exactly what that clause means and what action is available to the government if the company breaches the clause?

Dr Samson—We have not sought any specific advice as to that particular clause at this point in time. We will await the omnibus advice from the Government Solicitor with regard to the forensic audit and we will consider what further advice we may wish to take at that point.

Senator O'BRIEN—I assume the ultimate sanction is the cancellation of the statutory funding agreement, isn't it?

Dr Samson—Yes, in whole or in part, in the sense of recovering moneys previously paid by the Commonwealth.

Senator O'BRIEN—You now have the audit report and we have a 10-page summary of that report, which I received on 5 June—nearly three weeks ago—and that highlights payments to directors, employees and vendors that it described as 'unusual or poorly substantiated'. These payments would appear to breach most of part 5.3 of the statutory funding agreement, wouldn't they?

Dr Samson—That is one of the matters on which we will be getting advice from the Australian Government Solicitor. At this point we are not prejudging the veracity or otherwise of the points made in the report. As I said earlier, we have asked the Government Solicitor for advice on whether, if the issues raised in the report are shown to be true, they would then individually or collectively constitute a breach of the funding agreement.

Senator O'BRIEN—So the department does not have a view on whether these matters seem to raise breaches of the statutory funding agreement at this stage?

Dr Samson—At this stage we are awaiting advice from the Government Solicitor before we formulate a view and subsequently advise the minister.

Senator O'BRIEN—There are another five dot points on pages 5 and 6 of that document. They go to advanced payments for former directors that have not been repaid, payments to a former director for travel that may not have been incurred, a \$55,000 payment to a consultant with no evidence of the work being done, payments of \$44,000 to a consultant where the performances are unsubstantiated, and termination payments for employees that may have been excessive—and you are saying the department does not have a view now about whether they would breach the statutory funding agreement?

Dr Samson—If they were proven or if they could be shown to be accurate statements of fact then, *prima facie*, obviously, we would see that—

Senator O'BRIEN—That is what the audit report found, wasn't it?

Senator FERRIS—You are not suggesting PricewaterhouseCoopers would say it if it wasn't true, are you?

Dr Samson—I would never say that.

Senator FERRIS—I was amazed when you just described it as testing the 'veracity' of it, as if in some way PricewaterhouseCoopers would make comments as serious as that without there being absolute veracity.

Dr Samson—One would hope, with their professional reputation at stake, that were the case. When we have received advice from the Australian Government Solicitor, we will be forming a view and briefing the minister, but, as part of that, we will also be seeking advice from the current chairman of the board of AWI as to what remedial action the board intends to take.

Senator O'BRIEN—So it is your view that, if statements by the auditor are to be accepted, there have been breaches of the statutory funding agreement?

Dr Samson—I am not saying that at this stage. I am saying that the issues raised by the auditor would appear, *prima facie*, to raise a number of issues of concern and that we are seeking advice from the Australian Government Solicitor.

Senator O'BRIEN—I go to some of these dot points. Firstly, on the issue of advance payments to directors, there was no record of these early payments in the annual report, was there?

Dr Samson—Not that I am aware of.

Senator O'BRIEN—I go to the report at page 32. It states:

During the reporting period there were no transactions between any of the company's directors or director-related entities and the company and its associated entities.

Should I read that as suggesting that no such payments were made?

Mr Cattanach—Senator, that would refer to contracts and projects and other types of interactions rather than the payment of directors.

Senator O'BRIEN—So we should not understand that to encapsulate payments of directors' fees in advance.

Mr Cattanach—That is right.

Senator STEPHENS—Mr Cattanach, where would we find the information about those advance payments in the annual report?

Mr Cattanach—The most likely place would be in the notes to the annual report. Directors' fees I think is at note 18.

Dr Samson—Senator O'Brien, you asked earlier whether any AWI grant recipients had contacted either the department or the minister's office regarding the freezing of grants. I correctly, I believe, said nobody had contacted AFFA. The minister's office has just advised that no grant recipients had contacted the minister's office.

Senator O'BRIEN—These special payments to the old board were approved by the old board. It is highly unusual for payments to directors from a company to be made in this way, isn't it?

Dr Samson—I am not, from personal experience, aware of any other examples.

Senator O'BRIEN—I think Mr McLachlan is quoted in the media as saying these payments would have to be repaid. Has that happened?

Dr Samson—Not to my knowledge. You are probably aware that Mr McLachlan is overseas at present, as are a significant number of the senior management group of AWI. With the benefit of the Australian Government Solicitor's advice on that forensic audit report, I imagine we will be undertaking a series of discussions with AWI on a whole range of matters. Information regarding what action, if any, has been undertaken to recover moneys should come out during those discussions.

Senator O'BRIEN—It has been suggested to me that some former board members were resisting repaying the funds. Are you saying you have not heard that?

Dr Samson—I am not aware of that. I am not saying that.

Senator O'BRIEN—What about you, Mr Cattanach? Have you heard that?

Mr Cattanach—No, Senator.

Senator O'BRIEN—I take your silence to mean the same, Mr Mortimer.

Mr Mortimer—Yes, I have not had any advice on the matter.

Senator O'BRIEN—I go to the issue of payments to a director of ShearExpress Pty Ltd, which is an incorporated entity. This matter was raised with the minister directly on 4 February last year by WoolProducers. Can you tell me what happened after that contact was made? The director referred to in the 10-page document was in fact the former Managing Director of AWI, wasn't he?

