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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

TWENTY-FIRST REPORT.

AUSTRALIAN ALUMINIUM
PRODUCTION COMMISSION.

PART I.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

(Re-appointed 11th August, 1954)

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Senator C.B. Byrne (Vice-Chairman)

Senator S.D. Paltridge
Senator the Hon. H.S. Seward

G. Anderson, Esquire, M.P.
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A.S. Hulme, Esquire, M.P.
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A.V. Thompson, Esquire, M.P.

Peter H. Bailey,
Secretary,
Parliament House,
Canberra, A.C.T.

THE DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951 reads as follows :-

8. The duties of the Committee are -
- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1) of section fifty-three of the Audit Act 1901-1954;
 - (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
 - (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
 - (d) to inquire into any question in connection with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

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P R E F A C E

Because of the Parliamentary and public interest and anxiety created by statements relating to the Australian Aluminium Production Commission, the Committee has strained its resources to have its Report ready to present to the Parliament before the current sittings end. It has not been able to report upon all the questions it has investigated, and it is therefore submitting this Report as Part I. The Report covers a discussion of all the more important matters, and the conclusions of the Committee in regard to all the matters into which it has inquired.

Part II will be submitted later, and will contain the conclusions of the Committee in respect of matters that yet have to be committed to writing, together with the bulk of the Appendices, which again could not be prepared in time for inclusion in Part I.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

TWENTY-FIRST REPORT

AUSTRALIAN ALUMINIUM PRODUCTION COMMISSION

PART I

CHAPTER I. INTRODUCTION

The Inquiry by the Committee into the affairs of the Australian Aluminium Production Commission has been of an unusual and exacting nature. Not only has the Committee had to consider evidence of a kind that is not usually presented before it, but it has had to reconcile often violently conflicting statements by witnesses.

2. The Committee has held a large number of public and private meetings in connection with the Inquiry. The public meetings were held :-

In Canberra	7th to 9th December, 1954
In Melbourne	21st and 22nd February, 1955
In Launceston and Bell Bay	23rd to 25th February, 1955
In Canberra	15th to 17th March, 1955
In Canberra	13th to 15th April, 1955

The public meetings involved a total of 14 days' sittings and two night sittings, and over 1,350 pages of Minutes of Evidence were taken at the meetings.

3. The private meetings of the Committee to consider its Report have been even more numerous. Over the period of the Inquiry the Committee has already met in private session on more than 35 occasions, some of them being for whole days at a time.

4. In addition to receiving evidence from the 29 witnesses, whose names are set out in Appendix No. 1, the Committee received 36 Statements, some of them extremely

lengthy, from persons affected by the Inquiry, and 137
Statements from the Australian Aluminium Production Commission.
Details of all these Statements are set out in Appendices Nos.
1 and 2.

CHAPTER II

THE COMMITTEE'S DECISION TO INVESTIGATE THE
ACCOUNTS OF THE AUSTRALIAN ALUMINIUM
PRODUCTION COMMISSION

5. When arranging its programme for 1954, the Committee of 1952-54 decided to investigate, amongst other things, the affairs of the Australian Aluminium Production Commission. The Committee's activities were interrupted by the Royal Visit and most of its programme remained unfinished when the term of office of its Members expired with the dissolution of the House of Representatives in April, 1954.

6. The new Committee, elected in August, 1954, adopted the programme of the old Committee, and on the 27th August, 1954, wrote to the Minister for Supply that it would be investigating the accounts of the Australian Aluminium Production Commission. On further consideration of its time-table, the Committee decided to defer its investigation to permit the Commission to complete the construction of the plant and to commence production (scheduled for January, 1955) free from the distractions inevitably associated with a public inquiry.

7. Shortly after this, on 28th October, 1954, the following question was addressed to and answered by the Chairman of the Committee in the House* :-

"MR. BARNARD : I wish to ask a question of the honorable member for Warringah as the Chairman of the Public Accounts Committee. Has the Government yet referred the question of the £1,200,000 of unallocated expenditure in the accounts of the Australian Aluminium Production Commission at Bell Bay in Tasmania to the Public Accounts Committee for investigation? If so, will the Committee give the matter urgent consideration? In any case, when will it commence its investigations and when may honorable members expect it to present its report?"

MR. BLAND : The Committee has received a letter from the Minister for Supply, but it must take its directions from the House, not from the Government. The letter from the Minister for Supply asked the Committee to go into the matter mentioned by the honorable member as soon as possible. The Committee had already taken

* Hansard dated 28th October, 1954, pages 2407-2408.

steps to make preliminary investigations, and those steps are proceeding. It will undertake the investigations as soon as it is free from its existing commitments, which will not be until the beginning of next year".

8. On 3rd November, 1954, the Committee further considered its programme. It decided that an investigation into the Commission's accounts should be given precedence over its current activities, considering that the public interest would best be served if an endeavour were made to commence its investigations immediately. Inquiries elicited the fact that preliminary material could be made available in time to permit the first public hearings to be held on 7th to 9th December, 1954.

9. On the same date, 3rd November, 1954, the Minister for Supply made a statement relating to the affairs of the Australian Aluminium Production Commission, in the course of which he said* :-

"... the question of the Commission's financial administration will also shortly be examined by the Public Accounts Committee, as a result of which an impartial report will be tabled in this House".

10. The requirements of the Committee in respect of this Inquiry were then discussed with the Commission and its officers. An indication was given of the kind of material the Committee would need, and statements on a number of matters were obtained from the Commission and other authorities in time to permit the holding of the first public meetings on the dates appointed.

11. Arising from the submissions made to it and the evidence taken at these meetings, the Committee had to obtain further detailed information which necessitated much research and a close examination of the records and Minutes of the Commission. It became obvious to the Committee that it could not resume the Inquiry before February, 1955, at the earliest. This decision met the convenience of the Commission which, as already mentioned, was planning to commence production of

* Press Statement dated 3rd November, 1954.

alumina on 1st January, 1955. The Committee held further public meetings in February, March and April, 1955.

12. The Committee believes that the duties with which it has been entrusted by the Parliament can best be discharged if there is a clear understanding of them and, at the same time, an appreciation of the techniques it has evolved for making an examination of any matter within its authority. It is the Committee's view that :-

- (a) It is for the Committee to decide whether or not it will undertake an inquiry, unless either House of the Parliament refers a matter to it as provided for by section 8(d) of the Public Accounts Committee Act 1951. If a Minister should wish the Committee to examine any matter associated with his Department, the appropriate course is for him to seek a reference of the matter to the Committee by either House of the Parliament in accordance with section 8(d).
- (b) To ensure that its inquiries are comprehensive and effective, the Committee has found it desirable to resort to written requisitions and written replies, which ensure precision of statement and make it easy to appreciate the further material needed. The technique may entail an initial delay, but it does mean that once the inquiry is launched it can proceed without being handicapped by the absence of essential information.

CHAPTER III

THE AUSTRALIAN ALUMINIUM PRODUCTION COMMISSION:
A STATUTORY CORPORATION*

(a) The Statutory Corporation

13. The Committee has touched upon the particular problems presented by the Statutory Corporation in its Reports upon the Joint Coal Board - Plant and Equipment (11th Report), the Postmaster-General's Department (12th Report) and upon the Repatriation Department (15th Report). In those Reports it did not consider the problems of the Statutory Corporation in any detail, for they were incidental to the main lines of its inquiry. On this occasion, its investigation into the accounts of the Australian Aluminium Production Commission has called for a closer examination of the nature and character of the Statutory Corporation.

14. To inform its mind upon the legal, political, and administrative consequences flowing from the creation of a Statutory Corporation, the Committee obtained the advice of the Solicitor-General (Professor K.H. Bailey, C.B.E.), and has consulted many texts written by students of the Statutory Corporation.

15. The views of the Solicitor-General concerning the respective powers, duties, and responsibilities of the Parliament, the Minister, the Auditor-General and the Treasury vis - a - vis the Australian Aluminium Production Commission are stated at length in later sections of this Report.

16. The Statutory Corporation has been defined as a

* There is no settled nomenclature describing the Statutory Corporation, although that name is now in general use. Amongst the more usual synonyms for "the Statutory Corporation" are "Public" corporations, "Government Proprietary" corporations, "Public Utility" corporations, "Government Undertakings", "Government Business Undertakings". Throughout this Report all those names have been used from time to time by different persons, and all mean what the Committee calls the "Statutory Corporation".

"financially autonomous non profit-making body created by an Act of State to provide a monopoly of goods or services on a commercial basis, ultimately responsible through a Minister to the Parliament and the public, but free from full and continuous Ministerial control".* Many of the Australian Statutory Corporations would not conform to all the features in this definition, the most important lack of conformity being in the field of financial autonomy.

17. In the following paragraphs, the Committee deals with the more general considerations associated with the creation of Statutory Corporations.

18. There is wide agreement amongst authorities in this field that the Statutory Corporation is the most suitable device for ensuring the public management of economic enterprises, where there is need for flexibility in administration, and for independence from close political control. These attributes, essential for successful business operation, are seldom present in ordinary Government Departments.

19. The Statutory Corporation has had a long history in Australia: Australia is usually credited with creating this form of administrative organisation with the founding of the State Savings Bank of Victoria in 1841. Since then, the Statutory Corporation has been used for the management of transport in all its forms, for communications such as broadcasting, for generating and reticulating electric light and power, for water conservation, irrigation, afforestation, mining, and the manufacture of many types of material.

20. An examination of the reasons for creating Statutory Corporations leads to a further understanding of their nature and character. In "Government and Parliament", the Rt. Hon. Herbert Morrison, M.P. says[†]: "If we establish the

* Sir Arthur Street, Deputy Chairman, National Coal Board of the United Kingdom.

† Government and Parliament, the Rt. Hon. Herbert Morrison, M.P., London, Oxford University Press, 1954, pages 282-283.

Statutory Corporation, it must be for two reasons. What are they? They are that we seek to combine the principle of public ownership, of a broad but not too detailed public accountability, of a consciousness on the part of the undertaking that it is working for the nation and not for sectional interests, with the liveliness, initiative, and a considerable degree of the freedom of a quick-moving and progressive business enterprise. Either that is the case for the Statutory Corporation or there is no case at all". Mr. Morrison emphasises that it inevitably follows that we must accept special limitations upon Parliamentary accountability. The Government has no right, he says, to ask leaders of industry to accept the responsibility for managing these corporations unless it is prepared to give them "a reasonable and frankly recognised sphere of managerial freedom. Otherwise we should run the grave risk of irresponsibility - nobody being responsible for anything".

21. Mr. Morrison would go much further than we have in Australia in accepting the consequences of the policy of establishing such Corporations. He would limit to general policy the responsibility of the Minister to answer questions, and would rule out any that touch on day-to-day administration. He would give the Corporations much greater financial autonomy than is customary in Australia, including a power to raise money for capital and working expenses and to let contracts. He would, as we usually do, take their staffs outside the field of control by Public Service Boards; and he would ensure Parliamentary control by building up a close informal relationship between Minister and Corporation apart from more formal official contacts, and by requiring each Corporation to submit annual reports.

22. Because there has been a large expansion in the field of activities undertaken by the Statutory Corporation, much discussion is proceeding in English-speaking countries

regarding their creation and control.* In England, a Select Committee on Nationalised Industries was appointed during 1953-54, and a proposal has been made that a Standing Committee on Corporations be established on lines and with duties similar to the Public Accounts Committee.+ Present in all the discussions has been an anxiety lest close control by the Parliament should transform the Statutory Corporation into a conventional Government Department, and also, lest restriction upon Parliamentary control through questions should turn the Corporations into self-governing undertakings not accountable to anyone.

23. The form of the Corporation is as varied as are its activities. The form is usually that of a Board or Commission of one or more members, who may be appointed or elected, expert or lay and representative of varying interests, who have fixed or indefinite terms of office and who may or may not have restrictions imposed upon the private activities that they are permitted to undertake. One outstanding feature of the Acts constituting the Australian Aluminium Production Commission is the economy of words with which they are drafted, an economy that resulted in a failure to prescribe the powers, duties and organisation usually set out in some detail in statutes creating such Corporations. Thus the Commission originally consisted of a part-time Chairman and representative Members (with deputies). The purpose of the Commission, as defined in the 1944 Act, was simply "with all possible expedition to do all such acts and things as are necessary for the production" in Tasmania of ingot aluminium under the terms of an Agreement between the

* On these matters, see J.H. Thurston: Government Proprietary Corporations, Cambridge, Mass., Harvard University Press, 1937; Sir Arthur Street: The Public Corporation in British Experience, Westminster, Institute of Public Administration, 1947; W.A. Robson: Public Enterprise, London, 1937; F.A. Bland: Planning the Modern State, Sydney, 1937; R. Else Mitchell: Australian Aspects of Government Corporations, Canadian Bar Review, Ottawa, November, 1946, pages 793-806.

+ The Committee understands that a Resolution has recently been passed in the House of Commons to provide for the appointment of such a Committee.

Commonwealth and the State of Tasmania. There was no provision to prohibit Members of the Commission from having business dealings with the Commission. In the absence of specific directions in the Acts, executive control was assumed by the Chairman with the assistance of a Secretary. Almost no detailed provisions concerning the staff, the power and the functioning of the Commission were included in the Acts.

(b) The Constitutive Acts

24. The texts of the Aluminium Industry Acts 1944, 1952 and 1954 are set out in Appendix No. 3; for the purposes of the Committee, the more important provisions of the Acts are as follows :-

- (i) The establishment of the Commission was arranged in two Agreements between the Commonwealth and the State of Tasmania - the Acts give effect to the Agreements and authorise the necessary ancillary measures.
- (ii) The Commission is a body corporate, whose Members are appointed by the Governor-General; four of them "represent" the Commonwealth, and one (nominated by the State) "represents" the State.
- (iii) Section 7 of the 1944 Act, as amended by section 6 of the 1952 Act, states as follows the general duties, powers and functions of the Commission -
 - "7. Subject to the provisions of this Act and of the Agreement, as amended by the Supplementary Agreement, it shall be the duty of the Commission, with all possible expedition, in order to promote the naval, military and air defence of the Commonwealth and its territories, to do all such acts and things as are necessary

for the production of aluminium in primary form, including aluminium in the form of ingots, rolling and extrusion billets and wire bar, and for that purpose it shall have and may exercise the powers and functions, and shall perform the duties and obligations, of the Commission set out in the Agreement, as amended by the Supplementary Agreement".

