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JOINT COMMITTEE ON WAR EXPENDITURE.

FIRST PROGRESS REPORT.

25th November, 1941.

JOINT COMMITTEE ON WAR EXPENDITURE.

(appointed 3rd July, 1941.)

Senator A.J. McLachlan, Chairman.

Senator T.G. Arthur x	A.O. Badman, Esq., M.P.
Senator W.P. Ashley +	A.J. Beck, Esq., M.C., M.P.
Senator R.E. Clothier +	W.P. Conelan, Esq., M.P. +
Senator R. Darcey x	W.A. Jolly, Esq., C.M.G., M.P.
Senator C.A. Lamp x	H.V. Johnson, Esq., M.P.
	G. Lawson, Esq., M.P. +
	W.V. McCall, Esq., M.P.
	C.A.A. Morgan, Esq., M.P. x
	D. Mulcahy, Esq., M.P.
	Hon. T. Paterson. M.P.

+ Discharged from attendance 12th November, 1941.

x Appointed 12th November, 1941.

FIRST PROGRESS REPORT.

1. The Joint Committee on War Expenditure, appointed on the 3rd July last, to examine current expenditure defrayed out of moneys voted by the Parliament for the Defence Services and other services directly connected with the war, and to report what, if any, economies consistent with the execution of the policy decided on by the Government may be effected therein, has the honour to submit to the Parliament a progress report as follows :-

GENERAL.

2. At its initial meetings, the Commonwealth gave careful consideration to its Terms of Reference and the scope of its inquiry. In view of the interpretation given by the Rt. Hon. the Prime Minister, on motion for the formation of the Committee, of the words "current expenditure defrayed out of moneys voted by the Parliament", it was considered that, while the obvious intention of the Government was that the Committee's inquiry should concern itself with moneys being expended during the current financial year, it was competent for the Committee to examine expenditure previously incurred, if such expenditure formed the basis of, or had a bearing on, current expenditure.

3. In order to avoid any duplication of work between this Committee and the Joint Committee on Profits, a conference between the respective Chairmen was held. With regard to expenditure on munitions and general supplies, it was agreed that a suitable line of demarcation should be that all questions relating to the terms of contracts for such supplies, the costs thereof, and the profits of contractors accruing therefrom, should be left to the consideration of this Committee.

4. Noting the extent of the commitments covered by war expenditure, and the variety of matters dealt with therein, the Committee made a preliminary survey of the field to be covered. Authorisations and actual expenditure under the War Programme were examined, and general lines of inquiry to be followed were planned.

5. A point to which the Committee gave special consideration was the protection of witnesses called before the Committee and of other persons who, by correspondence or other communication, tendered information. It was felt that an assurance of protection was essential to persons who might otherwise hesitate to come forward. After fortifying itself with an opinion from the Commonwealth Solicitor-General, the Committee satisfied itself that it has power to give sufficient protection in all cases.

6. In deciding the general lines of its policy, the Committee recorded the following Minute :-

"The Committee agreed it was essential that, to avoid interference with the war effort, the examination of Departmental Officers should be as brief as possible, and that a minimum number of special reports involving extra work should be called for. A letter to the Permanent Heads of all War Departments, setting out this view and inviting co-operation from themselves and other officers was approved for distribution."

It is recorded with pleasure that the War Departments responded readily to this appeal, and promised unstinted co-operation.

7. By public advertisement in leading metropolitan newspapers, the Committee further invited public bodies and members of the general public to bring to its notice instances where greater economy in expenditure could be achieved, or better use made of available resources. Recognising the unique opportunities afforded to Members of the Federal Parliament for gaining special knowledge of war activities, the Committee addressed a letter to Members of both Houses, inviting them to bring to the notice of the Committee matters which it was considered should be investigated. In response to this request and to the public advertisements, a considerable amount of data has been received.

8. Under the Committee's Terms of Reference, authority

is given to divide into Sub-Committees. This is obviously desirable when details of special aspects of war expenditure are under review, but during the early stages it was clear that no good purpose would be served by the immediate formation of Sub-Committees. Many matters of principle are common to a number of Departments; these may be termed arterial subjects. They include :-

- (1) Contract systems;
- (2) Lands acquisition;
- (3) Financing of and advances to Contractors;
- (4) Freight costs of equipment and stores;
- (5) Inspection services;
- (6) Salvage;
- (7) Transport services;

and it was felt that investigation of these matters should be made before inquiries of a detailed nature were commenced. The formation of Sub-Committees was therefore deferred, and inquiries into the above matters will proceed concurrently. In particular, the Committee, in its investigations of the important subject of contracts, under which heading a very large proportion of expenditure is incurred, will give special attention to systems of contract based on other than the usual competitive fixed price basis. In this connection the system known as "Cost Plus" is receiving intensive investigation, and a report on its operation will be presented as soon as the exhaustive inquiries can be completed.

Committee's Investigations.