Dr Samson—I am sorry. We do not seem to have the information with us on that particular matter. Again, if it is raised in the forensic audit report—

Senator O'BRIEN—I am talking about a letter that WoolProducers sent to Minister Truss on 4 February 2002 which referred to the former Managing Director of AWI being the Chair of ShearExpress Pty Ltd.

Dr Samson—I am not aware of that letter.

Senator O'BRIEN—According to the annual report, the Managing Director of AWI was the Chair of ShearExpress Pty Ltd. A company search shows that the company was registered on 18 January last year and that Mr Dorber was registered as a director on 4 April last year. It appears from the letter to growers from the new board that the CEO received payments as a director of ShearExpress, despite a resolution by that company that he would not seek any payments. On page 32 of the annual report, as I quoted earlier, it says:

During the reporting period there were no transactions between any of the company's directors or director-related entities and the company and its associated entities.

Are you not familiar with the funding of ShearExpress Ltd?

Dr Samson—I recall that that is mentioned in the PricewaterhouseCoopers report. My answer in respect of its inclusion in that report is, as with the other issues, that that will be the subject of advice from the Government Solicitor. I am not aware of the letter to the minister that you refer to.

Senator O'BRIEN—Can you take on notice for the minister the questions that I have asked you, if you cannot answer them?

Dr Samson—Yes, we will.

Senator O'BRIEN—Can you find out why, if Mr Truss was aware of this matter, he did not write to the board seeking clarification?

Dr Samson—Yes.

Senator O'BRIEN—It seems to me that if the Managing Director of AWI is a director of a company being funded by AWI that would compromise that relationship so far as any funding arrangements were concerned. Is that a fair proposition?

Dr Samson—Without knowing the precise details of the arrangement, there would seem to be potential for a conflict of interest. As to whether that was real or how that was managed, I could not comment.

Senator O'BRIEN—Can you confirm for me that the two amounts paid to this consultant were \$55,000 and \$44,000—or have I got the wrong consultancy arrangement?

Dr Samson—We would have to take that on notice.

Senator O'BRIEN—WoolProducers have advised us that that organisation, in a letter to Mr Truss on 4 February, sought advice on a certain R&D expenditure and whether or not that expenditure complied with the terms of the statutory funding agreement. That is the letter that refers to ShearExpress. It raises matters to do

with the national woodlot advisory service and AWI funding of global design awards. It seems to me that it would be more suitable for this sort of funding to be sourced from the Woolmark company. Is that a fair proposition—or are you not aware of these matters?

Dr Samson—I am aware of the woodlot advisory service issue in the broad. Initially I think that decision was one for the board of AWI to make, which clearly they did, and that is consistent with the balance between governance and reporting requirements imposed on AWI under the statutory funding agreement and the purpose of the funding agreement, which was really to give the board of AWI reasonable freedom to make decisions that any normal board would make. At the end of the day, it was the board's call.

Senator O'BRIEN—So that was not outside the terms of the statutory funding agreement?

Dr Samson—We believe that it was not outside the terms of the statutory funding agreement.

Senator O'BRIEN—The letter I am referring to even pointed to the AWI operational plan and the need for the Commonwealth to be advised of projects and how these projects align with the company's strategic planning levy guidelines. Why would the minister not have sought advice from the AWI board as a matter of urgency once he became aware of a potential breach of the statutory funding agreement? Perhaps you can take that on notice.

Dr Samson—Certainly. If you can just clarify this point: a potential breach of the statutory funding agreement in respect of funds—

Senator O'BRIEN—In relation to the operational plan and projects that did not align with it. That is what WoolProducers were saying to the minister. I am wondering why the minister would not seek advice from the AWI board as a matter of urgency once he became aware of a potential breach of the statutory funding agreement.

Dr Samson—We will take that on notice, but in terms of the woodlot advisory service our view was that it was not inconsistent with the statutory funding agreement.

Senator O'BRIEN—Was it consistent with the AWI operational plan?

Mr Cattanach—I believe so. I would have to check.

Senator O'BRIEN—That was not WoolProducers' view, I must say.

Dr Samson—The nature of operational plans for the corporations or companies with which the Commonwealth is engaged, and indeed R&D corporations, does not necessarily go to the level of detail of individual project. They lay out a broad strategic direction and the activities that the company intends to undertake in a given period of time, which are subsequently reported in the annual report. In my experience they are not documents that go to the level of detail of listing every individual project that the company intends to engage in. Indeed, at the time of the operational plan, some of those projects would not be known.

Senator O'BRIEN—Obviously the minister has not sought that view from you if he says that the WoolProducers' submission to this committee suggests that they are still waiting for a reply to their letter of 4 February 2002.

Dr Samson—Senator, you have me at a disadvantage because I cannot recall that letter of 4 February. I will obviously check and refresh my memory.

Senator O'BRIEN—When you do that, will you find out whether the minister has sought advice from the department about responding to the letter?

Dr Samson—Yes.

Senator O'BRIEN—Can you also find out whether the minister has sought advice from the AWI board on the matters raised in that letter?

Dr Samson—Yes.

Senator O'BRIEN—Can you find out why the minister has not responded to that letter?

Dr Samson—Yes.

Senator O'BRIEN—I must say that this is another example of a minister getting plenty of warning about a potential problem, as with the US beef quota and the lack of power held by the Wheat Export Authority, but choosing to ignore the early warnings. Just as with the case of beef producers and processors in the US quota issue and the problem with wheat and the WEA, we are going to have to sort out another problem that has been brewing for some time. You are not aware of the letter of 4 February, and I accept that; although, you are

going to check that for me. Is there a normal process for correspondence that raises serious concerns about issues within the control of the department that come back from the minister's office to be raised with the department?

