



Auditor-General for Australia



9 September 2016

The Hon Brendan O'Connor MP
Shadow Minister for Employment and Workplace Relations
Parliament House
CANBERRA ACT 2600

Dear Mr O'Connor

Parakeelia's provision of 'Feedback' software to Liberal Party Members of Parliament

I am writing in response to your letter of 15 June 2016 requesting that I investigate the appropriateness of arrangements concerning the Liberal Party of Australia entity Parakeelia Pty Ltd. Your interest was in taxpayer funded reimbursements of related payments and financial transfers between Parakeelia and the Liberal Party, including whether Parakeelia has donated the profits from Feedback software to the Liberal Party.

My office has conducted a limited scope assurance review, not an audit, focused on electoral and parliamentary entitlement obligations, and financial transactions between Parakeelia and the Liberal Party. The review was limited to analysis of publicly available information, key documents and advice provided by the Australian Electoral Commission and the Department of Finance, and advice and financial information provided by Parakeelia.

In conducting the review, no evidence was provided to the Australian National Audit Office (ANAO) that the arrangements contravene electoral and parliamentary entitlement frameworks or that Parakeelia donated any profits¹ from the sale of Feedback software to the Liberal Party. Further, the financial transactions reported to the Australian Electoral Commission between Parakeelia and the Liberal Party indicated a net cost to the Liberal Party from 2000–01 to 2014–15.

Background

Parakeelia is a registered Australian proprietary company that is wholly owned by the Liberal Party. Currently the company has three directors² and there are 100 shares all of which are held in trust for members of the Liberal Party.³

¹ To assess whether Parakeelia donated any profits from the sale of Feedback software to the Liberal Party, the ANAO examined the records in Parakeelia's audited general ledger for each year from 2009–10 to 2014–15. Parakeelia's general ledger for 2015–16 was unaudited at the time of the review but also did not indicate that Parakeelia donated any profits to the Liberal Party.

² As at 30 August 2016, the directors were: Mr Richard Alston, Federal President of the Liberal Party of Australia; Mr Tony Nutt, Federal Director of the Liberal Party of Australia; and Mr John Burston.

Parakeelia's sole purpose is to develop, run and maintain the database software 'Feedback'. The Feedback software enables parliamentarians to develop profiles of their constituents, using a range of information including electoral roll information, and to generate tailored communications to constituents. Most Federal Liberal Party parliamentarians subscribe annually to the Feedback software. In 2015 the average charge was some \$2500, although charges for individual parliamentarians varied.

Electoral obligations

The *Commonwealth Electoral Act 1918* requires that a range of individuals and organisations, including all registered political parties and their associated entities, lodge annual or election period financial disclosure returns with the Australian Electoral Commission. The returns must provide, among other things, the total value of receipts from a particular person or organisation, details of amounts received above the disclosure threshold for the financial year (\$13 200 for 2016–17), and the total value of payments. While the Australian Electoral Commission advised that it is often problematic to determine whether payments are donations or payments for services received, the reporting entity must classify receipts above the threshold as 'donations' or 'other'.⁴ The returns are made available for public inspection—returns from 1998–99 onwards are published on the Australian Electoral Commission's website.

The Australian Electoral Commission considers that the Liberal Party and Parakeelia have complied with the disclosure scheme requirements. The Australian Electoral Commission's website shows that both entities have lodged annual disclosure returns since 1998–99. The Australian Electoral Commission also advised that it: had conducted a compliance review of Parakeelia's 2013–14 annual return, which was found to have adhered to disclosure requirements⁵; and is overall satisfied with Parakeelia's disclosure reporting.

The *Commonwealth Electoral Act 1918* also contains provisions that regulate the permitted uses that can lawfully be made of information from the Electoral Roll. The Australian Electoral Commission considers that Parakeelia's use of the Electoral Roll as part of the Feedback software is according to the permitted uses, and has legal advice supporting this view.⁶ The Australian Electoral Commission advised the ANAO that no information had emerged that would require it to review Parakeelia's activities under the *Commonwealth Electoral Act 1918*.

³ As at 30 August 2016, the shares were held as follows: 98 by Mr Ron Walker, one by Mr Andrew Robb and one by Mr Gavin Bailey.

⁴ The Australian Electoral Commission website uses the term donation as it is more readily recognised than the term 'gift', which is used by the *Commonwealth Electoral Act 1918*. The Act defines 'gift' as cash and non-cash donations of money or a service for which no payment or an inadequate payment is received. 'Other' receipts, while not defined by the Act, refer to payments that do not meet the definition of 'gift'.

⁵ As most of Parakeelia's income falls below the disclosure threshold, payments from individual members of parliament are not declared.

⁶ The Australian Electoral Commission has sought legal advice on a number of occasions (for example, in 2000 and 2007) about permitted uses of the electoral roll. In short, the Australian Electoral Commission advised that Parakeelia can use electoral roll information for any purpose connected with an election or referendum, and Federal parliamentarians can use Feedback software in the performance of their functions as a senator or member.