- (iv) From 1944 to 1953 the Commission consisted of four Members each having a Deputy Member, and from 1953 to date, of five Members.
- (v) The Commonwealth and Tasmanian Acts of 1944 provide that each Government shall contribute £1,500,000 for the purposes of the Commission. Thereafter, the Commonwealth appropriated further sums for the purposes of the Commission: in 1952, \$4,250,000 and in 1954 a further £2,102,600 which, with £1,147,400 appropriated by the Supplementary Appropriation (Works and Services) Act 1951-52, has made a total of £10,500,000 available for the purposes of the Commission.
- (vi) The staff of the Commission are not subject to the Public Service Act.
- (vii) The Aluminium Production Trust Account was opened in 1944. In 1952, the Australian Aluminium Production Commission was required to open and maintain a bank account with the Commonwealth Bank of Australia or such other bank or banks as the Treasurer approves (1952 Act, section 13).
- (viii) Both the 1944 Act and the 1952 Act provide that the books and accounts of the Commission shall be subject to inspection and audit by the Auditor-General of the Commonwealth.
- (ix) The 1952 Act also provides that the accounts of the

Commission shall be kept in a form approved by the Commonwealth Treasurer (by section 14A).

- (x) The Commission is to keep the Minister continually informed of its operations and to submit to him an annual report by 30th September of each year.
- (xi) No single project (1944 Act) or contract (1952 Act) for more than £50,000 is to be entered into without the prior approval of the Commonwealth Minister.
- (xii) The prior consent of the Commonwealth Government is to be obtained in respect of matters affecting defence.
- (xiii) A sale or disposal of the undertaking of the Commission shall not be effected without the approval of the Commonwealth Parliament.
- (xiv) The 1944 Act lays down that all meetings of the Commission shall, so far as practicable, be held in Tasmania (section 6); the 1952 Act amends that provision and directs that the Commission shall meet at such times and places as are directed by the Chairman, or Vice-Chairman with the approval of two other Members.

(c) Membership and Meetings of the Commission

25. The Commission was formally constituted on 1st May, 1945, as follows :-

	<u>Member</u>	<u>Deputy Member</u>
<u>Commonwealth:</u>		
Chairman	G. H. Watson, Engineer.	A. A. Topp, Director of Explosives, Department of Munitions.

	<u>Member</u>	<u>Deputy Member</u>
Member	W.D. Scott Management Consultant.	G.P.N. Watt, Assistant Secretary, Common- wealth Department of the Treasury.

Tasmania:

Vice-Chairman	L.R. Benjamin, General Superintendent, Australian Newsprint Mills Ltd.	H.B. Bennett, formerly Director of Indus- trial Development, State of Tasmania.
Member	W.H. Williams	E. Parkes, Secretary, Premier's Department, Tasmania.

26. Mr. Watt resigned on 31st October, 1946, and Mr. P. W. Nette, First Assistant Secretary, Commonwealth Department of the Treasury, was appointed in his place. Mr. A.A. Topp died on 29th May, 1952, and Mr. J.E.S. Stevens, Secretary, Department of Supply, took his place in July, 1952. Mr. Nette returned in June, 1952, and Mr. D.J. Hibberd, First Assistant Secretary, Commonwealth Department of the Treasury, became "an informal Deputy Member" as from 1st September, 1952, and a full Member as from 17th April, 1953.

27. Mr. Parkes died on 24th March, 1953, and was not replaced.

28. On 17th April, 1953, the Commission was reconstituted in accordance with the 1952 Act^{*} and its Members were :-

<u>Commonwealth:</u>	Chairman	N.K.S. Brodribb
	Vice-Chairman	L.R. Benjamin
	Members	D.J. Hibberd M.A. Mawby
<u>Tasmania:</u>	Member	H.B. Bennett

29. There has been no further change in the membership of the Commission to the date of this Report.

* The annual fees paid to the Members of the Commission are: Chairman, £1,000; Vice-Chairman, £500; Members, £400 (between 1946 and 1947 the Chairman received £600; Deputy Members received £200). The fee of the Treasury official is credited annually to Consolidated Revenue Fund. In addition, a daily travelling allowance, as approved by the Minister, is paid to Members attending meetings of the Commission.

30. Meetings of the Commission have been held as follows :-

	Sydney	Melbourne	Launceston	Bell Bay	Hobart	Total
To 30th June, 1946 (a)	2	3	-	-	2	7
1946-47	1	2	-	-	1	4
1947-48	2	-	-	-	1	3
1948-49	1	1	1	-	-	3
1949-50	1	5	2	- (c)	-	8
1950-51	1	5	2	1	-	9
1951-52	2	6	1	- (c)	-	9
1952-53	2	3	1	1 (c)	-	7
1952-53 (b)	-	2	-	1	-	3
1953-54	-	10	-	3	-	13
6 Months to 31st Dec., 1954	-	4	-	3	-	7
T o t a l	12	41	7	9	4	73

(a) The meetings of the old Commission.

(b) The meetings of the Commission, as reconstituted in April, 1953.

(c) During a meeting at Launceston, Bell Bay was inspected.

31. As can be seen from the above table, the old Commission met seven times at Launceston (on three occasions it visited the Bell Bay works site) and twice at Bell Bay. The Committee considers that it did not inspect regularly or with sufficient frequency, the works site and progress made. But the Committee notes that personal visits were made from time to time, chiefly by the Tasmanian representatives, and that

Mr. Watson commented :-

".... it can be truthfully stated that the Commission met sufficiently often to keep Members fully advised of developments. In later stages, when construction work was progressing and orders for equipment could be placed, an endeavour was made to hold meetings at approximately monthly intervals, but this was often difficult as all Members were not only part-time but were also located in different States, and could not always arrange to be free from their main activities".

32. The reconstituted Commission meets every four weeks, one out of every three meetings being held at Bell Bay.

(d) The Relationship between the Minister
and the Commission

33. The Solicitor-General was asked to advise the Committee on the responsibilities of the Minister in relation to the Commission and the pertinent section of his written Opinion is as follows* :-

"The relevant provisions of the Act are relatively few and specific. But the mutual relations of the Minister and the Commission cannot be ascertained from the terms of the law alone. Resort must also be had to the pattern or system of constitutional conventions, understandings or practices within which the statutory provisions are intended to operate. The constitutional conventions in this field, however, are by no means clearly established, and leave room for much diversity of opinion.

.

Though the 1952 Act greatly enlarged the representation of the Commonwealth on the Commission, and the Commonwealth's financial stake in its operations, and gave to the Treasurer the specific powers set out (vide Report, paragraph 24), the legal powers and responsibilities of the Minister for Supply have not been substantially changed since 1944.

These legal arrangements may be summed up as follows :-

- (i) the Commission is not an ordinary Department of State, and the ordinary day-to-day administration of its business undertaking is vested in it, though there are some few important business steps which it may not take without the approval either of the Minister or of the Treasurer;
- (ii) on the other hand, the Minister is entitled to receive, from the Auditor-General and from the Commission itself, much information about the affairs of the Commission, and (apart altogether from the specific cases where the Commission cannot act without his approval) the Commission is subject generally to any directions he may give on behalf of the Commonwealth and the State;
- (iii) in addition, four out of the five members of the Commission are appointed not as so many individuals chosen to conduct a business enterprise but as "representatives of the Commonwealth", and as such are undoubtedly subject to instruction from the Minister on behalf of the Government.

In the result, it is I think clear, if one looks at the legal position alone, that the Minister is in a position to make himself just as fully responsible for

* Opinion of the Solicitor-General dated 30th November, 1954, attached in Appendix No. 4.

the operation of the Commission, if he so wished, as he is for the affairs of his Department. But the question is whether, as so often in our constitutional system, the Minister's legal powers are intended to be exercised in full, or whether the Minister should in practice be guided by special conventions or understandings, and if so what they are. In my opinion, constitutional practice does not require the Minister to assume, and would not justify him in assuming, the same degree of detailed responsibility for the Commission as he does and should for his Department. The sections and clauses reserving specific matters for Ministerial approval or direction seem to me radically inconsistent with any assumption that detailed Ministerial control will be the rule.

The Commission belongs, clearly enough, to the now familiar category of the "public corporation", created to conduct a business undertaking which none but Governments could establish. The participation in the scheme of the State of Tasmania (more prominent under the 1944 Act than since the 1952 amendment) gives the Commission a special character as a joint Commonwealth-and-State enterprise, but does not in my opinion destroy the relevance of the growing body of accepted principles which may fairly be regarded as now applicable to public corporations in general.

Each statutory corporation must be considered in relation to its own individual Act. Where the Act expressly requires Ministerial approval, the Minister must of course be responsible either for giving or withholding his approval to what the Commission proposes. As to the role of the Minister in matters not expressly reserved, however, differing views have been expressed by writers of standard works on the subject. Nevertheless, I think constitutional practice may with fair confidence be summed up in the following propositions :

- (i) that the establishment by Parliament of a public corporation rather than a Department of State as the chosen instrument for the conduct of a business undertaking implies an intention that the corporation should enjoy a substantial measure of freedom from political direction and control;
- (ii) that Ministerial control over the public corporation should be restricted to matters of general policy and principle, and should not extend to the details of management;
- (iii) that in order to promote business efficiency and flexibility it is necessary to accept some derogation from the complete measure of Ministerial accountability to Parliament which is insisted on, in the constitutional systems of the British Commonwealth, in relation to the Departments of State.*

* On these matters see Government and Parliament, op cit., pages 255-285, esp. 264-5, 282-3; The Public Corporation, edited by W. Friedmann, Stevens, 1954, pages 576-593; State Socialism in Victoria, by Sir Frederick Eggleston, P.S. King & Son, London, 1952, pages 41-56; Ministerial Control and Parliamentary Responsibility of Nationalised Industries, by Ernest Davies, M.P., (1950) 21 Political Quarterly, 150.

34. The more important points that emerge from the foregoing Opinion of the Solicitor-General include :-

- (i) Whether Ministerial control over a Statutory Corporation should be in general terms,
- (ii) Whether day-to-day management should be within the Minister's direct control,
- (iii) Whether the specific reservation in the 1944 and 1952 Aluminium Industry Acts of some matters for the decision of the Minister or the Treasurer could result in either intruding into the details of management.

35. Although the Minister is not concerned in the normal course of events with the details of management, it is in part his duty to keep in touch with the running of the Corporation, and if he learns of actions or defaults that may affect his accountability to the Parliament, he should then take whatever action seems appropriate, and is within his powers.

36. How far the Minister should develop informal relationships with the Commission, or alternatively, should remain aloof altogether, will depend upon circumstances. It is conceivable that situations could arise in both cases that might be embarrassing to all concerned. These matters have not hitherto been considered in Australia, where practices are less clearly defined than in England.

37. The Solicitor-General drew the attention of the Committee to the following passage in 'Government and Parliament' by the Rt. Hon. Herbert Morrison, M.P.,* which reviews English methods and attitudes concerning Ministers and Boards :-

"Clearly it is desirable that the Minister should keep himself familiar with the general work of the Board or Boards with which he is concerned. It is wise for him with his Parliamentary Secretary and principal officers concerned from time to time to meet the Chairman and, indeed, the members of the Board, to discuss matters of mutual interest either formally or informally. On

* Op cit., pages 264-65.

such occasions both the Board and the Minister will be conscious of their legal rights; the legal right of the Minister to give general directions or to withhold approvals, and the legal rights of the Board within the field of day-to-day management; but it is also desirable that such discussion should be free, frank, forthcoming and co-operative. It is well that the Minister should have a sympathetic understanding of the difficulties and problems of the Board and should not wish needlessly to harass or humiliate them, otherwise he might unduly damage the Board's sense of responsibility to the nation which is an obligation upon them and a public asset. Similarly, the Board has to understand that the Minister may have to answer criticisms in Parliament and that he is not bound to defend the Board unless he understands its position and thinks that it is right. Therefore, these informal discussions between the Minister and the Chairman frequently take place and in themselves are good. It is very necessary, however, that the Minister should not be drawn into acquiescence in policies which he would find difficult to defend in public and that a Board should not take a course which it believes to be wrong and against the interests of the undertaking or the public merely because the Minister asks it to oblige him. The Board has a perfect right to say to the Minister, 'Give us a general direction in writing which will be published and we will obey, but otherwise we are sorry that we cannot act as you would wish'. What is wanted is friendly co-operation without prejudice to the rights and responsibilities of either the Minister or the Board.

It may be that in the opinion of the Board the Government is restricting them unduly on matters of development and capital expenditure, or that controlled materials of some sort are not being made available to them by the Government. The Minister should never resent them putting their case to him with frankness and vigour, and if he is convinced they are right he should urge their case to the appropriate authorities. If the public corporation is being criticized because it cannot do things, and Government policy is the cause, it might even be right for it to give a frank explanation to the public without becoming involved in vicious controversy with the Government of the day. On the other hand, the Minister, who has to answer for the general work of the Boards in Parliament, must (without taking over the essential duties of management) have the right to question Boards on aspects of policy or management about which he is apprehensive and to urge appropriate action. These matters involve subtle relationships, for whilst the rights and responsibilities of the Boards have to be respected, their Chairmen must not become arbitrary Emperors of Industry. These vast public undertakings must not become economic empires resenting ministerial criticism or inspiration any more than the Minister should take a line that the Boards have no right to question such aspects of Government policy as affect them, or publicly to explain that some of their difficulties are the consequence of Government restrictions. After all, these are rights which should and do exist in the private sector of industry".