9. In order to form a complete picture of the war effort and the financial commitments thereunder, the Committee first reviewed the Commonwealth war programme. It then examined the Secretary of the Treasury and the officer of that Department acting as Liaison with the Department of Defence Co-ordination; the Auditor-General; the Secretary and Assistant Secretaries and the Business Board of the Department of Defence Co-ordination the Permanent Heads of the Service Departments; the Secretaries of the Departments of the Interior and Supply and Development; the Director-General of Munitions, the Director of Finance,

Ministry of Munitions, and the Aircraft Production Commissioners. From this general survey, the Committee has obtained a knowledge of the machinery controlling the Commonwealth war programme and the system of financial control. Its comments thereon follow.

War Organisation.

10. It is obvious that the experience gained overseas by Commonwealth Ministers and officers has been fully availed of in the creation of the Australian war organisation. This has been of much advantage to the Commonwealth. Not only have the best of the British ideas been incorporated in the scheme, but where a defect or lack in the overseas organisation was noted, a link was provided in the Australian system. On broad general principles, the Committee finds that the system of Australian financial control of war organisation is well conceived, and provides machinery which should be adequate for keeping under review the various stages of war expenditure.

11. The Committee's inquiry, however, has disclosed certain aspects of war expenditure in respect of which improvement might be made.

Business Managers and Business Board.

12. The work of the Business Managers in the Service Departments and of the Central Business Board of Administration in the Department of Defence Co-ordination has done much to check extravagant expenditure. When a programme is expanded to an enormous extent, as in the case of the Commonwealth, it is unavoidable that some points requiring consideration will be overlooked in the originating Departments, which are necessarily concerned with implementing their policy at the earliest possible moment. The additional check imposed by the Business Board has proved its value in such matters, and the keen interest in their work of the business managers has been noted by the Committee.

13. But neither the Managers nor the Business Board to which they are co-opted have executive authority - they act only in an advisory capacity. While a recommendation by the Business Board for the review of a proposal placed before it may ensure a second consideration by the originating Department, there exists, of course, no power of veto. Insistence by the Department, backed by its technical experts, will ultimately force through its proposal, even in the face of opposition from the business viewpoint. The Committee considers that, with due regard to the needs of War Departments, the interests of the Commonwealth as a whole demand that greater power be given to the Business Board, to be exercised in a direct manner between the Board and the originating department, when a proposal placed before it cannot be supported on general business principles.

Lands Acquisition.

14. Where land is acquired for war purposes, the Committee was informed by the Chairman of the Business Board that it had no power to consider the suitability of the land for its particular purpose. The Board had been warned to "keep off the grass", the selection of sites being apparently a question which only the Departmental experts can settle.

15. There have, however, been instances where consideration from a wider viewpoint might have resulted in ultimate benefit to the Commonwealth. While the war need is paramount, other considerations cannot be entirely forgotten, nor can wastage of Commonwealth resources be regarded as other than detrimental. If an alternative site offers the same advantages for the Departmental purposes, with at the same time less detriment to the local community and some degree of economy, there appears no reason why the initial recommendation should be adhered to. Where land in the same locality offers a choice, between agricultural property of the highest quality and a lower grade, with no ascertainable difference from the Service viewpoint, the case for the intervention of authority to prevent misuse of

resources, both financial and agricultural, appears plain. Even Commonwealth property experts in the Department of the Interior, supported by readily available local knowledge, cannot, in such case, interfere to effect a desirable alteration; they are bound to the proposal put before them, merely to acquire the property as the agent of the Commonwealth. Similarly the Business Board, though in a position through its State Committees to view the proposal from a State-wide viewpoint as well as with local knowledge, cannot exercise direct authority. In this respect the Committee considers that the system should be strengthened to ensure the full use of expert knowledge available to the Commonwealth, in supplementation of the recommendations put forward by Service Departments from a purely technical outlook. No land should be acquired unless the advice of the Commonwealth property officer, or that of the State Business Committee, supports the selected site, after consideration of all the relevant factors and possible competitive sites. The Business Board should have the power to withhold its endorsement of a proposal until such advice is forthcoming.

TREASURY REPRESENTATION ON BUSINESS BOARD.

16. The Committee also noted that following the resignation of Sir Walter Massy-Greene, the Treasury now has no direct representation on the Board of Business Administration. As the viewpoint of the Treasury on war expenditure is most important, the appointment of another representative is a matter to which the Government should give urgent consideration.

AUDITOR-GENERAL'S STAFF.

17. The value of the work performed by the Commonwealth Auditor-General is widely recognised. Due, however, to difficulty in obtaining trained staff, and to the transfer of certain trained personnel to Service departments, the work of the Audit Office is at present handicapped in the supervision of a greatly extended programme of expenditure. The Committee recommends that special assistance should be afforded to the

Auditor-General, to enable him to maintain adequate control of the abnormal war-time expenditure.