Dr Samson—There is a very elaborate process for dealing with all correspondence that the minister receives. In the normal course of events it would be passed to the department for advice. We will have to check for that particular piece of correspondence.

Senator FERRIS—I would like to return to the question of Dr Vizard's letter. When Dr Vizard resigned it was not long after the resignation of, I think, a Mr Patten. Did you in any way consider talking to either of these gentlemen about the reasons why they resigned from the board?

Dr Samson—No.

Senator FERRIS—Would it be normal that you might do that in relation to directors of a board to which the Commonwealth is supplying a significant amount of R&D funding?

Dr Samson—No, it would not be normal to do that.

Senator FERRIS—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' there is a paragraph that refers to what Dr Vizard seems to suggest are anomalies in the re-election process of two directors of the board. Did that not spark a concern in your mind as to whether this should be followed up?

Dr Samson—I am not actually aware of that report.

Senator FERRIS—You must be the only person in the department who is not. It certainly attracted a lot of attention at the time. It was on the front page of the *Weekly Times* and it received a good deal of attention, because it appeared that the Vizard letter had been leaked to the *Weekly Times*. It does raise a number of issues of corporate governance in that article. Are you telling me that the department still decided not to seek any further information?

Dr Samson—I am saying that I am not aware of that article. The department did not seek any advice or comment from Professor Vizard.

Senator FERRIS—If you are not aware, what about Mr Mortimer?

Mr Mortimer—I do not know the date of that article. I would have to say that, depending on the date, I was not responsible for these matters until about July or August last year, so it was not in my bailiwick, so to speak. I would not have been so acutely sensitive to it. I have to say that, in general terms, I cannot remember it.

Senator FERRIS—The date of the article was Wednesday 16 October 2002. My understanding is that Dr Vizard resigned on 12 June 2002. Dr Samson, I think that you were one of the officers at the table when we had a discussion about the \$500,000 donation to the Farmhand appeal—the Red Cross appeal for the drought relief for farmers and so on—last year?

Dr Samson—I am not sure if I was at the table. I am certainly aware of the exchange. If I was at the table it was in another capacity.

Senator FERRIS—Mr Cattanach, do you recall the detail?

Mr Cattanach—I do—it was Mr Banfield who was there.

Senator FERRIS—When it became apparent that half a million dollars of growers' funds, whether they were taxpayer levy funds or wool grower levy funds, had been given out in a way that appeared to breach the statutory funding agreement, in the sense that it was for something which was not able to be targeted to wool growers, did that spark any interest in the department in calling for a review under the statutory funding agreement of any other expenditure within AWI that may also be questionable?

Dr Samson—Not in respect of other expenditure. You would recall that the issue of the half-million dollar donation to the Farmhand appeal was addressed. I cannot recall whether the money was not paid or whether it was recovered.

Senator FERRIS—It was recovered. So when you got the money—when the money was recovered—as far as the department was concerned, they were then satisfied that there would be no reason under the statutory funding agreement to have a look at anything else? I ask that question against the background of section 22 of the statutory funding agreement, entitled 'Audit'. Section 22.3 says:

If in the reasonable opinion of the Commonwealth the Company is or may be in breach of this Agreement, the Commonwealth may request an audit report or opinion on any matter relevant to the Company's compliance with this Agreement.

Very obviously, AWI senior executives realised, when it was drawn to their attention, that in fact they had breached the statutory funding agreement. When that was resolved by the repayment of the money, were you then satisfied that there was no other reason to inquire into AWI under section 22.3 of the statutory funding agreement?

Dr Samson—At that point in time, clearly that was the decision that was taken.

Senator FERRIS—Section 17 of the statutory funding agreement requires AWI to provide the Commonwealth with an operating plan prior to 1 July each year. Section 18 says that AWI must provide the annual report. I know the annual report came in, because I have seen it, but what about the operating plan?

Mr Cattanach—We have a copy of both the strategic plan and the operating plan.

Senator FERRIS—Did any matters in there raise your interest to the extent of asking for more information on them?

Mr Cattanach—No, not in the strategic or the operating plan.

Senator FERRIS—What about the research and development projects and the means under which funding is made available for R&D? Does the department have an interest in that given that is what the levy funds are applied to?

Mr Cattanach—I do not understand the question, Senator.

Senator FERRIS—I am wondering whether you have ever taken part in a study or an evaluation that looks at the way in which the R&D funding has been given to projects.

Dr Samson—That is part of the overall scheme of reporting both of the corporations companies and—if I may call them that—of the mainstream R&D corporations. There is an annual operating plan and one of the things that the department does is assess that plan against the broader background of the government's national research priorities and the rural research priorities.

Senator FERRIS—Do you have any interest in the skill base of some of the individuals who carry out those projects?

Dr Samson—Do you mean the researchers themselves?

Senator FERRIS—Yes.

Dr Samson—The department does not involve itself in that level of detail. That is something which we would see as the responsibility of the boards of the various companies or corporations.