(e) The Responsibilities of the Commission and its Members to the Minister

38. In the Opinion referred to in the previous section, the Solicitor-General dealt with the responsibility of Members of the Australian Aluminium Production Commission to the Minister as follows :-

"In relation to the position of members (past and present) of the Commission, I am not altogether confident of having directed my mind to the points contemplated by the Committee. The Aluminium Industry Act does not deal specifically with this matter, but by inference some hints may perhaps be gathered. The Committee will be able to elucidate by oral questions any further points on which advice is desired.

The Act and the Agreement, as stated (vide Report, paragraph 24), designate the members of the Commission as "representatives" of the Commonwealth or the State, as the case may be. The choice of this word is I think significant. A representative, in ordinary usage, is something more than a mere servant or agent. The Agreement does indeed expressly contemplate that the views of the Commonwealth will be made known to the Commission, on certain major points such as matters affecting defence and external affairs, through its "representatives". But the specific mention of this matter seems to me to suggest that in ordinary day to day administration the members of the Commission will not be subjected to Government control. The relation to the Minister, therefore, of the individual members of the Commission seems to me to be affected by very much the same constitutional understandings as apply to the Commission itself.

If a member of the Commission were to disregard the views or instructions of the Government which he represents, his appointment would no doubt be terminated. The terms and conditions of appointment are fixed by the Governor-General. I understand that members are not in practice appointed for specified periods. They must therefore, I think, be regarded as holding office during the Governor-General's pleasure.

So far as concerns the accountability in the ordinary Courts of members of a public corporation such as the Commission, the established rules are that -

- (a) a member of the Commission is not personally liable for any act of the Commission or for any act done by him as a member of the Commission;
- (b) a member who actively participates in an act which is beyond the powers of the Commission to perform is, to the extent of his participation, liable personally for the consequences.

The question might arise whether the Commonwealth has any administrative remedies against individual members of the Commission. But advice on such a matter seems scarcely required for present purposes".

39. The Committee draws attention to the Solicitor-General's view that a Member of the Commission, as such, is not liable personally in the ordinary Courts of law for any act of the Commission and that, in day to day affairs of the Commission, he will not be subjected to Government control.

40. So far as the Commonwealth Members are concerned, the Solicitor-General regarded them as representatives of the Commonwealth appointed by the Governor-General, and not as representatives of the Minister. Nevertheless, the Minister will normally be the channel through which Commonwealth policy will be conveyed to the Commission and through which decisions by the Commonwealth Government will be sought.

41. The Committee notes that the Aluminium Industry Acts impose upon the Commission as a whole a clear duty to report to the Minister. Section 140 of the Aluminium Industry Act reads in part: "The Commission shall keep the Minister continually informed of its operations"; in addition to that, it is to submit to him each year an Annual Report.

42. The Committee inquired from the present Chairman of the Commission whether "the records show how frequently the Minister was informed of the operations of the Commission in the years 1950, 1951, and 1952". It has received from him a statement the particulars of which are, he says, "derived from the Commission's records, and information supplied by the Minister".

43. The present Minister for Supply took office in March, 1950, and shortly after his appointment the then Chairman and Secretary of the Commission called upon him and gave him a progress report on the activities of the Commission. Apart from Annual Reports, which the Minister must present to the Parliament, and two progress reports written on 25th May and 4th July, 1950, no written reports were sent to the Minister. From time to time, however, the Chairman called to report on or discuss matters with the Minister.

44. Other contacts with the Minister arose from the operation of section 4 of the Aluminium Industry Act, which prevents the Commission from proceeding with any single project (1944 Act) or contract (1952 Act) without the prior approval of the Minister. During 1950, eleven contracts or projects, involving a cost of more than £50,000, were submitted to the Minister and approved: in 1951 there were three, and in 1952 a further three such projects or contracts. Many of these proposals required consultation and additional explanation as a condition of approval.

45. The Minister was also kept informed of the activities of the Commission when, to advance the interests of the Commission, he intervened with other Governments or with Government Departments. Amongst such interventions were efforts to obtain sterling or dollar import licenses for materials required by the Commission or the Tasmanian Government, support at the Loan Council of applications by Tasmanian Statutory Corporations to borrow additional sums for such projects as the establishment of a hydro-electricity station at Trevallyn, housing for George Town and water supply for Bell Bay.

46. At no time during 1950 or 1951 was any report made to the Minister suggesting that the Commission's accounts were unsatisfactory. The Auditor-General wrote a letter to the Secretary of the Commission on 27th July, 1951, advising him of weaknesses in the accounting arrangements and practices at Bell Bay that had been revealed during the visit of the Chief Auditor for Tasmania in June, 1951. Neither the Commission nor the Auditor-General brought the matters raised to the notice of the Minister. The Minister received no communication from the Auditor-General regarding the accounting or other aspects of the Commission until he received the letter of 3rd December, 1954, quoted below in paragraph 78.

47. Towards the end of September, 1951, the Commission

approached the Minister for additional funds, and this was the occasion for many conferences before the amount of £4,250,000 was approved. Cabinet approval to the application was given on 15th January, 1952 (see paragraphs 231-233). At these conferences, the Minister learned of the shortage in accounting staff, and was told by the Secretary that there were accounting delays which were now being overcome.

48. During late 1951 and early 1952 the Minister also learned of the proposal to undertake the Wessel Islands survey, but as it was understood that the cost would be less than £50,000, no approval by the Minister was needed (see paragraph 169). While the Minister knew in general terms of the proposal to purchase a vessel, at the time of the contract with Australasian Civil Engineering Pty. Ltd. he did not know of the connection of Mr. Watson with Australasian Civil Engineering Pty. Ltd. (see paragraphs 190-191).

49. When the Auditor-General's Report for 1950-51 was tabled on 21st May, 1952 (quoted in paragraph 77 below), the Minister inquired from the Secretary, and was again advised of the arrears of work and shortage of staff and was again assured that work on the preparation of the Balance-sheet was proceeding, and that there would be no difficulty in obtaining the Auditor-General's certificate.

50. When Mr. Topp died on 29th May, 1952, the Minister decided to appoint Mr. J.E.S. Stevens, Secretary of the Department of Supply, as Deputy Member with instructions to go into the accounting affairs of the Commission and to report back to him as soon as possible.

51. The Supplementary Report of the Auditor-General for 1951-52 was tabled on 4th November, 1952, and in it the Auditor-General indicated that he had refused his certificate to the Balance-sheet of the Commission for the year 1950-51. At about the same time the Minister obtained a report from Mr. Stevens which stated that the accounting, costing, and stores controls were in great confusion.

52. In November, 1952, the Minister saw Mr. Watson, the then Chairman, who admitted the weaknesses in the accounting system, refused to accept responsibility for all accounting details, urged that he was entitled to rely upon the presence on the Commission of a cost accountant and an experienced Treasury official, and finally pleaded illness in hospital for some time. The Minister told the Chairman that he intended to reconstitute the Commission and Mr. Watson expressed a willingness to retire, but agreed to stay on until the reconstitution was effected. The Commission was reconstituted in April, 1953.

53. The records show that from the end of 1952 the Commission has been in constant contact with the Minister. He was kept in close touch with the affairs of the Commission and on many occasions issued directives regarding them.

54. The Committee concludes that up to the time when the Commission was reconstituted in April, 1953, the Minister was not always kept "continually informed" of the affairs of the Commission, particularly on some matters of high importance. While the omission to keep him fully informed about a matter such as the Wessel Islands Survey can be understood, the failure to inform him of the gravity of the position which led to the deteriorating condition of the Commission's accounting arrangements during 1951 and most of 1952 can be neither understood nor condoned. The Committee considers that a breach of the constitutional conventions was certainly committed in a number of cases, and that in regard to the accounts, the failure to report was probably also a violation of the statutory duty on the Commission to keep the Minister continually informed. On the other hand, the Minister showed a greater understanding of the seriousness of the action of the Auditor-General in withholding his certificate than did the Commission itself: witness his appointment of Mr. J.E.S. Stevens to watch the accounting affairs of the Commission on his behalf and to report direct to him.

(r) The Position of a Treasury Official
as a Member of the Commission

55. A Treasury official was a Deputy Member, and from 17th April, 1953, the date when the Commission was reconstituted, a Member of the Commission, and this factor gave rise to questions whether or not he would have any special responsibilities for the financial and accounting arrangements of the Commission. The Committee noted that other Members of the Commission had special qualifications in respect of finance and accounting: for example a management consultant. At the inaugural meeting of the Commission in Hobart in mid-1945, the Minister for Munitions stated for the guidance of the Commission that :-

"The selection of membership has been influenced largely by a care that each member shall possess qualifications and resources which can be employed in achieving the purposes of the Commission".

He expressed the wish that :-

"The members no doubt will agree among themselves as to how qualifications and resources will be best employed".

56. His comments applied with equal force to Deputy Members and to Members.

57. Mr. Watson stated that when questions of finance arose most of the Commission looked towards the "Treasury representatives" for assistance and :-

"I think it appropriate to point out that in view of the Minister's emphasis on the special qualifications of Members and Deputy Members, accounting problems were more the function of those Commissioners at that time appointed for their expert knowledge and experience in commercial and Treasury accounting, rather than my own".

Other representatives on the Commission shared his view.

58. Their view was contested by both Mr. Nette and the Treasury, who pointed out that because of the position of a Treasury official, he would have a knowledge of Commonwealth financial policy and of finance. Yet his status, functions and responsibilities were no different from those of other Deputy Members and Members. The Solicitor-General supported

these views. In his Opinion, it would not be correct to say that an individual Member of a Statutory Corporation is in any sense, legally or constitutionally, accountable to an outside body. He is a representative of the Commonwealth. He went on to say :-

"... If difficulty arises in the operations of a Commission because the Commission's instructions or directions from the Minister administering the Act are embarrassing or unacceptable from the Treasury's point of view, the only way of resolving that difficulty, it seems to me, is the constitutional way of raising it through the Treasurer to Cabinet level or Cabinet Committee level as the case may be, in which case the instructions of the Minister will be either confirmed as instructions from the Commonwealth or modified. If I may say so respectfully, I do not think that there is warrant for regarding any member of the Commission as a representative of a Department or of anybody but the Commonwealth. This, too, it seems to me, is a sphere of convention rather than law".

59. A further discussion brought this answer from the present Treasury official on the Commission :-

"COMMITTEE MEMBER : What would the Treasury Member of the Commission do if there was a conflict of interest between those of the Treasury and those of the Commission?

MR. HIBBERD : Well, the responsibility of the Treasury officer would prevail. It would be my responsibility, if I thought that there was a conflict, to advise my permanent head or the Minister that this conflict existed. As Professor Bailey indicated on Tuesday, if there was then a disagreement between the Treasurer and the Minister, it would be a matter for determination by the Cabinet".

60. It is obvious that a Treasury official who is a Member of a Statutory Corporation, and who oversees its finances as part of his duties as a Treasury official, faces that most difficult of all problems, a conflict of loyalties.

61. There will always be a tendency on the part of the Members of a corporation who are not as skilled in finance as he could be expected to be, to rely on the Treasury official, just as they would rely, in his particular field, on any other Member with special experience. The Committee is sympathetic with this inclination and quotes the following views of the United Kingdom Public Accounts Committee*. These views were expressed

* Fourth Report, Session 1950-51, page xlix.

about the most direct type of Treasury representation on a Government corporation, where the Treasury Representative is in fact a nominee. This is what the Committee said about Treasury nominees :-

"In recent years an increasing volume of governmental activity has been entrusted, not to Government Departments with their own Accounting Officers, answerable directly to the Committee of Public Accounts, but to independent or semi-independent bodies, generally appointed by Ministers and financed from public moneys but not directly responsible to Parliament. Your Committee have therefore looked into the question of Treasury control over the expenditure of such bodies, and in particular have enquired whether the Treasury normally appoint a nominee on the governing body of the organisation, as they formerly did on the Boards of Special Area Trading Estates Companies. The Treasury said that in their experience such appointments were of doubtful value; bankers did not put a bank director on the Board of every company to which they lent money, and the Treasury would regret any general rule that they themselves should do so.

It has unfortunately been the experience of your Committee that there has been some laxity of control of public expenditure in a number of bodies of this type and, while they appreciate the reasons which make the normal departmental system of control inappropriate, they think that some tighter degree of control is called for over the financial transactions of some of these bodies, particularly where the whole of their income is derived from the Exchequer. They suggest therefore that, with this end in view, Treasury nominees should be appointed to some of these bodies, either as full members or as assessors - not with any power of veto over expenditure but with the duty of advising their colleagues in financial matters and of reporting from time to time to the Treasury on the financial policy and prospects of the body. It seems to be a reasonable assumption that, if there had been Treasury representatives on the Boards of Festival Gardens Limited and the Medical Research Council, the Treasury would at least have had advance warning of the circumstances to which reference is made in paragraphs 18 to 26 of Your Committee's Third Report and in paragraphs 38 to 48 of this Report, and some preventive action might have been taken".

62. The United Kingdom Treasury in its Minute in Reply to the Report of the Public Accounts Committee, made the point that in many cases it was inappropriate for the Treasury to provide nominees with direct and independent responsibility to the Treasury and that the proper sanction was to ensure capable and efficient management. Their Lordships said :-

"My Lords take note of the Committee's suggestion that, in order to improve control over the financial transactions of organisations largely or entirely supported out of public funds, Treasury nominees should

be appointed either as full members or assessors. My Lords desire to emphasize, in the first place, that, with the large majority of independent organisations which are financed out of public funds, it is not the Treasury but some other Department which has the immediate responsibility for controlling the finances of the body. It is only within the class of organisation where the Treasury itself is accountable for the grant that My Lords would regard it as appropriate to consider the appointment of a specifically Treasury representative. Where the primary responsibility lies with another Department, My Lords would consider it wrong in principle, and likely to lead to confusion in practice, to instal Treasury nominees with direct and independent responsibility to the Treasury rather than to the parent Department. My Lords consider, however, that the substance of what the Committee have in mind would be secured by the appointment in appropriate cases of representatives of the Department concerned.