Parliamentary entitlement obligations

Under the parliamentary entitlements framework, parliamentarians may claim reimbursement from their office budget entitlement for the costs of specific software, servicing, back-up and training.⁷ While there is no dollar limit on the amount that may be reimbursed, when seeking reimbursement parliamentarians must provide the Department of Finance with a tax invoice and receipt of expenditure. Parliamentarians may only use the office budget entitlement to purchase software that has been nominated by the relevant parliamentary party—the purpose of the restricted supplier policy was to prevent a proliferation of software packages within the various parties. Parakeelia is the nominated supplier for Federal Liberal Party parliamentarians.⁸

In seeking reimbursement for specific software, servicing, back-up and training, there is no requirement for parliamentarians to use the software for parliamentary business, as distinct from party business. In any event, the Department of Finance advised that parliamentary business is interpreted broadly and includes activities associated with parliamentarians seeking re-election. Similarly, the parliamentary entitlements framework does not require the Department of Finance to check the value for money aspects of an entitlement, as there is no explicit value for money requirement on parliamentarians.⁹

The Department of Finance advised the ANAO that reimbursements for the purchase of Feedback software have been made to parliamentarians according to established processes, and that no information had emerged that would require it to review those reimbursements.

I note that the report of a review of parliamentary entitlements has recently been released. The report proposes that, as part of a principles-based system, parliamentarians should consider whether their work expenditure represents an efficient, effective and ethical use of public resources.¹⁰ The Government is yet to respond to the review.

Financial transactions between Parakeelia and the Liberal Party

Disclosure amounts recorded in annual returns lodged with the Australian Electoral Commission by Parakeelia and the Liberal Party between 2000–01 and 2014–15 indicate net payments from the Liberal Party to Parakeelia.¹¹

An examination of Parakeelia's audited financial accounts from 2009–10 to 2014–15 showed that the revenue from providing Feedback software to Federal Coalition Party

⁷ Until 30 June 2015, there was a specific software allowance. Introduced in 1997 the allowance had a maximum annual reimbursement limit of \$1000, which was increased in 2004 to \$1500. Individual MPs were responsible for meeting costs in excess of the maximum reimbursement limit, either from salary or the Electorate Allowance.

⁸ The nominated supplier for the Australian Labor Party is Magenta Linus, a third-party entity that provides software known as 'Campaign Central'.

⁹ In addition, the training of Federal Liberal Party staffers on the use of Feedback is consistent with the *Members of Parliament (Staff) Act 1984*, which allows parliamentarians to employ staff to assist them in exercising their functions as members of parliament.

¹⁰ Commonwealth of Australia, *An Independent Parliamentary Entitlements System Review*, February 2016.

¹¹ Over this period, the annual returns indicate that the Liberal Party transferred \$4.3 million to Parakeelia and Parakeelia transferred \$1.5 million to the Liberal Party. In 2001–02, the Liberal Party transferred \$1.2 million to Parakeelia to absolve a debt.

parliamentarians¹² represented approximately one-third of Parakeelia's annual average revenue of around \$850 000, with the other main sources being Australian state parliamentarians and export income.¹³ There were also subsidies from the Liberal Party to Parakeelia of some \$620 000 over the period.

Over the period examined, the profits of the company were equivalent to the subsidies paid by the Liberal Party. The ANAO therefore concluded that the company would not have generated profits over the period without the subsidies paid by the Liberal Party.

The ANAO's analysis of Parakeelia's financial transactions from 2009–10 to 2014–15 has not identified any donations to the Liberal Party. However, there were a number of payments between the two parties over that time. In particular, there were three types of payments from Parakeelia to the Liberal Party (or on behalf of the Liberal Party):

- reimbursement of costs incurred by Parakeelia in providing Feedback software that were initially paid by the Liberal Party;
- payments by Parakeelia for office accommodation used by the Liberal Party, which was reimbursed by the Liberal Party; and
- transfers from Parakeelia to the Liberal Party for cash flow purposes, which were reimbursed by the Liberal Party.

Since 2013–14, Parakeelia has made payments to the Liberal Party to reimburse the cost of staff employed by the Liberal Party to perform Feedback programming and training services for Parakeelia. These expenses were previously contracted to a third party, but were brought in-house from 2013–14 after Parakeelia considered that the contracting arrangement became untenable.¹⁴ The ANAO's review of these charges did not identify any evidence that payments were: not for the recovery of costs incurred; or unreasonable charges for services provided to Parakeelia.

In 2012–13 and 2013–14, Parakeelia made payments for office accommodation used by the Liberal Party for campaign purposes, which were reimbursed at cost by the Liberal Party.¹⁵ In February 2012, Parakeelia transferred an amount to the Liberal Party that was repaid the next month. Parakeelia advised that the transfer was for cash flow purposes.¹⁶

¹² No contracts were in place between Parakeelia and the parliamentarians, and there was no clear formula for determining amounts charged. However, similar amounts were generally charged to an individual parliamentarian each year.

¹³ A significant portion of the payments made by Liberal Party parliamentarians were refunded through the parliamentary entitlements processes. However, not all these costs have been refunded in this way, as not all the cost of the Feedback software have previously been claimable (as the software reimbursement limit was less than the cost of the software in many instances) and some parliamentarians have not claimed the cost of the software.

¹⁴ Parakeelia advised that the staff were employed by the Liberal Party as it had a mature human resource function and Parakeelia did not.

¹⁵ Parakeelia advised that it was better suited than the Liberal Party to enter into the lease as it was an incorporated entity and was not a political party.

¹⁶ Parakeelia's (unaudited) general ledger for 2015–16 included a loan from Parakeelia to the Liberal Party of \$200 000. Parakeelia advised that the loan was made for cash flow purposes and would be repaid by the Liberal Party in 2016–17.

I trust this information is of assistance. As this matter has been of interest to the wider community, I intend to place our correspondence on the ANAO's website in the next day or so.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G Hehir', with a long horizontal flourish extending to the right.

Grant Hehir
Auditor-General