Senator FERRIS—I understand that a former minister for police in a former New South Wales Labor government, Mr Peter Anderson, was not only the primary referee for the chief executive when he was appointed but an early recipient of a research and development contract of around \$50,000 to travel to Europe to research the issue of chemical residues in wool. I am just wondering what skill base a former minister for police in the New South Wales government would have to carry out that work and I wonder whether the department had any interest in, for example, the skill base of a person such as a former police minister in carrying out work of that nature.

Dr Samson—As I alluded to earlier, the department does not engage at that level with the operations of the companies or the corporations. We have an interest in ensuring, certainly with the R&D corporations, that the boards that are appointed have the relevant skills base to make the appropriate decisions. At the end of the day, those are decisions of the boards of the corporations and the companies.

Senator FERRIS—So when that same Mr Anderson got another contract for \$1 million for some form of IT services that would not have attracted your attention again given that it was a single individual who received that amount of money?

Dr Samson—I think it is fair to say that we would not necessarily have been aware of that being the case. Certainly, with issues similar to those that you have just raised, if there are examples of them, they would certainly be things that we would be interested in taking up with the current board.

Senator FERRIS—And when that same Mr Anderson appears to have received regular monthly payments of \$10,000 or so for confidential work which ceased when the chief executive left and there was never a disclosure of what that work was for, that is not something that the department would have taken up?

Dr Samson—If it had been brought to our attention in terms such as you have just raised, then we would, I am sure, have entered into discussions with the board at the time and sought an explanation. As I said, we would not have been aware of those set of circumstances.

Senator FERRIS—Did any former director of the board speak to anybody in the department about matters such as this to your knowledge?

Dr Samson—Not to my knowledge.

Senator FERRIS—Can you ask the secretary of the department if he is aware of whether anybody spoke to either him or a senior officer about these matters?

Dr Samson—Certainly, and specifically in terms of—sorry, I have forgotten the name of the—

Senator FERRIS—Mr Peter Anderson.

Dr Samson—We will certainly do that, Senator.

Senator FERRIS—Now that I have drawn them to your attention, are those things that you would be interested in looking at now in the department, in terms of perhaps whether Mr Anderson lodged a report for his work on chemical residues in wool following a study tour in Europe?

Dr Samson—I believe the appropriate or the most productive course of action would be for us to take up those matters with the current board in the context of the forensic audit report that has been done.

Senator FERRIS—I would like to now ask some questions that seem to fall under section 5.2 of the statutory funding agreement which requires AWI to apply the funds that are received from the Commonwealth in a manner that is efficient, effective and ethical. I am wondering whether the department has ever received information from any source that would indicate that AWI has applied funds in a manner that might have breached those principles.

Dr Samson—Up until the point where we had received the PricewaterhouseCoopers report—which clearly indicates that that may have been the case—to my knowledge, not in the terms that you have mentioned.

Senator FERRIS—Does it strike you as odd that the department was not aware of any of these anomalies? WoolProducers had been talking about it quite publicly, the *Weekly Times* had an article which called it a can of worms and there was quite a lot of talk around WoolProducers about unhappiness in relation to the administration of funds by the previous board—yet you are telling me that nobody in the department that you are aware of was aware of any of these issues to the extent of requiring some sort of audit under 22.3 of the statutory funding agreement or 5.2 of the statutory funding agreement in relation to efficiency, effectiveness and ethical behaviour.

Dr Samson—The short answer is yes, that is what I am saying. I am not saying—because I do not have the knowledge to say definitively one way or another—that there were not general comments of disquiet about some aspects of the operations of the previous board or individuals on that board. That, to be honest, Senator, is not uncommon in some ways.

Senator FERRIS—But, when it occurs, does the department act on that?

Dr Samson—Not unless we have some concrete allegations to respond to. If it is in a more general sense of dissatisfaction with decisions that boards have taken, as I say, that is not uncommon. It is difficult for a board to please everybody.

CHAIR—Do you have someone within your portfolio responsibilities who clips the papers and reads the articles that relate to the department?

Dr Samson—We do have a system where press clippings that are relevant to the portfolio—

CHAIR—That would have been a relevant press clipping.

Dr Samson—I am sure it would have been.

CHAIR—Perhaps you had better get a new person to do that job, because wouldn't that have raised the curiosity of even the most idle clipper?

Dr Samson—Not in a defensive way but just as a matter of fact, I have to plead the same defence as my colleague Mr Mortimer: that, at the time these clippings quite likely were appearing, I was not in this position, so it is hard for me—

CHAIR—That is the ultimate defence.

Dr Samson—I was trying not to use it. It is just to put it in context when I say—as Mr Mortimer has—that we are not aware of those particular articles.

CHAIR—Do you think there may be some lessons to be learnt from that anyhow?

Dr Samson—We are always willing to learn, Senator.

Senator FERRIS—Who should I address questions to in relation to the appointment of Mr Dorber as the CEO of the company?

Mr Mortimer—Mr Dorber was appointed by AWS before the demerger of AWI from the wool company holding in 2001. He was appointed by that board, and that appointment was announced by the chair of the board of AWS at the time, Mr Rod Price.

Senator FERRIS—Would the department have had any interest in the skill base of Mr Dorber or the process under which he was appointed—for example, in any executive search that might have taken place? Did the department in any way have any involvement in the appointment of Mr Dorber?

Mr Mortimer—I am not aware that the department was involved; indeed, I would expect that the department was not involved. Essentially the board of the company made that decision. Generally speaking, boards of corporations do not seek the advice of the department on these appointments.