The basic safeguard against the waste of public funds, in the hands of grant-aided bodies lies, in Their Lordships' view, in the character and capacity of the management (including the permanent officials of the organisation, in addition to the members of the governing Board or Council) and in close and intelligent co-operation with the parent Department; and my Lords would be opposed, in principle, to any step which tended to weaken the sense of financial responsibility of the body concerned. They recognise, however, that, in certain circumstances, the appointment of Departmental representatives can provide an important safeguard on the expenditure of public funds, and They assure the Committee that They will consider the appointment of Treasury or Departmental nominees, as occasion arises, either when new bodies deriving substantial support from public funds are being contemplated, or when circumstances arise in the case of existing bodies which might make such a course desirable".

(Committee's italics)

63. Canadian experience seems to have led to the same broad general conclusions and the following extract is taken from the speech made on 27th April, 1936, by the Hon. C.D. Howe, then Minister of Railways and Canals (Canada), on an amendment of the Canadian National - Canadian Pacific Act 1935* :-

"It is not the intention to reappoint the deputy minister of railways to the board of directors. If it were considered desirable to do so, the present deputy minister of railways has very excellent qualifications for the post, by training and experience not only with the Canadian National, but with other railways, and as a professor of transportation at McGill for some years. The decision of the government, therefore, involves no reflection upon the present deputy minister of railways, but merely indicates that the government intends to appoint a board of directors and then permit it to function without necessity to have regard to the presence at the directors' table of one who may be assumed to represent the view of the government upon such matters as may be under discussion,

* Debates Session 1936, Vol. 111, page 2183.

as to which the government is properly concerned with policy only. The government intends to see to it that the directors are in a position to discuss freely and among themselves any and all matters coming before them".

64. The Committee believes it to be inevitable that in certain fields, great weight will be placed by the other Members of the Commission upon the views and judgment of the Treasury official, and that he will in consequence tend to see his general duty as a Member of the Commission in the light of his position as a Treasury official. While he is a Member of the Commission and thereby directly represents the Government on the Commission, it is not possible for him to dissociate from his duties as Commissioner his other duties as an officer of the Treasury and in that capacity he may, as Mr. Hibberd stated in the portion of his evidence quoted above, feel called upon to advise his Permanent Head, or the Treasurer, of the situation that is causing him concern.

65. The Committee feels constrained to pursue this decision about relationships and possible conflicts of loyalties, for it is obvious that both the ordinary Members and Mr. Nette, the Treasury official who was a Deputy Member of the Commission from late in 1946 to June, 1952, did not believe that he had any special obligations as a Treasury official.

66. It seems to the Committee that, if the view be accepted that the status, functions and responsibilities of a Treasury official are no different from those of any other Member of the Commission, there is little purpose in such an appointment. Indeed, as it is inevitable that in certain fields great weight will be placed by other Members of the Commission upon the views and judgment of the Treasury official, some confusion may, and in this case probably did, result.

67. The view of the Commission as then constituted is illustrated by the appointment in July, 1951 of a Committee to revise the report to the Minister concerning the increase to £7,250,000 of the estimate of the total cost of establishing the

works. The Treasury official, who was then a Deputy Member of the Commission, was not included on the sub-Committee, although the then Chairman stated that when questions of finance arose, most of the Commission "looked towards the Treasury representative for assistance".

68. The Committee discusses later, in paragraphs 238 and 245, the decision of the Commission in December, 1952, when the estimate of £10,500,000 was being prepared, that its discussion should be kept confidential to the Commission until a firm estimate was available for presentation to the Minister. It questions whether, had there been a Treasury official on the Commission at that stage, he would have been under any obligation to make a report direct to the Treasurer upon the matter. If he had no such obligation - and it is a matter of judgment whether he had one - it gives the Committee further cause to doubt whether any useful purpose is served in appointing a Treasury official to such bodies.

69. The refusal of the Auditor-General to certify to the correctness of the accounts for the years 1950-51, 1951-52 and 1952-53 is referred to elsewhere in this Report. The Committee appreciates that efforts have been made and vigorous action is now being taken to meet the requirements of the Auditor-General, but considers it impossible that the unsatisfactory condition to which the Auditor-General drew attention would have been allowed to continue if it had been regarded as coming within the special province of the Treasury official who was then a Deputy Member*.

70. If it be considered that a Treasury official should be a Member of the Commission, the Committee notes that although

* For an interesting discussion of the legal position concerning the responsibility of the Treasurer and the Auditor-General in regard to the obligation upon the Commission under the 1952 Act to keep its accounts in a form approved by the Treasurer, See Appendix No. 5; see also Conclusion No. 16 at the end of the Report.

Mr. Nette's last attendance at a meeting of the Commission was in June, 1952, Mr. Hibberd did not attend a meeting until September, 1952, and was not officially made a Member of the Commission until its reconstitution in April, 1953.

(g) The Auditor-General and the Commission

71. The Aluminium Industry Acts of 1944 and 1952 empower the Auditor-General to inspect and audit the accounts of the Australian Aluminium Production Commission. In addition, the Auditor-General is under an obligation :-

- (1) Under the 1944 Act, to supply the Premier of Tasmania with such information in his possession as a result of his inspection and audit as the Premier requires; and
- (2) Under the 1952 Act, to report to the Minister as well as to inform the Premier. No time limit is fixed within which the Auditor-General must report to the Minister, although section 140 in fact requires him to report on the accounts to the Commission within 3 months of the end of the financial year: his report has to be submitted to the Minister, with the Commission's statement of accounts, not later than 30th September following the financial year in question.

72. Under the 1944 Act, no duty was imposed upon the Auditor-General to report to the Minister, and he therefore reported to the Parliament under the provisions of the Audit Act, for the financial years up to 30th June, 1953.

73. The first problem that confronted the Committee in connection with the audit of the accounts of the Australian

Aluminium Production Commission was whether or not they were subject to the provisions of the Audit Act. The Auditor-General pointed out that the 1944 Act established the Aluminium Production Trust Account and that this account was a Trust Account for the purposes of section 62A of the Audit Act, Section 62(2) of the Audit Act provides that all the provisions of that Act relating to the powers and duties of the Auditor-General apply to money collected, received or expended for the Trust Account. In his view, so long as the Trust Account was in existence - and the Account was not closed until 30th June, 1953 - the accounts of the Commission were subject to the provisions of the Audit Act.

74. The Treasury suggested that in determining the application of the Audit Act, attention should be paid to the inclusion in the Aluminium Industry Act 1952 of a new obligation, making it necessary for the Commission to open its own bank account. This Act was proclaimed in October, 1952 and, although the Trust Account continued to operate until 30th June, 1953, it was suggested that it would be proper to regard the Audit Act as applying only to October, 1952.

75. The Opinion of the Solicitor-General has been sought on the question of the strict application of the Audit Act and Treasury Regulations to the accounts of the Commission, both for the period up to October, 1952 and for the period between October, 1952 and June, 1953, when the Trust Account was closed. Of course, if the Audit Act and Treasury Regulations did not apply in the strict sense to the accounts of the Commission during the period up to October, 1952, many of the criticisms that are based on breaches of their provisions would not be valid on that basis.

76. The second problem confronting the Committee was that no Balance-sheet of the Commission has been certified by the Auditor-General since 1951. In November, 1952, the Auditor-General reported his refusal to certify the Balance-

sheet of the Commission for 1950-51 and as a consequence the Commission has been unable since then to prepare a financial statement suitable for his certificate.

77. The comments made by the Auditor-General in his Annual Reports to the Parliament on the accounts of the Commission for the years 1950-51 to 1953-54 have been as follows :-

Commission's Accounts for 1950-51: (Paragraph 121 of the Auditor-General's Report, presented to the Parliament on 21st May, 1952):

"Audit examination of expenditure to 30th June, 1951 has been continuous, but has not been completed as the accounts and Balance-sheet were not finalised at the time of compilation of this Report.

An examination of the accounts, etc., at the site in Tasmania was carried out during the period by my officers. Comments on the position disclosed were forwarded to the Commission and action has been taken to improve matters where necessary".

Commission's Accounts for 1950-51 and 1951-52: (Paragraph 23 of the Auditor-General's Supplementary Report, presented to the Parliament on 4th November, 1952):

"The Balance-sheet at 30th June, 1951 which was not available at the time of compilation of the previous Report, was presented for my certificate in July, 1952. In my opinion the figures in the Balance-sheet for stock on hand did not present a true and fair view and the certificate was withheld.

At the time of compiling this Report the Commission had not finalised the preparation of the financial statement for the year ended 30th June, 1952".

Commission's Accounts for 1951-52 and 1952-53: (Paragraph 40 of the Auditor-General's Supplementary Report, presented to the Parliament on 11th November, 1953):

"The Balance-sheet at 30th June, 1952, which was not available at the time of compilation of the Supplementary Annual Report for 1951-52, has not yet been submitted for my certificate. Preparation of the annual financial statement for the year ended 30th June, 1953, had not been completed by the Commission at the time of compiling this Report. Section 14C of the Aluminium Industry Act 1944-1952 requires that the Commission furnish to the Minister the statements of accounts for the year ended 30th June with the relevant report of the Auditor-General not later than 30th September.

Adequate controls and accounts in relation to the financial transactions of the Commission have not been consistently maintained and in consequence my officers have been unable to complete a satisfactory audit of the

accounts up to November, 1952. Subsequent to this date accounting has improved, but the unreliable records of previous transactions hinder the preparation of accurate financial statements".

Commission's Accounts for 1950-51 to 1953-54: (Paragraph 43 of the Auditor-General's Supplementary Report, presented to the Parliament on 2nd November, 1954):

"The defects in the Commission's accounts up to November, 1952 and reported in previous years, have not yet been remedied. In consequence the Commission has been unable to prepare annual financial statements suitable for my certificate in respect of the years 1950-51, 1951-52, 1952-53 and 1953-54.

In my view the previous unsatisfactory accounting records will not permit reliable asset values to be ascertained for Balance-sheet purposes and it is quite possible that the Commission will have to obtain an independent valuation of its assets by technical and costing experts.

The Audit review has disclosed wasteful expenditure, the general trend of which may be exemplified by transactions involving the purchase of two barges and two small ships by the Commission.

One 52-foot trawler purchased for £6,250 cost the Commission approximately £40,000 until sold for £4,600. Very little effective service was obtained from this vessel. There is no indication of reference prior to purchase to any Commonwealth or other technical authority regarding the condition or suitability of the vessel and certain features relative to purchase and recondition are unsatisfactory.

The other vessels were purchased for the conveyance of limestone which has not commenced. One barge was sold recently at a loss of more than £7,000 and the other ship on which considerable costs were incurred on refitting is stated to be unsuitable for towing the remaining barge and is to be sold.

The Commission recently instituted a special investigation of certain features regarding past transactions and the resultant reports are now receiving consideration".

78. On 3rd December, 1954, the Auditor-General, in accordance with the procedure laid down by the 1952 Act, reported direct to the Minister on the accounts of the Commission for the year 1953-54 :-

"Audit of the accounts of the Commission in accordance with section 14A(2) of the Aluminium Industry Act 1944-1954 has been completed to 30th June, 1954.

Prior to 30th June, 1953, the Commission's finances were controlled through the Aluminium Production Trust Account, and were reported upon each year in my Report to the Parliament prepared under section 51 of the

Audit Act. The Trust Account was closed at 30th June, 1953: as a consequence it became necessary under section 14A(3) of the Aluminium Industry Act 1944-1954 to submit this Report to you.

Difficulties with its accounting in the past have resulted in the Commission being unable to prepare annual financial statements suitable for my certification since those of 1949-50. This has been reported by me to the Parliament in successive annual Supplementary Reports for the years 1951-52, 1952-53 and 1953-54.

In November, 1952, following upon certain staff changes within the Commission, the accounting was placed on a more satisfactory basis. It is apparent, however, that reliable asset values suitable for Balance-sheet purposes cannot readily be ascertained from past accounting records. To overcome this difficulty it is possible that an independent valuation of assets by technical and costing experts may be necessary.

The Commission is now considering reports it has received following a recent special investigation of certain past transactions".

79. The accounting years to which the Committee has given particular attention are 1950-51, 1951-52 and 1952-53.

80. Up to May/June, 1952, audit of the Commission's accounts was undertaken by the Chief Auditor, Sydney, and the Tasmanian Branch of the Audit Office assisted by auditing in Tasmania the local transactions. Since May/June, 1952, the Chief Auditor, Tasmania, has conducted the audit of the Commission's accounts.

81. The Auditor-General explained to the Committee that, under present-day conditions, it is rarely possible for his staff to audit every transaction. Responsibility for the accuracy of accounts and the proper control of the funds rests on the Department or Authority concerned, which should, if necessary, appoint an internal audit staff. It is the practice of the Audit Office, and necessarily so, to consider the strength of the internal audit system and, if it is satisfactory, to place a good deal of reliance upon it. The Audit Office then makes test checks to satisfy itself that the various systems and controls are operating satisfactorily.

82. In the case of the Commission, the transactions at Bell Bay were small until 1950 and although no internal audit system had been established, the position was, in the Auditor-

General's view, satisfactory. At the beginning of 1951, construction was commencing in earnest and the rate of expenditure was rising steadily: it was five times greater in 1951-52 than in 1950-51 (see paragraph 256). In February, 1951, an Audit Inspector from the Sydney Audit Office discussed with Mr. Dodd, the Secretary of the Commission, the introduction of more effective accounting safeguards. Mr. Dodd stated that he wished to postpone the expense of internal checks over the accounts until the establishment period was completed. The Audit Office again raised the question with Mr. Dodd, in a letter dated 27th July, 1951, and quoted a report from the Chief Auditor, Tasmania :-

"The Accountant considered that the time had not arrived for the appointment of an internal auditor, but, in my opinion, such an officer should be appointed as early as possible".

83. In his reply, which was not written until 14th May, 1952, Mr. Dodd stated :-

"The re-organised accounting organisation at Bell Bay has not yet settled into stride, and although more adequate internal checking provisions have been made no separate internal audit section has yet been created. This however is only a matter of time, and it is hoped that within the next few months, when arrears of accounting work have been overtaken, an internal auditor will be appointed".