18. At the same time, the Committee suggests that internal audit systems in Commonwealth departments should be overhauled, and reorganised where necessary to ensure their effectiveness, to the satisfaction of the Auditor-General. With an efficient system of internal audits, closely supervised by the Audit Office, it may be found practicable to relieve the latter of a large amount of detail checking work without loss of efficient control, permitting greater concentration on matters of higher audit policy. The Committee feels that a strong system of audit control within each War Department, approved by the Auditor-General and operating as part of a unified system under his supervision, would provide a most valuable check on expenditure.

VISITS OF INSPECTION BY COMMITTEE.

19. Having equipped itself with authorities to enable ready inspection of all sections of war activities, the Committee proposes to inform itself, by personal visits, of the manner in which Commonwealth funds are being expended. To this end, inspections have already been made of certain Army, Navy and Air Force establishments, of munitions factories, annexes, and stores, and a military hospital.

SPECIAL REPORTS TO THE PRIME MINISTER.

20. In accordance with its powers and obligations as defined in the Parliamentary records of 3rd July, 1941,* the Committee desires to advise the Parliament that it has addressed the Prime Minister on the subjects and dates set out hereunder.

- (1) Aircraft stations at Laverton and Point Cook, Victoria - 1st September, 1941;
- (2) Servicing of aircraft within Australia, and employment of skilled personnel enlisted in the R.A.A.F. - 11th November, 1941;

* page 158
votes and proceedings of the House.

(3) R.A.A.F. Stores system - 19th November, 1941.

TRADE ASSOCIATIONS.

21. The Committee also records the case of a complaint by a manufacturer of war equipment that the operations of a trade association prevented him from purchasing essential materials, required for "cost plus" contracts, at prices available to other buyers. The Committee, after consultation with the secretary of the trade association, obtained an assurance that the Association would, as a matter of policy, supply materials required for Government cost-plus war contracts at the most favorable rates available to its members.

ALLEGATION AGAINST MR. W.J. SMITH, DIRECTOR OF GUN AMMUNITION.

22. Following allegations made by Mr. S.M. Falstein, M.P., in the House of Representatives against Mr. W.J. Smith, Managing Director (on leave) of Australian Consolidated Industries Limited, and Director of Gun Ammunition, the Committee examined Messrs. Falstein and Smith. After hearing their evidence, the Committee recorded the following Minute :

"In view of Mr. Falstein's statements in evidence -

- (1) That he did not intend to infer that the cost of construction of Mr. Smith's horse-float had been charged to a Government Cost-plus contract; and
- (2) That he did not wish to attack Mr. Smith's integrity -

the Committee after hearing the evidence is satisfied that the horse-float constructed for Mr. Smith was not built at the expense of the Government, and considers no good purpose would be served by pursuing this point further. The remaining question of whether skilled labour was diverted from war work to private work remains to be investigated. The Prime Minister to be informed of this decision."

A dissent on the matter by a minority of members sets out the following view :

"In our opinion the question whether the cost of the horse-float constructed for Mr. W.J. Smith was charged to the Commonwealth is inextricably bound up in the inquiry into the cost-plus system in operation at the A.C.I. Company's works at Alexandria, Sydney; in view of the fact that it was admitted that a relatively large number of

skilled workers engaged on Defence work were utilised during ordinary working days and on the A.C.I. premises aforesaid to construct the horse-float. There also appeared some discrepancy between the amount charged for the horse-float and other work done by these men.

Consequently, we recommend an immediate investigation by a Government auditor into the Company's records relating to this aspect of the matter to be followed by a more general investigation into the other matters coming within the scope of the Committee's inquiries.

As it was, the evidence offered was inconclusive and would not at this juncture enable the Committee to arrive at a definite finding on the point involved."

(signed) H.V. Johnson.
T.C. Arthur.
D. Mulcahy.
C.A. Morgan.
R. Darcey.

COMMITTEE MEETINGS.

24. As all of its early evidence was taken from Heads of various Commonwealth activities closely concerned with the war effort, the Committee's meetings have been held almost wholly in camera. Only in one case out of 33 meetings has a public inquiry yet been held, but it is the Committee's desire to hold as many as possible of its future inquiries in public, whenever considerations of National Security do not forbid this course.

MEMBERS DISCHARGED.


25. The Committee desires to record its appreciation of the keen interest displayed and services rendered by Members now discharged from attendance, namely, Senators Ashley and Clothier, and Messrs. Conelan and Lawson.

RESERVATION BY MEMBER.

26. The following reservation to this Report is recorded
by Mr. C.A. Morgan, M.P.:-

"With reference to paragraphs 10 to 15 - not being
Member of this Committee when the relevant evidence
was given, I abstain from passing judgment at this
stage on the matters dealt with therein."

(signed)



Chairman.

House of Representatives Committee Room,
Parliament House,
CANBERRA.

25th November, 1941.