Senator FERRIS—Given that every month the department paid millions of dollars in total to this board, I would have thought that you may have had some interest in the skill base of the chief executive but I accept that perhaps you did not. Can you confirm that Mr Dorber employed both his son Luke and his daughter Holly at AWI?

Mr Mortimer—We understand that was the case.

Senator FERRIS—Are you aware of whether that was a transparent selection process—whether the positions were advertised?

Mr Mortimer—I cannot comment.

Senator FERRIS—You are not aware?

Mr Mortimer—I do not know the answer.

Senator FERRIS—Are you aware that both of those children of Mr Dorber received significant redundancy payments and that one of the children—I think Mr Luke Dorber—was appointed on a salary of less than \$40,000 but was being paid \$80,000 at the time of his redundancy?

Dr Samson—I am aware, certainly, although not precisely in the detail you have described, but those issues are referenced in the PricewaterhouseCoopers report.

Senator FERRIS—You are not able to confirm the correctness of that advice?

Dr Samson—Not at this point in time, but I would imagine that those issues and others would be the subject of our discussions with the current board of AWI.

Senator FERRIS—Can you confirm that there were two personal trainers in the executive gym, at a salary of \$100,000 each?

Dr Samson—I can confirm that that issue is also referenced in the PricewaterhouseCoopers report.

Senator FERRIS—How do you feel when you read that sort of material?

Dr Samson—I think that relatively long experience has taught me not to take any information like that at face value without first having the opportunity to take advice and to verify the information or get advice as to the circumstances that surrounded the issue. At this point in time, that is exactly where we are at: trying to obtain it.

Senator FERRIS—Haven't you just told me that PricewaterhouseCoopers have referred to those matters in their report?

Dr Samson—Yes.

Senator FERRIS—So you are able to verify those matters that I have just raised with you?

Dr Samson—I can verify they are in the report.

Mr Mortimer—I think it is fair to say that the issues are in the report, but what Pricewaterhouse did in that forensic report was to identify issues and to make recommendations about appropriate action. An issue for the board is to follow through on that, to make its own assessment on those issues and then to take that action. But, as Dr Samson indicated earlier, we are also examining those issues in the light of the legal advice.

Dr Samson—As Mr Mortimer said, the PricewaterhouseCoopers report identifies issues and it comments to some extent against each issue. It then makes recommendations to the current board. I think I am correct in saying that those recommendations do include that the board itself seeks legal advice on certain issues or that the board investigates certain things further. So there is a discovery process going on, even within the current board.

Senator FERRIS—One would hope so. Could you confirm for me whether there were any audit reports done into either AWI or its predecessor in which any matters may have been raised with recommendations of further action at any time since the establishment of AWS and then AWI?

Dr Samson—We would have to take that on notice.

Senator FERRIS—And, in particular, could you confirm for me whether there was an audit report that might have been done that did draw to the attention of those who looked at it certain anomalies that might require further investigation?

Dr Samson—Certainly, we will obviously have to seek advice from AWI in answering that question.

Senator FERRIS—Were you aware that decisions could be made by the board with a quorum of two?

Dr Samson—I was not aware of that.

Mr Cattnach—No, Senator, I was not aware of that.

Senator FERRIS—Does it strike you as unusual that there should be only a quorum of two required on a board? Does the government have any sort of statutory arrangement whereby a quorum on a board which attracts levy R&D funds should have a larger number of people to form a quorum—such as, perhaps, a producer?

Dr Samson—Certainly, a quorum of two does seem a very small number. I am just trying to reflect on my experience with the R&D corporations where there certainly are rules laid down as to the quantum of the quorum and also, I think, the composition. But I am not quite sure where that emanates from, whether it is the board itself that makes it.

Mr Mortimer—I think it is fair to say that this company is not a CAC Act company, to make the distinction that Dr Samson was making. It operates under Corporations Law, so essentially provisions of Corporations Law will prevail and the board essentially decides, I expect, what its arrangements should be.

Senator FERRIS—I am not saying this in a critical way because I accept that you may not have had responsibility for this set of arrangements, this implementation of the statutory funding agreement. It does seem that this board was able to get away with some quite extraordinary circumstances in the sense that there was the Farmhand appeal, Mr Patten's resignation and the publicity surrounding that. There was Dr Vizard's resignation and the publicity surrounding that. There was the woodlot information that Senator O'Brien has referred to and all the publicity surrounding that. There was the sponsorship of the European fashion awards—I think involving some hundreds of thousands of dollars. And yet, nobody in the department thought, 'We had better have a look at this under section 22.3 of the funding agreement.'

Somebody looked at all those clippings, looked at all those stories, and heard all of the information out in the ether and nobody triggered section 22.3 of that funding agreement or even the earlier one, section 2, in relation to ethical behaviour. It seems an extraordinary thing that there is almost a shopping list of scandals that surrounded AWI, almost from its very birth. And yet, it never once triggered any interest by anybody in your department.

It is my information that people did go to senior officers in your department and draw these matters to the attention of those officers and still there was no triggering of these responsibilities under this funding agreement. Now we have a situation where we have \$20 million worth of contracts discovered by PricewaterhouseCoopers for which there is inappropriate paperwork. From the information that is around in the ether, there is a good deal more. And the wool growers' leader tragically outlines those things. It is

extraordinary to sit here and hear you say that nobody in the department triggered anything. It did not turn a red light on anywhere.

Dr Samson—I would not want you to get the impression that the department was not working quite closely with AWI to ensure that it had adequate reporting mechanisms in place.