In his statement to the Committee, he reiterated that it had always been his intention to organise an internal audit system when suitable staff could be obtained. The appointment of an internal auditor was made in October, 1952.

84. The Audit Office had therefore no internal checking system of any kind upon which to rely until October, 1952.

Once the accounts and stores records of the Commission became suspect, the Audit Office was not in a position to vouch for their accuracy, nor was it able to satisfy itself by its inspections of the facts to a degree sufficient to justify the Auditor-General's certificate to the accounts and Balance-sheet.

85. Furthermore, the Senior Finance Inspector, Mr. Viret, who was appointed internal auditor in October, 1952,

said that since that time he had had little opportunity to carry out his proper duties as an auditor because he had been requested to undertake a number of major investigations, such as an examination of the Wessel Islands survey. Indeed, he agreed that his occupancy of the office of internal auditor had been only "nominal" because of the other activities he had undertaken in order to assist in bringing the Commission's accounts up to date and into working order. Although the Commission has recently been concentrating all its available resources upon catching up with the arrears and setting errors right, the Committee considers it unsatisfactory in the extreme that the internal auditor appointed by the Commission in 1952 was for so long a period engaged on other duties.

86. The Committee asked the Audit Office to report its experience with other Statutory Corporations during their establishment period, in respect of their accounts and stores control and costing. The Committee also asked the Audit Office to describe the measures adopted by those corporations to correct any faults.

87. The Audit Office submitted a statement concerning the Australian Whaling Commission, the Australian National Airlines Commission and the Snowy Mountains Hydro-Electric Authority and it is set out in full in Appendix No. 6.

88. The Auditor-General also commented on these bodies in the course of his Annual Reports to the Parliament. His comments relating to them contain more detailed information about weaknesses than did his reports on the Australian Aluminium Production Commission, but all are phrased in general terms. None is specific as to exact details of the unsatisfactory features noted, and no examples are given.

89. The Committee was told by the Tasmanian Audit Office that it was not fully aware of the actual condition of the accounts at Bell Bay until 1953, although there was a growing awareness by the Audit Office of the gravity of the position.

In extenuation, it may be suggested that if the Audit Office had not fully appreciated the significance of the state of the accounts of the Commission before 1951, it would not suddenly become very suspicious of serious shortcomings merely because the stores records for the year showed deficiencies. This might also explain the terse comment in the Auditor-General's earlier Report, and the different tenor of the comment in his 1953-54 Report, when he had become aware that the matters to which he had drawn attention were not being rectified as they ought to have been.

90. In June, 1951, an audit inspection of the Bell Bay organisation was made by an officer of the Tasmanian Branch of the Audit Office and a report drawing attention to the weaknesses was sent to the Secretary of the Commission on 27th July, 1951 by the Chief Auditor, Sydney. A copy of this report was sent direct to the Accountant at Bell Bay, but no reply was received by the Audit Office until May, 1952. Further inspections were made in June and November, 1952, during which period there was a steady deterioration in the accounting and stores position.

91. The Committee discussed at length with the Auditor-General the course of action that might have been taken (especially in the light of later revelations) and in particular whether the Audit Office could or should be put in a position to take effective action to prevent or remedy the weaknesses to which its inspections and reports have drawn attention. The Auditor-General emphasised his view that the responsibility for its own affairs rested with the Australian Aluminium Production Commission: his responsibility, he said, lay in the audit of the statements, and the submission of his report to the Parliament (and after the 1952 Act, to the Minister and the Parliament). The responsibility for action consequent upon the report by the Auditor-General rests in the

first place upon the Accounting Officer of the Department or Instrumentality, and ultimately upon the Parliament.

92. The Committee pressed the Auditor-General to discuss also his powers and duties under section 45 of the Audit Act^x. It was suggested to him that this section indicated a desire on the part of the Parliament to provide an extraordinary method by which he could draw attention to unsatisfactory features disclosed by his audit. The Auditor-General declared, however, that while he did use the procedure provided by this section upon appropriate occasions, he did not regard the disclosed position at Bell Bay as an occasion appropriate for the exercise of his discretion to report direct to the Treasurer. On further pressure, he said that he was entitled to believe that the Treasury already knew the position because there was a Treasury official on the Commission who would know what was going on. This view was strongly criticised by the Treasury official concerned, who argued that it was the duty of the Auditor-General to report the position. (See paragraphs 55-60).

93. At this stage, the Committee records its surprise that the several authorities affected were not provoked to take prompt action to deal effectively with the defects in the accounts implied by the refusal of the Auditor-General to give his certificate, especially when the fact of his refusal was reported to the Parliament in successive years. (See paragraph 77 above). Furthermore, the Committee doubts whether the

x Section 45 of the Audit Act reads :-

45. - (1) The Auditor-General shall, at such intervals as he thinks fit, and whenever required so to do by the Treasurer, inspect, examine and audit the books and accounts of any accounting officer, and of any person charged with the custody or control of stores belonging to the Commonwealth.

(2) The Auditor-General shall report to the Treasurer all irregularities discovered by him which, in the opinion of the Auditor-General, are of sufficient importance to be so reported.

extent of the audit carried out during the years 1951-52-53 was sufficient for the purposes of an undertaking of the nature of the Australian Aluminium Production Commission. It suggests that this matter, as well as the powers and duties of the Auditor-General in respect of the Statutory Corporations engaged in trade or manufacture, should be carefully considered when amendments to the existing Audit Act are being prepared for presentation to the Parliament.

94. In this connection, the Committee observes that in the United Kingdom the arrangements for audit of the nationalised industries are different from those for the various public Departments. The Select Committee on Nationalised Industries, whose report was ordered to be printed on 23rd July, 1953, said* :-

"In the case of the Nationalised Industries, a firm of professional auditors is appointed by the Minister to each Board. The reports of those auditors follow the pattern of ordinary reports of commercial auditors. The nature of the accounts of the public departments, which are audited by the staff of the Comptroller and Auditor-General, are in many respects different from those of the Nationalised Industries, which are commercial undertakings. The former are, in general, the subject of annual cash votes by Parliament, and Parliament therefore insists on the most detailed examination and control. The accounts of the Nationalised Industries are, on the other hand, only the reflection of the results of the year's trading. They are presented in the usual commercial form of Trading Accounts, Profit and Loss Accounts and Balance Sheets. These accounts are certified as correct by the firms of professional auditors appointed by the Minister".

95. Thus in the United Kingdom, the Comptroller and Auditor-General does not audit the accounts of the nationalised industries. The Comptroller and Auditor-General (Sir Frank Tribe) said that he could perform the audit if the Parliament so desired; but he pointed out that it would require a much larger staff and special training, and that some guidance would be necessary on how the audit should be done.

* House of Commons Paper No. 235: Report, paragraph 29.

96. The Committee notes from Sir Frank Tribe's statement * that in the United States of America, it was decided in 1945 to place the accounts of the Government Corporations under Government audit :-

"Up to then the Government Corporations in America were not subject to government audit at all, but in 1945 Congress passed a Government Corporation Control Act which subjected the corporations to budgetary control by Congress and to annual audit by the General Accounting Office (that is the American counterpart of my Department though it is very much larger than mine). The Comptroller General had to report upon them although he was not given the power which he had in the case of Government Departments of disallowing expenditure".

97. The Committee places these contrasting methods on record as an interesting indication of the way in which the problem of the audit of Statutory Corporations has been tackled in the United Kingdom and the United States of America. It calls attention to the significant fact that in each case, the position of the Statutory Corporation was regarded as requiring audit arrangements different from those for ordinary Government Departments. In the Australian Commonwealth, the Auditor-General is usually under a statutory obligation to audit the accounts of the body in question, and no specific directives are given to guide him in his audit, nor are any special arrangements made. The form his audit will take is left in the discretion of the Auditor-General.

(h) Terms of appointment of Members of the Commission: the question of their having a Pecuniary Interest in Transactions with the Commission

98. The Committee has obtained an Opinion from the Solicitor-General on whether or not there is any legal or ethical prohibition on a Member of the Commission having a

* Ibid, Minutes of Evidence, Question 88.

pecuniary interest in transactions with the Commission whilst a Member of the Commission. This Opinion is included in full in Appendix No. 7.

99. The Solicitor-General took the view that there was at present very little settled law dealing with the position of members of a Statutory Corporation. Equity has developed a substantial body of rules regulating the conduct of those who stand in a fiduciary relationship to others and these have been applied to the director of an ordinary public company incorporated under the Companies Acts, in connection with contracts made with his company. The Solicitor-General doubts whether this body of law would apply to members of a Statutory Corporation, which appears to be in a unique position :-

"Nor do I myself think that the equitable rules which govern the relation of a director to his company can be said to extend also by analogy, as a matter of law, to the member of a public corporation, in his relations with the corporation itself. The fiduciary position of a director under the Companies Acts springs from his subordination to the shareholders, by whom the directors are usually elected and with whom in general meeting lies commonly the ultimate authority in the company. There is no real parallel in the case of the public corporation, for while the members (Commissioners or as the case may be) actually constitute the public corporation, it is the shareholders and not the directors who constitute the ordinary company. I do not find it hard to accept the proposition that a member of a statutory public corporation has fiduciary duties. But they are I think owed to the Crown, or in personal terms to the Minister, not to the corporation of which he himself is a part.

In a real sense, the shareholders in an ordinary commercial enterprise are the company. But the Crown, or the Minister, stands outside the public corporation. The corporation could hardly be allowed to escape its liabilities under a contract in which one of its members had an interest, merely by reason of the fact that in making the contract the member had acted in breach of his fiduciary duties to the Crown. But on the other hand the Crown would have no liabilities under such a contract, so there would be nothing which the Crown could set aside. In other words, there is no strict analogy between the position of the company director and that of the member of a public corporation. If the company rules, or something like them, are to be applied to a statutory corporation it must in my opinion be done by the Legislature".

100. The Solicitor-General considers that it is probably because there are no relevant rules of common law or equity directly applicable to the members of a Statutory Corporation

that express statutory provision is so often made for the termination of their appointment. This express statutory provision would be more necessary where the term of office was fixed than where, as in the case of the Australian Aluminium Production Commission, Members hold office during pleasure. He continues:-

"It might perhaps be considered that a member has an ethical duty to bring his conflicting interest expressly to the notice of the Minister rather than to rely on the Minister obtaining the information from a reference in the Minutes; but that matter is outside the realms of law.

What I have said above will indicate that in my view a member of the Australian Aluminium Production Commission who had a pecuniary interest, either personally or through a company in which he was the major shareholder, in a transaction with the Commission did not thereby commit an offence, nor was the transaction itself illegal or void, nor did the entering into the transaction render vacant the office held by the member. The remedy of the Minister, if not satisfied with the actions of the member, is to recommend the termination of his appointment. Where, as here, the member is no longer in office, no further action at law would seem to be called for, or, indeed, to be possible".

101. The Aluminium Industry Act 1944-1954 provides that (section 6(4)) :-

"The members of the Commission shall hold office on such terms and conditions as the Governor-General determines".

102. The Governor-General's appointment of the present Commissioners is in this form :-

"In pursuance of section 6 of the Aluminium Industry Act 1944-1952, I, Sir William John McKell, the Governor-General in and over the Commonwealth of Australia -

(a) hereby appoint the following Members of the Australian Aluminium Production Commission -

Members representing the Commonwealth -

Noel Kenric Stevens Brodribb,
Louis Reginald Samuel Benjamin,
Maurice Allan Mawby,
Donald James Hibberd,

Member representing the State of Tasmania -

Harold Bruce Bennett; and

(b) hereby appoint the said Noel Kenric Stevens Brodribb to be Chairman of the Commission and the said Louis Reginald Samuel Benjamin to be Vice-Chairman of the Commission.

Dated this seventeenth day of April, One thousand nine hundred and fifty-three.

W. J. McKELL
Governor-General.

By His Excellency's Command,

HOWARD BEALE

Minister of State for Supply".

103. Little detailed statutory provision is thus made covering the terms and conditions of appointment of the Commissioners and the Committee recommends that now that the production of aluminium has commenced, the Governments of the Commonwealth and Tasmania give consideration to a general review of the legislation, bearing this aspect in mind.

104. This lack of detailed provision is in contrast with the careful setting-out of disabling qualifications in some of the other Acts forming Commonwealth Statutory Corporations. The clause included in the Australian National Airlines Act 1945-1952 is typical of provisions in many other constituting Acts*. After reciting the more usual conditions under which a Commissioner is deemed to have vacated his office, e.g. in the event of bankruptcy, insanity, resignation, or absence from meetings, the Act proceeds to make pecuniary interest a disqualification. Thus section 14 of the Australian National Airlines Act 1945-1952 reads that a Commissioner is deemed to have vacated his office :-

"If he, in any way, otherwise than as a member, and in common with the other members, of an incorporated company consisting of more than twenty-five persons -

- (1) becomes concerned or interested in any contract or agreement entered into by or on behalf of the Commission; or

* Vide Snowy Mountains Hydro-Electric Power Act 1949-1952, section 13; Overseas Telecommunications Act 1946-1952, section 15; Whaling Industry Act 1949-1952, section 11; Flax Industry Act 1953, section 9; Australian Atomic Energy Act 1953, section 13.

- (11) participates, or claims to participate, in the profit of any such contract or agreement or in any benefit or emolument arising from the contract or agreement".

105. In the case of the Joint Coal Board the position regarding the interest of a Member of the Board is even stricter. Section 5(4) of the Coal Industry Act 1946-1952 reads in part :-

"A member of the Board shall be deemed to have vacated his office if :

- (a) he becomes in any way (otherwise than as a member of the Board) concerned or interested in any contract or agreement entered into by or on behalf of the Board or in any way (otherwise than as a member of the Board) participates or claims to be entitled to participate in the profit thereof, or in any benefit or emolument arising therefrom".