Senator FERRIS—Who was the person in the department who worked closely with AWI on those reporting mechanisms?

Dr Samson—Mr Cattnach spent some considerable time working quite closely with AWI—

Senator FERRIS—Perhaps Mr Cattnach might like to tell us how he did that and how all of these things escaped the attention of the department's officers.

Mr Cattnach—We were trying to improve their corporate planning and their reporting so that their strategic direction and the benefits would transparently be shown to flow to wool producers.

Senator FERRIS—How did you go about doing that, Mr Cattnach? Are you able to give us any documentary evidence of the way that was done—any letters that were sent to the board that might be useful for the committee to have a look at in the carrying out of that responsibility?

Mr Cattnach—There were a number of transactions with the company, and we are providing details of those in response to the estimates committee questioning.

Senator FERRIS—How soon will we be able to get that? Obviously that material will be quite crucial to this inquiry.

Dr Samson—I think we only recently got the final list of questions on notice that came out of the estimates committee, and we are working on those. As you know, the process is that we will prepare draft answers to those questions and then they have to go through Minister Truss.

Senator FERRIS—If we could just go back to the circumstances under which you were working closely with the board, can you tell me how frequently you would have talked to the chief executive or the chairman? Did you ever have any sense of frustration about the way in which the work was being done? Did you have a single clue as to what was happening that PricewaterhouseCoopers has been able to reveal to the wool growers now? Did you have any sense that that was going on?

Dr Samson—I think the answer is at two levels. Firstly, from an early stage, against the reporting requirements that are imposed on AWI under the statutory funding agreement, the department did have some concerns as to the robustness of the company's reporting regime and the planning and reporting documentation that came out of that. They were principally the areas for which Mr Cattnach was responsible—and therefore interaction with the company. In relation to the specific matters you have raised about possible decisions or practices of the board, which perhaps with the benefit of hindsight are causing some people some considerable concern, I am not aware that the specific issues in the detail that you have now put before us were raised with the department. As we have said, we will check, particularly in relation to Mr Anderson's consultancies, whether anybody was made aware of that.

Senator FERRIS—Can we go back, Mr Cattnach, to the question of the Farmhand donation. I do not think the robustness of the interchange between the chief executive of AWI, some officers in the department and the Red Cross would be a surprise to you, because it was covered in those estimates. After you got back to your office after those estimates, and after the return of the money—the half a million dollars—did a red light go on in your mind to suggest that this might be raised with the chief executive to find out how it was that the pathway had developed in the first place? Did you have any sense that this might be a one-off or something that you needed to look at in more detail? Did you raise it with Mr Dorber subsequent to those estimates?

Mr Cattnach—I did not. We had the election of the new board, and the minister wrote to the new chair of AWI congratulating him on the election result and noting that he raised corporate governance as an issue. We pointed out that we had done a governance review, and we provided a copy of the governance review. It is a general review of the—

Senator FERRIS—Is that one of the documents you are going to be supplying to the committee?

Dr Samson—We could certainly supply that.

Senator FERRIS—I think that would be useful, because it sounds as if that is the one that raised some issues that you were concerned about. Am I correct?

Mr Cattnach—No, this was a general governance thing across all the portfolio bodies.

Dr Samson—The department commissioned a review, a report, by a consultant, as Mr Cattnach says, to look across the portfolio bodies that we are responsible for.

Senator FERRIS—And he did not pick up anything that attracted your attention or concern?

Mr Cattnach—No.

Dr Samson—This was a generic review of the governance arrangements in the broad and a commentary on the better practice areas, where we should perhaps give more focus.

Senator COLBECK—I go back to the comments Mr Cattnach made with respect to him working with AWI for some time on some issues of concern to the department. For approximately how long had you been working with AWI? What were the issues that flagged that action in the first place?

Mr Cattnach—If my memory serves me correctly, it was probably from about June 2001 through until just prior to the board election. The nature of the exchange was to try and put in place reporting and planning documentation and information to the Commonwealth's satisfaction.

Senator FERRIS—Did that happen?

Mr Cattnach—Certainly the planning and reporting process that AWI went through improved. Particularly in consulting with their industry and involving government there was a significant improvement.

Senator FERRIS—Was this before or after the woodlot fiasco?

Mr Cattnach—I really cannot answer that one. I just cannot remember the sequence of events.

Senator COLBECK—What were the issues that first brought you to contact AWI to work on the procedures that you have just mentioned to us?

Mr Cattnach—Just the standard of documentation that we had up to that stage.

Senator COLBECK—So essentially the department was not satisfied with the standard of documentation that it was receiving with respect to planning and reporting of its activities?

Mr Cattnach—That is right.

Senator COLBECK—And that would be six months or so into the life of the organisation?

Mr Cattnach—Yes. We were prepared to work with the company, as we have with other new industry companies, to try and get their planning and reporting to an appropriate level.

Senator COLBECK—Were there any specific issues that raised any individual concerns?

Mr Cattnach—Not that I can recall.

Dr Samson—I think it was more in terms of the overall methodology. I think the chronology of this is irrelevant in the sense that, of course, AWI was a newly established company and had a set of planning and reporting requirements to meet under the statutory funding agreement. So in a sense it is not surprising that getting those planning and reporting mechanisms on track was something of an iterative process that Mr Cattnach spent some considerable time helping the company do, with the result that the planning and reporting aspects of its business did improve, I think it would be fair to say, significantly over a period.