106. The Committee draws attention to the special position of the Commissioners appointed to the Australian Aluminium Production Commission under the Aluminium Industry Act 1944-1954, in that their term of office is not fixed, nor is provision made for any of the usual disqualifications from office.

107. Apart from the fact that the Aluminium Industry Act does not provide specific disqualifying conditions similar to those prescribed for other Statutory Corporations, the Committee regards the holder of any high public office, such as a member of a Commonwealth Statutory Corporation, as being placed in a position of trust and responsibility for moneys and property belonging to the public. Such a member should have ever present to his mind an appreciation of that trust and should therefore be most scrupulous in his actions, forswearing other avenues of benefit, however small, that may arise from his association with the Corporation.

108. Although the members of these public offices are not in the strict sense of the word Public Servants, the Committee considers that as persons placed in positions of public trust and responsibility they should, in carrying out their duties, comply with the same high standard of conduct as is expected of Public Servants. The Committee quotes with

approval several short extracts from the Report of the Board of Enquiry appointed in 1928 to investigate the activities of a prominent English Civil Servant who had been trading in French francs* :-

"... The civil service, like every other profession, has its unwritten code of ethics and conduct for which the most effective sanction lies in the public opinion of the service itself, and it is upon the maintenance of a sound and healthy public opinion within the service that its value and efficiency chiefly depend.

The first duty of a civil servant is to give his undivided allegiance to the State at all times and on all occasions when the State has a claim upon his services. With his private activities the State is in general not concerned, so long as his conduct therein is not such as to bring discredit upon the service of which he is a member. But to say that he is not to subordinate his duty to his private interests, nor to make use of his official position to further those interests, is to say no more than that he must behave with common honesty. The service exacts from itself a higher standard, because it recognizes that the State is entitled to demand that its servants shall not only be honest in fact, but beyond the reach of suspicion of dishonesty.

.... A civil servant is not to subordinate his duty to his private interests; but neither is he to put himself in a position where his duty and his interests conflict. He is not to make use of his official position to further those interests; but neither is he so to order his private affairs as to allow the suspicion to arise that a trust has been abused or a confidence betrayed.

.... The public expects from them a standard of integrity and conduct not only inflexible but fastidious, and has not been disappointed in the past. We are confident that we are expressing the view of the service when we say that the public have a right to expect that standard, and that it is the duty of the service to see that the expectation is fulfilled".

109. Two instances came before the Committee in which Members of the Commission had a pecuniary interest in transactions with the Commission. The first concerned Mr. Watson, Chairman of the Commission between 1945 and 1953, and the second Mr. Bennett, who is the Member representing the State of Tasmania and has been a Member or Deputy Member of the Commission

* Report of the Board of Enquiry appointed by the Prime Minister to Investigate Certain Statements Affecting Civil Servants (Cmd. 3037), 1928, pages 21 and 22. See Appendix No. 8 for a fuller quotation of the relevant section of the Report.

since its inception.

110. Mr. Watson was Chairman of the Australian Aluminium Production Commission from 1st May, 1945 until April, 1953, but was not reappointed when the Commission was reconstituted at the latter date. He has financial interests in two firms, and had them at a time when those firms had dealings with the Commission: the firms are G.H. & J.A. Watson Pty. Ltd. and Australasian Civil Engineering Pty. Ltd.

111. From May, 1951, until early in 1954, the Commission used the services of G.H. & J.A. Watson Pty. Ltd. in Sydney as purchasing and inspecting agents, although there was no formal contract covering the arrangement. The charge normally consisted of a labour cost plus a percentage of labour costs to cover overhead, and appears to have been reasonable. In May, 1952, at the request of Mr. Keast, the Melbourne Contracts Committee of the Commission reviewed the arrangement of inspections by the Company in Sydney and reported that it was more economical than sending inspectors from Melbourne. Mr. Dodd stated that the basis of charge by the Watson Company was actual cost. The Commission itself reviewed the position in the following month and Minute No. 925 of 6th June, 1952, reads :-

"As requested at the last meeting of the Commission details of orders placed with G.H. & J.A. Watson were submitted for inspection. The Secretary advised that through this Company's experience with engineering projects and their close connection with a number of valuable and substantial workshops they were in a position to offer better prices than the Commission would normally be able to obtain. A moderate percentage is added for supervision, overhead and profit.

In view of the Chairman's association with the firm of G.H. & J.A. Watson Pty. Ltd., Mr. Watson vacated the Chair during the discussions which were carried on by Mr. Benjamin.

The Commission confirmed that the facilities of G.H. & J.A. Watson be retained by the Commission and the Contracts Committees in connection with services and purchasing of engineering supplies wherever found of advantage to do so".

The arrangement was terminated on 17th June, 1954, by direction of the Commission, as being no longer necessary.

112. The payments to the Company were, the Commission stated, as follows* :-

Inspection fees and travelling expenses, August, 1951 - February, 1954	£ 949.13. 6
Purchasing Commissions	1,573. 0. 0
	<u>£2,522.13. 6</u>

113. The other company with which Mr. Watson was concerned, Australasian Civil Engineering Pty. Ltd., commenced transactions with the Commission in connection with the prospecting survey of bauxite deposits on Wessel Islands because the Commission had no organisation of its own with which to carry out field work (see paragraphs 157 and 158). The Secretary to the Commission recommended Australasian Civil Engineering Pty. Ltd. for the survey, and the relevant Minute of the Commission meeting held on 17th January, 1952, continues :-

"Mr. Williams advised that he knew of no other Company which combined these services.

The Chairman reported that he had a financial interest in Australasian Civil Engineers (sic) Pty. Ltd., and vacated the Chair, taking no part in the ensuing discussion. The Vice-Chairman, Mr. Benjamin, took the Chair.

After full consideration of all the circumstances, the Commission, excepting the Chairman, unanimously decided that negotiations be undertaken by the General Manager with Australasian Civil Engineers (sic) Pty. Ltd., with a view to arranging a contract with that Company to carry out the prospecting survey at Wessel Island, including provision of engineering equipment and a suitable vessel. It formally recorded the Chairman's declaration at the outset of his financial interest in the Company".

114. The Commission subsequently, at its meeting on 21st February, 1952, approved the contract that had been drawn up with Australasian Civil Engineering Pty. Ltd., for the organisation and execution of the Wessel Islands survey. The relevant Minute reads :-

* In this connection Mr. Watson submitted statements to the Committee showing that the profits on these transactions were very small.

"The Commission confirmed the action taken, the Chairman vacating the Chair in favour of Mr. L.R. Benjamin during discussions on the Australasian Civil Engineering Company's contract, which was approved".

115. The fees paid to Australasian Civil Engineering Pty. Ltd. under the terms of the contract were* :-

5% on Purchases	£2,096. 7. 11
12½% on Services	<u>5,591. 2. 2</u>
	<u>£7,687. 10. 1</u>

116. The Minister for Supply informed the Committee through Mr. Brodribb that he learned of the interests of Mr. Watson described above - and then only in regard to the Wessel Islands survey - in November, 1952.

117. Mr. Bennett, the Member of the Commission representing the State of Tasmania, and his family, have financial interests in the firms of Tip Top Paint (Australia) Pty. Ltd. and Tip Top Paint (Tasmania) Pty. Ltd.. Purchases of Tip Top Paint by the Commission during 1953 and 1954 amounted to £885.

118. Mr. Bennett was a Member of the Tasmanian Contracts Committee of the Commission. He stated that he did not disclose his interest for record in the Minutes or withdraw from any Commission or Contracts Committee meeting when paint was in question, and that he thought the Commission would know of his association with the Tip Top Paint Companies through reports of the fact in newspapers.

119. In the case of the paint contracts given to Tip Top Paint (Australia) Pty. Ltd. and Tip Top Paint (Tasmania) Pty. Ltd., the amounts were small, and when the lowest tender had been accepted by the General Manager, the procedure was that the Tasmanian Contracts Committee would approve his decision without further discussion.

120. The Committee repeats that the Aluminium Industry Act 1944-1954 is silent regarding penalties or prohibitions

* In this connection Mr. Watson submitted statements to the Committee showing that the profits on these transactions were very small.

attaching to financial transactions by Members of the Commission. In such a case it becomes rather a matter of the wisdom of pursuing a course of action than of appealing to the absence of legal prohibitions to justify that action. The Committee refers in this context to the well-established maxim mentioned above, that not only should justice be done but it should manifestly be seen to be done.

121. In Mr. Watson's case, his relinquishing the Chair when the Commission discussed its financial arrangements with Companies in which he was interested, makes it clear that both he and the other Commissioners wished to act with propriety. It is to be regretted that Mr. Watson did not carry his action a stage further by recognising that these contracts fell within the category of things for which there was statutory direction to keep the Minister "continually informed".

122. In Mr. Bennett's case, the Committee mentions that his interest, small as it may have been, was not disclosed either to the Commission or to the Minister.

CHAPTER IV

THE CONDUCT OF THE ACTIVITIES OF THE COMMISSION

123. For several reasons the Australian Aluminium Production Commission has always had more than one location for its activities. This geographical separation militated against effective co-ordination between Sydney and Melbourne and increasingly, as time went on, between the mainland offices and the works at Bell Bay. These difficulties were in part caused and in part aggravated by the lack of any clear and accepted lines of authority.

(a) The Location of the Staff of the Commission

124. In paragraphs 30 to 32 the Committee has discussed the location of the meetings of the Commission. The activities of the Commission's staff were also carried on in various places. In June, 1950, for instance, they were performed as follows* :-

<u>Functions</u>	<u>Location</u>	<u>Officer in Charge</u>
Head Office	Sydney	Mr. Dodd, Secretary
Control of Accounts, Costing and Stores	Sydney	Mr. Dodd, Secretary

(The office at Launceston carried out local accounting, costing and stores procedures under the Secretary's control).

Preparation of Plans and Designs	Melbourne	Mr. Leckey, Acting Chief Engineer
Construction	Launceston & Bell Bay	Mr. Boyd, General Superintendent.

125. During the years 1950-51, the Commission commenced an extensive construction programme that resulted in expenditure during 1951-52 being five times that of 1950-51. The Committee inquired whether the scattered nature of the

* For outline organisation charts as in 1952 and 1954, see Appendix No. 13.

organisation was suited to the management of these accelerating activities and in particular, whether it would not have been preferable for the control of the accounts and the design work to be transferred to Bell Bay. The Committee noted that after Mr. Boyd's resignation in June, 1950, Mr. Leckey, who remained in Melbourne, took charge of the work at Bell Bay in addition to the design work and ordering of plant; and that in February, 1951, Mr. Keast, who at that time was also resident in Melbourne, was appointed General Manager.

(b) Discussion by the Commission of Office Organisation

126. From 1949 onwards, the problem of achieving the most efficient office organisation was repeatedly discussed at meetings of the Commission, and only came to an end with the transfer of the Head Office of the Commission to Melbourne in March, 1953 and the establishment of a more effective organisation on the site at Bell Bay.

127. The Minutes of the Commission tell the story of the gradual rationalisation of the position. One of the earliest discussions was on 5th May, 1949, when the Minute of the special meeting of four of the Commissioners to discuss re-organisation was :-

"The Chairman said that the special meeting of the four Commissioners had been called to consider a re-organisation of technical and executive administration now necessary to enable the design, manufacture and erection of the aluminium plant at Bell Bay site, and all ancillary activities, to be developed as rapidly and efficiently as possible, with the object of achieving the production of alumina in 1951, and the operation of the full plant in 1952. As questions of engineering organisation affecting the Melbourne staff would arise, Mr. Topp had also been asked to be present.

The meeting reviewed the existing organisation, with Mr. E.E.G. Boyd as Chairman's representative and General Superintendent, and Mr. K.F. Carmichael as Superintendent of Development, both officers being now located at Head Office in Sydney.

The Chairman said that he had now established his office in the same premises as the Commission's new office at No. 4 Albert Street, Sydney, and would be able to give more personal attention to the Commission's affairs.

The Commission agreed that it was essential for the early development of designs, the ordering of plant and supplies, and the execution of works that Messrs. Boyd and Carmichael should henceforth be in closest contact with the organisations carrying out these duties, and accordingly should be transferred from Sydney. The Head Office should remain in Sydney".

(Committee's italics)

128. In May, 1949, then, it was agreed that while the Head Office should remain in Sydney, Messrs. Boyd and Carmichael should be transferred to Melbourne.

129. Slow progress in the establishment of the Bell Bay works began to cause the Commission concern, and in March, 1950 the Chairman called another meeting specially to discuss further the need for re-organisation. Deficiencies in executive co-ordination still appeared to be the main trouble, coupled with an inadequate appreciation of the need for wide delegations to the senior executive officer working on the site at Bell Bay :-

"The Chairman said he had called the meeting to discuss specially the need for re-organisation of the executive staff, in view of the slow progress being made in the establishment of the Bell Bay works. He attributed this to his own inability, due to extreme pressure of affairs, to give as much time as was essential to the direction of the technical staff, with the result that there was insufficient executive co-ordination, and to the indecisiveness of the Technical Superintendent, who in his opinion was an able Chemical Engineer but apparently lacked experience in mechanical engineering matters and the administration of large works projects. There was evidence also that the arrangement made by the Commission to place responsibility for design and procurement of plant in the hands of the Technical Superintendent, and for construction and erection in Tasmania with the General Superintendent, had not resulted in the co-ordinated effort anticipated. The British Aluminium Company as Technical Consultants had complained that difficulties in reaching finality in discussions with Melbourne office were delaying the construction programme". *

(Committee's italics)

* Minute No. 495 of 9th March, 1950

130. Progressively during 1950, the main works staff was centred at Bell Bay. At a meeting of the Commission in April, 1951, the removal of the purchasing and accounting staffs from Launceston to new offices at Bell Bay was approved and the General Manager's recommendation that the Commission's accounting be centralised in Melbourne "pending the completion of the permanent administrative offices at Bell Bay" agreed to. Thus Melbourne and Bell Bay were gradually becoming the centres of operations. Nevertheless, the Commission decided at the same meeting that the Secretary should remain in Sydney "to exercise Head Office functions and an overall control of accounts as required by the present Treasury system".

131. In July, 1951, attention was concentrated upon the progress of construction work. Minute No. 732, dated 4th July, 1951 reads :-

"The General Manager made a special report on steps necessary in his opinion to expedite the progress of construction work. He paid a high tribute to the capacity of Mr. G.W. Leckey as Chief Engineer but advised that it was impossible for Mr. Leckey to control the large construction programme at the same time as he was engaged in completing design work in Melbourne. He considered that the appointment of a constructional engineer thoroughly experienced in the organisation of large works was necessary, but that such men were difficult to obtain; consequently he proposed to take control personally of construction works at Bell Bay until the construction engineer was appointed, making Resident Engineer Debenham his assistant and freeing Mr. Leckey from the necessity of supervising the Bell Bay project in detail, until he moves to Bell Bay on completion of the design work at Melbourne.

The Chief Engineer agreed with Mr. Keast's view that more senior direction was needed to organise the construction programme.

The Commission endorsed the General Manager's tribute to Mr. Leckey and expressed appreciation of Mr. Keast's decision to transfer to Bell Bay at this stage despite much personal inconvenience. It approved in principle the plan submitted and authorised the General Manager to re-organise the staff as suggested and to proceed with the appointment of a Construction Engineer at the appropriate time".

(Committee's italics)

132. In August, 1951, the problem of co-ordinating the design staff, located in Melbourne, and the construction staff, located at Bell Bay, was dealt with by a direction

that the design staff should be transferred as quickly as possible to Bell Bay.

133. The control of the books of account was transferred to Bell Bay in April, 1952, after vigorous action by the General Manager; but not until May, 1953, was the design office transferred - after most of the design work had been completed.

134. The attention of the Committee was repeatedly directed to the difficulties associated with the management and construction of a plant when, before a full-time General Manager was appointed, decisions had to be taken by a body of men who could devote to the operations of the Commission only the time that remained after they had dealt with their own affairs[¶]. The position was aggravated when the Commission did not meet regularly on or near the site of the works.

135. The lack of a full-time General Manager may also account in part for the slowness with which the Commission's decisions to establish an effective organisation at Bell Bay were carried out. In this connection, the Committee quotes with approval the conclusions of Mr. Keast contained in a statement submitted on the subject dated 29th November, 1954 :-

- (a) at the inception of the project, and even before the site was finally approved, a full-time fully qualified Chief Executive Engineer should have been appointed, with full authority to initiate and organise in proper sequence, all staffing, designing and functional operations, amongst the first of which would have been the establishment of an account and stores department adequately staffed by qualified personnel;
- (b) it was the absence of recognition of the need for such authority that was the fundamental cause of subsequent accounting delays and difficulties;

¶ See paragraph 28 and footnote.

- (c) whilst such accounting control as did exist seems to have been adequate during the first few years of comparative inactivity, it proved incapable of coping with the acceleration when construction activity got properly under way;
- (d) the organisation that did exist was hampered until late in 1952 by the lack of machine accounting and by the absence of clearly defined instructions designed to meet the needs of a rapidly expanding project.

(c) Staff-Management Relationships

136. It was not, however, only geographical separation that hindered the smooth operation of the activities of the Commission. Running alongside the problems caused by the distribution of various activities in Sydney, Melbourne, Launceston and Bell Bay, were frictions created by the differing views of the senior staff members of the Commission.

137. When the General Manager was appointed in 1951, he considered that he should have more complete control and that the Chairman of the Commission, Mr. Watson, should permit him to assume that control. The General Manager's stand placed the Secretary to the Commission in a difficult position, because the conflict as he saw it between the Chairman and the General Manager necessarily involved his own standing and authority. Further, relationships between the Chief Engineer and the General Manager became strained when delays in design embarrassed the construction engineers. In all these cases it seemed to the Committee that the absence of any clear line of authority was a primary cause of the friction that occurred at the executive and managerial levels.

138. Under the terms of the Public Accounts Committee Act, 1951, the Committee is empowered to report upon "any circumstances connected with the accounts to which the Committee is of the opinion that the attention of the Parliament should be directed". The frictions described in the foregoing paragraphs are matters which do not, in the ordinary course of its business, come before the Committee; but because the resulting stresses and strains seriously affected the efficient and economic management of the work of the Commission, the Committee has found it necessary to examine the reasons for them.

139. The Committee considers that a result of this clash of personalities was the lack of effective control and direction of the affairs of the Commission during the years 1950-52. The strain caused by the rapid expansion of the activities of the Commission during those years called for special qualities and attitudes in those holding the senior managerial and executive posts of the Commission: it was aggravated by the difficulty of getting qualified staff during that period of full-employment and by the absence of proper direction and oversight of the staff that was induced to go to Bell Bay. All these things revealed the weaknesses in the organisation - weaknesses that were generally acknowledged by those who gave written or oral evidence to the Committee - and resulted in a higher staff turn-over than was justified solely in terms of the difficult conditions of work at Bell Bay. Appendix No. 9 lists those who in 1949-50 were Members of the Commission and those who were senior staff, and catalogues subsequent changes.

140. It is clear from the Minutes quoted above that the Commission was aware of the problem; but it took many months before their decisions were adopted. For instance, the then Chairman resisted the transfer of the staff responsible for

design for reasons that seemed adequate to him, but which led to tension between the General Manager and the Chief Engineer in charge of design.

141. In defence of the separation of the various activities of the Commission and its staff, it was suggested to the Committee that large private industrial undertakings operate successfully with works far removed from the Head Office and from the central accounting and designing offices. In the case of the Australian Aluminium Production Commission, however, such a separation of activities did not work out satisfactorily because its organisation lacked the essential executive direction invariably present in private enterprise.

142. Mr. Watson emphasised that the scale of the organisation warranted a full-time Chairman, but Mr. Benjamin thought that the Commission would have functioned effectively from its inception with a part-time Chairman provided there had been a full-time General Manager. Most of the Members of the Commission wanted to appoint a General Manager at an early stage, but, even when the need became pressing, Mr. Benjamin said that the Commission had to convince the Government of the day that the expenditure involved was necessary*.

143. In the cases of both the Secretary (Mr. Dodd) and the Chief Designing Engineer (Mr. Leckey), the difficulties arose because of the refusal of the former Chairman of the Commission to lay down the functions of the staff. Mr. Dodd believed that his position as Secretary gave him status as Chief Executive Officer of the Commission and a position of independence in relation to the whole organisation, while Mr. Keast regarded him merely as Secretary to the Chairman and the Commissioners. The difficulty with Mr. Leckey arose because the

* It may be worth mention that the Australian Broadcasting Commission functions with a part-time Chairman of the Commission and a full-time General Manager. On the other hand, the N.S.W. Metropolitan Water, Sewerage and Drainage Board has a part-time Commission with a full-time President of the Commission as its Executive Head.

Chairman refused to transfer Mr. Leckey's staff to Bell Bay, which would have brought design under the control of Mr. Keast. Mr. Keast felt frustrated because of the delays that occurred in supplying him with essential plans, and this ripened into an open conflict that was only resolved with the retirement of Mr. Leckey.

144. In both these cases, the Committee feels that the former Chairman was blameworthy by reason of his refusal to determine the functions and responsibilities of the respective officers.

145. In estimating Mr. Keast's attitudes and methods to the staff, the Committee records his treatment of Mr. Green. Mr. Green was appointed Stores Superintendent by Mr. Keast in August, 1951, and to give him further experience in handling stores and installing systems, Mr. Keast sent him in February, 1952, to look at the methods of Broken Hill Proprietary Co. Ltd. at Port Pirie and Broken Hill. When he returned, Mr. Keast encouraged him to apply his lessons, but found that he was not handling the stores work effectively and in April decided to seek a replacement. On representations by Mr. Green that dismissal would be very embarrassing to him at that stage, Mr. Keast offered him a lower position. Mr. Green indicated to the Committee that he was not altogether happy about the manner in which he finally learned of his replacement; but the Committee feels that the whole incident does not reflect badly upon the methods of Mr. Keast. For further details regarding the Stores System, see paragraphs 309-322.

146. The Committee considers that, in addition to the weaknesses displayed at the higher executive level, there was a deplorable absence of foresight and of forwarding planning in the organisation established by the Commission in anticipation of full-scale construction. Here, too, the position was aggravated by the failure to define lines of responsibility and to give comprehensive instructions to the staff. A General Manager was

appointed in 1951, and to him must largely be attributed the rapid increase in the rate of construction. But as the tempo of construction increased, so were the latent frictions and animosities revealed.

CHAPTER V

SURVEYS CONDUCTED BY THE COMMISSION

(a) Exploring for Bauxite

147. From its inception in 1945, the Commission prosecuted a search to establish the location, nature and extent of deposits of bauxite - the ore of aluminium - in Australia. The purposes of the search were first, to establish whether adequate local reserves of the basic ore existed for use in time of war; second, to determine the type of ore available, because that has an important bearing upon the processes that are necessary to extract alumina from it.

148. For the economic production of aluminium, an ore of high alumina content and low silica percentage is desirable. It is necessary, therefore, to determine not only the existence of bauxite deposits, but to ascertain the grade of the ore available. In carrying out its surveys, the Commission employed its own technical staff in co-operation with the State Departments of Mines, and received geological assistance from the Commonwealth Bureau of Mineral Resources.

149. When the Commission began its surveys, deposits were known to exist in Tasmania, Victoria, New South Wales and Queensland. Those located in the Mirboo-Morwell district (Gippsland) of Victoria were of the highest quality, having alumina and silica percentages of 53% and 8% respectively, and compared reasonably favourably with an alumina content of 56% to 62% and a silica content of 5% in the ore used by North American producers. The Victorian deposits were, however, concentrated in areas already alienated from the Crown under mining leases, only 100,000 tons being available to the Commission out of proved deposits of 800,000 tons.

150. The Commission regarded it as a matter of great importance to establish the existence of deposits in Tasmania,

because it had a statutory obligation to erect its reduction plant there, and an adequate supply of suitable ore close to the plant would have been of great economic value. The Commission, therefore, authorised the continuation and extension of a bauxite survey that had been commenced by the Tasmanian Mines Department in 1941 and was resumed by the Commonwealth Bureau of Mineral Resources in collaboration with the Mines Department in 1944. The Commission contributed towards the cost of the later surveys. They revealed the existence of 560,000 tons of ore in the Ouse District (40 miles north-west of Hobart) that were within economic mining limits and of a grade suitable for processing, and of an additional 200,000 tons of a marginal quality. In the St. Leonards area (south-east of Launceston) a further 200,000 tons of economic grade ore was proved by June, 1948.

151. Explorations commenced at Inverell in Northern New South Wales in January, 1947, following investigations by the State Department of Mines, revealed deposits estimated at fourteen million tons. Of this quantity, six million tons were in areas unalienated from the Crown. The Commission's surveys led to the discovery of further deposits, with the result that by June, 1949, available reserves centred in the Inverell-Emmaville region amounted to 7,750,000 tons. Although the alumina content of this ore was not high, the fact that the silica content was remarkably low, and that the overburden was small, made the use of the ore an economic proposition.

152. With the co-operation of the Queensland Department of Mines, the Commission instituted a series of surveys in the Toowoomba and Kingaroy districts of that State early in 1947. The results in the Toowoomba area were not encouraging and although the Kingaroy deposits were of a better quality, they have not yet been proved to be of economic value.

153. By the end of 1949 the Commission had established the existence of reserves of over eight and one half million tons of bauxite in Australia. However, at this time, the Commission noted that rising internal freight costs and reductions in overseas shipping rates placed local bauxite at an economic disadvantage in comparison with high grade ore produced overseas, particularly in Malaya.

154. The Commission took the view that local deposits should be reserved while ore could be imported at an economic price, and until 1951 was less active in its searches for bauxite. Late in 1951, reports of large deposits in Northern Australia were received and the Commission encouraged further searches by a system of rewards to successful prospectors.

155. An examination of samples submitted by prospectors led to a visit to the northern coastline of Arnhem Land by Mr. H.B. Owen, Senior Geologist of the Bureau of Mineral Resources, and after consideration of his report the Commission decided to undertake a survey of the Wessel Islands, situated off the north-eastern coast of Arnhem Land.

(i) The Wessel Islands Survey

156. The Committee devotes a section of its Report to this survey because it illustrates the manner in which the Commission operated both on the executive and at the administrative level.

157. The Chairman was authorised in November, 1951, to proceed with plans for the survey of the Wessel Group and the adjacent northern coast, and to arrange for the provision of a suitable sea-going vessel and prospecting equipment. At a meeting held on 17th January, 1952, he reported to the Commission that he had received offers of geological assistance from the British Aluminium Company and had opened negotiations for the purchase of a suitable vessel. The Commission decided that the offer of the British Aluminium Company should be

accepted and that the geologists should work under the direction of Mr. Owen. It also decided that the services of a commercial enterprise should be employed for the survey, which promised to become a large-scale venture.

158. Mr. Dodd, the Secretary, recommended the engagement of a company known as Australasian Civil Engineering Pty. Ltd., because it "had within its organisation, technical officers skilled in mining surveys and management, ship design and purchasing, actual experience on bauxite surveys, technical management and extensive experience in the purchase of general engineering supplies, drilling equipment and stores". The Commission unanimously adopted the Secretary's recommendations. (Mr. Watson withdrew from the discussion after disclosing to the Commission that he had a financial interest in Australasian Civil Engineering Pty. Ltd.).

159. At the next meeting of the Commission, held on 21st February, 1952, it was announced that the vessel "Illawarra" had been purchased to assist with the survey and that she was expected to sail from Sydney during April. (For details, see paragraphs 188 to 192). The General Manager presented a draft contract with Australasian Civil Engineering Pty. Ltd., which provided that the Company would organise and execute the survey at cost (including services of the Field Manager) plus 5% on purchases and 12½% on other charges for wages and services, for the approval of the Commission. The contract was approved and took the form of an order on Australasian Civil Engineering Pty. Ltd. dated 22nd February, 1952: it is set out in Appendix No. 10.