Senator STEPHENS—On the AWI web site, regarding the assessment process for projects, it says:

We have developed two objective project assessment tools to evaluate project proposals at both the concept and project stages.

Can you tell me when those tools were developed? Have they been developed since these issues have emerged or has that information actually been on the web site for some time?

Dr Samson—We would have to take that on notice. From my experience the project assessment methodologies vary between companies and corporations. They are matters that are determined by the board.

Senator STEPHENS—The description of this is as follows:

The AWI Project Scorer is a complex series of spreadsheets used to assess each proposal across a number of areas. It generates an overall project score, which may be used to compare the proposal with others. It features:

- A quality control checklist;
- A project scoresheet for technical and commercial success, benefits, and strategic fit; and
- A net present value (NPV) calculator.

It sounds good. I wonder if you could make that tool kit available to us, please.

Dr Samson—We will certainly ask the AWI to provide it and we will make it available. It does indeed sound impressive.

Senator STEPHENS—Thank you. Mr Cattanach, you are saying that this is not something that you have developed with the AWI or been part of?

Mr Cattanach—No, it is not.

Senator STEPHENS—Is it something that was in existence prior to this issue?

Mr Cattanach—I have no knowledge of when they developed it.

Dr Samson—It could well be developed in parallel, too. The planning and reporting interests that the department has are very different from the project assessment methodology that you have just alluded to, which are matters for the company itself to develop and apply. We would not normally, by any stretch of the imagination, be involved in that level of project assessment.

Senator STEPHENS—Does the department provide generic guidelines for project assessment or evaluation tools to organisations that are funded?

Dr Samson—Not to my knowledge. Those are issues that the skills base of a company or corporation board and the management of those entities would develop themselves.

Senator STEPHENS—If you do ask AWI to provide that information to the committee, could you also ask them to give some examples of how the assessment tool has been implemented?

Dr Samson—Certainly we will ask them.

Senator STEPHENS—Thank you. It would be good to see a demonstration of how these tools work.

Senator FERRIS—I would be most interested in how these tools worked, in relation to the provision of £100,000 for one person to study at the German Wool Research Institute for two years at the same time that AWI refused to contribute \$300,000 to an educational program in the sheep and wool CRC. The mind boggles as to how any evaluation tools could be found to justify priorities such as those. It relates to earlier questions I have asked in relation to some of the R&D matters and I think there are many others that you are aware of. I wonder whether the department has now asked for the minutes of the board meetings going back to the foundation meeting to have a look at how some of these decisions were made and to see whether the board was presented with, for example, a project and the reasoning and analysis for the project and then a determination as to why £100,000 for one person at a research institute in Germany could be found to be more important than \$300,000 to a CRC on sheep and wool. Have you asked for the minutes of those board meetings?

Dr Samson—No, we have not. The broad answer to the issue you raise is that, as I said earlier and I am sorry to sound like a cracked record, that—

Senator FERRIS—I feel a bit like one myself.

Dr Samson—When we have the benefit of the advice from the Government Solicitor and the benefit of having talked to the current board and/or the chairman of the current board we will brief Minister Truss and, at that point, I would anticipate a decision would be made as to what course of action to take.

Senator FERRIS—But in the meantime, the minutes of the board meetings were not sent to the department?

Dr Samson—No. There is no requirement for them to be sent to the department.

Senator FERRIS—In the ensuing disclosures that have now occurred would there be any circumstances under which the department would request those minutes?

Dr Samson—I think that question is too hypothetical at this stage.

Senator FERRIS—But what I am interested in here is the disbursing of taxpayers' funds on R&D projects. I am interested to know how the projects were allocated. We have gone through some quite unusual allocations here this evening that I have asked you to either confirm for me or take on notice to confirm. What I am getting to here is to try to find out whether, as a general principle with any of the R&D funded bodies that your department allocates money to—many millions of dollars—there is a mechanism for you to have a look at the way in which that money is disposed of in projects. This would involve looking at, for example, the strategic direction of a project and then evaluating who might be the most appropriate scientist, scientific team or team of people to carry out that project, to see whether the board was in fact presented with the appropriate

information for the dissemination of taxpayers' funds for which you are responsible under the funding agreement.

I would have thought that now this information has been disclosed, and it was disclosed at the estimates—and some time before that too, if you go back to the half a million dollars for Farmhand; that was a breach of the statutory funding agreement, and whether it was fixed or not it was still a breach of it—things might have been checked. I just intrigued that the board could get all of that money and at no time did the department check on the veracity and propriety of the disbursing of the funds, to the extent that some of these priorities that I have outlined to you here this evening and previously were able to continue unabated. And still the department has not requested the minutes to have a look to see whether the board was actually presented with these projects or whether conclusions by some quorum of two or even the chief executive, as in the case of the half million dollars spent on a film on wool—without any tenders being called, as I understand it—continued unabated. I am really trying to get to the bottom of this and understand the process and mechanism by which the department is continuing to accept that priority system.

Dr Samson—I understand exactly what your interest—

Senator FERRIS—I am not sure that I am expressing it to you as well as I maybe could have earlier in the day.

Dr Samson—I am worried that I am not expressing the answer in quite the right way. If you could just bear with me and I will go back more to first principles, which may in part answer your question. Indeed, both the department and the minister obviously are very conscious that it is taxpayers' money being expended here. That is the very reason that the model exists in the way it does. In the case of AWI there are two elements that we look at. One is that it is a company set up under Corporations Law that has a series of legally binding reporting mechanisms attached to it which to some extent are mirrored or complemented under the statutory funding agreement.

At the core of it is a three-stage process. On the one hand, we require of these companies and corporations an annual operating plan which demonstrates at a strategic level, without boring down into the detail of individual projects, what the company plans to do in the coming year. There is a higher level strategic plan—typically a five-year strategic plan—which provides the big picture, and then there is the annual operating plan. Part of the role of the department is to ensure that both the broad strategic plan and the annual operating plan are indeed consistent with the government's priorities. As I said, amongst those we have the national research priorities and the rural research priorities, and that is certainly one of the benchmarks against which we assess operating plans. At the other end of the spectrum there is the annual report, which of its nature is a report against what the company did. The operating plan tells us what it proposes to do; the annual report tells us what it did.

CHAIR—Could I just—

Senator FERRIS—I am sorry, Chair, he just wants to finish the third leg of this tripod.

CHAIR—All right.

Dr Samson—I think the third was actually the research priorities. You have an operating plan, but it is not something that is prepared in a vacuum; it is built around and linked to the government's articulated research priorities.

Senator FERRIS—So you are saying you would have known about the £100,000 payment to one person to study at the German Wool Research Institute?

Dr Samson—No. That is the point—the examples that you raise are at a level of detail that we would not be aware of.

Senator FERRIS—But, sadly, they totalled \$20 million according to PricewaterhouseCoopers.

CHAIR—Could I bring a bit of focus and put a question on notice for you? I draw your attention to 22.2 in the statutory funding agreement, which states:

The Company must ensure that, as part of the audit, the auditor audit, and report (at the Company's cost) on, the Company's compliance with its obligations under this Agreement in relation to the Funds.

I have the financial statements 2002 here. I cannot see, in that auditor's report, where that requirement has been complied with. Would you like to take on notice to provide to this committee details of where that has been complied with in the auditor's report for the various financial years?

Dr Samson—We will take that on notice.

CHAIR—Thank you very much.

Senator FERRIS—I am just puzzled and, I suppose, really sad for wool growers that those two levels appeared to be in place, and perhaps were operating effectively, and yet \$20 million in total—if you accept the PricewaterhouseCoopers figure that is in the wool growers' letter—was able to have been, shall we say, 'dispensed' among the scientific or other community without proper documentation. That seems to include a film on the history of the wool industry for which there were no tenders called, there was no process in place to evaluate whether this fitted somewhere in a priority, and so the list goes on. I wonder how it was that this was able to continue to happen. And I am sure growers are all scratching their heads as they open their mail and read that letter.

Dr Samson—There is another check in the system—as in check and balance, rather than financial cheque in the system—

Senator FERRIS—Please share it with us.

Dr Samson—in that, as we have seen, albeit after the passage of some time, in the case of a company like AWI the directors are elected. So not only does a board have to satisfy the government in its planning and reporting and meeting the broad strategic directions that governments set but the board also has to demonstrate to its shareholders that it is meeting their expectations. Now clearly it is a truism in this case that the previous board did not do that to the satisfaction of its shareholders, and that is why we have a new board in place at the moment.

Mr Mortimer—Senator, you raised the question about the department checking regularly and looking at what the company is doing. There is a real question, at two levels there, on an ongoing basis. The first is practicability; the second is where that leaves the actual responsibilities for making decisions. At a practical level it is really not feasible for the department to be checking off the records or decision making on every project for every corporation, and indeed there is a long list of them. At another level, the issue is that there is actually a board that is responsible and it would seem commonsense that, if a system were instituted whereby the Commonwealth was checking these at every point, a board of such a corporation would probably not bother. You are really cutting across other responsibilities.

Senator FERRIS—No, not really. Look at 22.3. It states:

If in the reasonable opinion of the Commonwealth the Company is or may be in breach of this Agreement—

and we know they were with the Farmhand donation—

the Commonwealth may request an audit report or opinion on any matter relevant to the Company's compliance with this agreement.

You had an example of where they had breached it, so it was not as if this was a smooth-sailing company. Mr Cattanach has already said that he was working with the company to try to smooth out some issues. We already had two directors resign in pretty public circumstances. There were a lot of lights going on around this company. So I do not think it is true to say that it was a smooth-sailing company. I think it is probably true that it was a company that was demonstrating plenty of examples at the time of anything but smooth sailing. It was in rocky waters, I would have thought.

Mr Mortimer—Certainly. I never suggested anything about the company being smooth sailing. Indeed, earlier we made comment on those issues you raised. The real question is how you best remedy the situation when it happens.

Senator FERRIS—You had the remedy there. You could request an audit report or opinion on any matter. I am sure that is why that is in the funding agreement. It is totally appropriate that it is in there, given the amount of money that these people got in a monthly payment. I am just wondering what else they would have had to do before the red lights would have gone on to the extent of triggering 22.3.

Mr Mortimer—A fair point.

Senator FERRIS—I have lots more questions, but I think many of them probably need to wait until we clarify with AWI where we are at with the supply of some documents from the estimates in relation to the earlier questions, and perhaps PricewaterhouseCoopers and some of the former board members may wish to appear. Perhaps I will hang on to those until later, if that is all right with you.

CHAIR—I think we should take the benefit of that and sneak home early.

Senator FERRIS—As the Whip, I can tell you that you will not be sneaking home early.

CHAIR—I thank the officers for their attendance tonight and graciousness in the way they responded.

Committee adjourned at 9.07 p.m.