160. The Committee noted that tenders were not invited for the contract and questioned the then Secretary and Chairman of the Commission, Messrs. Dodd and Watson respectively, on this omission, because it constituted a contravention of Treasury Regulations, with which the Commission was obliged at that time to comply.

161. Mr. Dodd stated that the Commission was influenced by the urgency of the survey both because it desired quickly to establish the existence of the deposits and because the area is monsoonal and the survey would have to be completed between monsoon seasons. Mr. Watson gave a similar explanation, but added that he thought it desirable also that he know the persons who would be carrying out the work because of the unusual and difficult conditions they would experience on the Islands.

162. The Chairman reported to the Commission on 20th March, 1952, that a small party of geologists and engineers would make a reconnaissance early in April, prior to the arrival of the main working party. He said that he had not authorised heavy expenditure on plant and equipment for the survey because the Bureau of Mineral Resources had advocated a conservative course of action; and concluded on an optimistic note by stating that the latest reports from Mr. Owen, made after an intensive study of air photographs of Marchinbar Island, one of the islands in the Wessel group, "were much more encouraging".

163. Given the reasons advanced by Mr. Watson for undertaking the survey at that time, the Committee is in agreement with him. At the same time, the celerity with which the contract with Australasian Civil Engineering Pty. Ltd. was concluded in February, when the Bureau of Mineral Resources advocated a conservative policy, meant that tenders were not invited. The Committee considers that they might well have invited during the period when further investigations were being made in the Wessel Islands area.

164. The reconnaissance and the subsequent prospecting were centred on Marchinbar Island, and on 28th April, 1952 the Chairman reported to the Commission that the reconnaissance party had confirmed that the bauxite deposits were sufficiently extensive to warrant a full investigation. Preparations were

made for the transport of men and materials to Marchinbar Island.

165. It was intended that the "Illawarra" should be used for inter-island and island-to-mainland transport, but because of its failure to arrive in the survey area before the conclusion of the project, charters of aircraft and ships had to be arranged. Their cost was a little more than £4,800.

166. On 2nd October, 1952, the Commission received a report on progress at Marchinbar Island indicating that it was proposed to close the survey on the Island at the end of October and to transfer the field geologists to the mainland for a reconnaissance of bauxite deposits in Arnhem Land. The report contained an estimate that the total cost of the survey, including the work in Arnhem Land, would reach £122,000 by the end of December, 1952. As a result of this report a recommendation was made to the Minister that approval be given for the extension of the survey to Arnhem Land and the establishment of a special fund of £125,000 from which the Commission could recoup its survey expenses. On 2nd December, the Secretary reported that the geological reconnaissance of Arnhem Land would be completed within a few days and that in the absence of the Minister's approval to the recommendation made in October, the survey work in Northern Australia would be discontinued. (The Minister's directive is mentioned in paragraph 184).

167. The Committee draws attention to the absence of references in the Minutes to discussions of the cost of the survey until October, 1952. The question of cost had, however, been a matter of considerable concern to the Secretary and Chairman prior to that time. On 9th July, 1952, the Secretary wrote to the Chairman, who was at that time in the United Kingdom :-

"The question of financing the bauxite survey in the Wessel Islands is giving me some concern So far we have incurred expenditure of £50,037 It is now clear that the Wessels survey is going to cost very much more than the original rough forecast of £50,000."

168. In his reply of 22nd July, Mr. Watson stated :-

".... I have always been very doubtful of the estimated costs submitted by A.C.E. for the surveys

.... The new figures are very worrying indeed and on the present basis we could end up with an expenditure of £200,000 which is far beyond the financial ability of the Commission to meet"

169. The Committee notes that the Commission's Minutes do not record any report of this correspondence and considers that the Chairman and Secretary acted improperly in their failure to keep the Commission fully informed of the progressive and probable final costs of the survey. It would appear, however, that some Commissioners at least had considered the cost, because Messrs. Bennett and Benjamin, when discussing the question of obtaining Ministerial approval for the survey, stated that such approval was unnecessary since the cost was not expected to exceed £50,000. (It will be remembered that the Commission is under a statutory obligation to obtain Ministerial approval before proceeding with any single project estimated to cost over £50,000).

170. The cost of the survey was approximately £140,000, and Australasian Civil Engineering Pty. Ltd. received fees and commission of £7,687.10. 1d. In return for this expenditure, the Commission established the existence of 10 million tons of economic grade bauxite in the Wessel Islands. The preliminary reconnaissance in Arnhem Land revealed deposits estimated at 30 million tons.

171. Having discussed the history of the survey and its cost, the Committee now proceeds to discuss some of the more striking features associated with the detailed conduct of the survey.

172. The accounting procedure introduced by the Secretary for the Wessel Islands survey embraced a subsidiary set of books showing details of the expenditure in addition to the main account in the general ledger. The subsidiary records were retained by the Secretary when the accounts were transferred to Bell Bay in April, 1952.

173. When the Balance-sheet as at 30th June, 1953, was in course of preparation, the Chief Accountant (whose office was at Bell Bay) requested details of the Wessel Islands expenditure. Mr. Dodd submitted a Balance-sheet for the project, but withdrew it and submitted another shortly afterwards. This action was repeated approximately two weeks later when a third Balance-sheet was submitted with a certificate by the Chief Auditor, Victoria, to the effect that it was in accordance with the books of the Commission. The phrasing of this certificate, together with the withdrawal of two Balance-sheets submitted by Mr. Dodd, prompted Mr. Conde, the Chief Accountant, to make a full investigation of the Wessel Islands expenditure.

174. This investigation, which was completed in May, 1954, revealed a number of unsatisfactory features in the administration of the survey and departures from the Treasury system of accounting which the Commission was required to follow. Of these, the most important are discussed in the following paragraphs.

175. It was suggested that the terms of the contract with Australasian Civil Engineering Pty. Ltd. did not provide an adequate safeguard over Commission funds. The standard practice adopted by Commonwealth Departments entering into cost-plus contracts was to define the costs to be reimbursed to the contractor and those which he was expected to bear from his commission. When the estimate exceeded £50,000, a Commonwealth officer was usually stationed on the site in order to maintain a check on expenditure by the contractor.

The contract approved by the Commission neither defined the costs that were to be subject to adjustment, nor provided for the presence on the site of an officer of the Commonwealth. When questioned by the Committee on the form of the contract, Mr. Dodd asserted that the interests of the Commission were safeguarded. Mr. Watson considered that the form of the contract "was appropriate to the simple intentions of the parties".

176. The Committee calls attention to the fact that the terms of the contract for the survey were approved without demur by the Commission, which included at the time both a senior Treasury officer and a business management expert.

177. The attention of the Committee was also drawn to the fact that the Commission did not hold in its possession proper supporting evidence that payments made by the Commission to the Company had been incurred on the project. Mr. Dodd claimed that, because of the close association between the Company and the Commission - they occupied adjoining offices - he or the Accountant knew of all purchases made in respect of the survey. He added that "original invoices, certified as to receipt of goods, were sighted and compared with orders and authorities and any matters in doubt were referred to me for confirmation that they were known to and approved by me". The Committee was informed that the provisions of the Audit Act require that the documents mentioned by Mr. Dodd should not only be sighted, but should be retained.

178. The failure of the contracting company to maintain stock records for the survey was another subject of adverse comment. Mr. Dodd maintained that there was small possibility of stores being wrongfully removed from the isolated island and that the goods were issued for immediate use under the supervision of an accounts officer of the contracting company. He added that as all issues were chargeable to the one project, there was no necessity to

dissect costs, and that in any case the Commission maintained its own record. It is noted, however, that the Commission has advised that it is unaware of any stock records maintained by its organisation in relation to the survey.

179. The Committee records as an interesting example of the detailed conduct of the survey, the history of the bulldozer used on Marchinbar Island. In April, 1952, early in the course of the survey, Mr. Owen informed the Secretary that because of the terrain, the climate and dense vegetation, heavy earth-moving equipment was required at the Island. On 29th April, 1952, an agreement with the Department of Works was signed in Darwin, on behalf of the Commission, for the hire for a period of about eight weeks of a cable-operated D24 bulldozer. By July, 1952, payments for hire were in arrears.

180. No further payments had been made to the Department by 21st October, 1952, when the Field Manager of the Company informed the Department that he proposed at the end of that month to discontinue work on the Island, and that he was unable to return the bulldozer to Darwin. Local barge-owners refused to undertake the trip to the Island because of seasonal conditions. The Director of Works in Darwin requested immediate payment of the accrued hiring charges in a letter to the Company dated 13th November, 1952. The letter also informed the Company of the rates which would be charged while the machine was not in use and mentioned a proposal by the Field Manager for the outright purchase of the machine by the Commission. A copy of this letter was forwarded to the Commission with a minute pointing out the unsatisfactory record of the Company in regard to the payment of hiring charges and suggesting that the Department would consider favourably an offer by the Commission to purchase the machine.

181. The Minutes of the Commission contain no record of the Department's suggestion, but the Secretary replied in December, 1952/January, 1953 informing the Department that the

Commission was unable to purchase the machine. In March, 1954, when climatic conditions were favourable and the return of the bulldozer was again under consideration, inquiries were made by the General Manager regarding the comparative costs of purchase and return. Without knowledge of the original suggestion by the Director of Works, he requested the Department to nominate a price at which it would be willing to sell the machine. The price, £3,500 without rebates for rent paid, was unsatisfactory, and after the matter had received the consideration of the Commission appointed in 1953, the Department was informed in April, 1954, that negotiations for purchase would be discontinued and that hiring charges would be paid to the date of return.

182. In the meantime, efforts were being made to return the bulldozer to the Department of Works in Darwin. It was thought that the M.V. "Illawarra" would be available to transport the machine from Marchinbar Island, but repairs to the vessel which were being undertaken in Cairns delayed its arrival at the Island until October, 1953, shortly after which it was damaged in an accident at sea. While the "Illawarra" was being repaired, attempts were made to charter another vessel, but these were unsuccessful. The bulldozer was taken back to Darwin on the "Illawarra" and finally returned to the Department of Works on 30th June, 1954.

183. The total cost incurred by the Commission for the hire of the bulldozer amounted to £2,595 of which £1,516 was payable for the period from 1st November, 1952, to 30th June, 1954, during which time the machine was not in use.

184. In a statement submitted to the Committee, Mr. Watson declared that the contracting company was directed to leave the bulldozer on Marchinbar Island because the Commission anticipated that further surveys would be made in Arnhem Land in 1953, and that the responsibility for leaving the machine on the Island rested with the Commission. The Minutes of the

Commission meeting held in January, 1953, record a statement by the Chairman that he had discussed with the Minister testing the deposits in Arnhem Land reported by the geologists who had made a preliminary survey at the end of 1952, and that he was awaiting the Minister's reply. The Minister issued a directive in April, 1953, that the survey was to be closed down and that the bulldozer was to be returned to Darwin, but as mentioned above, this was not done until 30th June, 1954.

185. The Committee notes that, when related to the amount of bauxite proved, the cost of the survey was particularly low in comparison with bauxite testing ventures in other parts of the world; but considers that the criterion by which the survey should be judged should take into account the efficiency with which the survey was organised. The Committee considers, for reasons set out above, that the Commission did not organise the survey as efficiently as was possible in the circumstances.

(ii) The M.V. "Illawarra"

186. The M.V. "Illawarra" was mentioned briefly in the preceding section of this Report in connection with the Wessel Islands survey (paragraph 159); its purchase was an integral part of that venture. The circumstances of its purchase and the unusual features of its refit and later service provoked so much criticism by various witnesses, including the Auditor-General, that the Committee reports the relevant facts in some detail.

187. The Minutes of the Commission reveal that the Chairman, who was authorised in November, 1951 to seek a suitable vessel for the survey, reported on 17th January, 1952 that negotiations had been opened for the purchase of a vessel, subsequently known as "Illawarra", but that "the Minister was unwilling to authorise (the purchase of the vessel) until Cabinet had given its decision on finance". The Commission

agreed to the purchase of the vessel at a total cost of £10,000 including refit, subject to the Minister's approval. According to the Minutes of the meeting held on 21st February, 1952, the Chairman reported that the Minister had given his approval and that "Illawarra" had been purchased at a cost of £6,250. (See paragraph 191). He informed the Commission that the vessel was undergoing refit and was expected to leave Sydney in April.

188. The details of the purchase are more involved than the simple story told by the Minutes would suggest. When seeking the vessel in accordance with the Commission's authority given in November, 1951, Mr. Watson had used the services of engineers from G.H. & J.A. Watson Pty. Ltd., a firm of which he was a Director and which Mr. Dodd had recommended to perform inspection duties for the Commission in May, 1951.

189. At the Commission meeting held on 17th January, 1952, Mr. Dodd recommended Australasian Civil Engineering Pty. Ltd. for the Wessel Islands survey, stating that the Company "had within its organisation technical officers skilled in ship design and purchasing" and the Commission, apart from Mr. Watson, decided that the proposed contract with the Company should embrace the provision of a suitable vessel. The Committee points out that Mr. Watson stated in evidence that it was G. H. & J.A. Watson Pty. Ltd., not Australasian Civil Engineering Pty. Ltd., which employed an officer skilled in ship design and purchasing.

190. Despite their lack of technical knowledge, Australasian Civil Engineering Pty. Ltd., on 22nd January, 1952, formally offered to arrange the purchase of the vessel "Illawarra" for the Commission at a price of £6,500 and to submit an estimate of the cost of conversion, for a fee of 5% on total delivered cost. (Trawling gear was subsequently removed from the vessel and the price was reduced to £6,250). On 24th January, 1952, Mr. Dodd replied to Australasian Civil Engineering Pty. Ltd.,

stating that the vessel had been found suitable after inspection by Mr. Watson and himself. He enclosed the Commission's cheque for £6,250 and an order for the purchase of the vessel in sea-going condition in Sydney Harbour, to be refitted according to plans and estimates to be submitted, with a proviso that the cost of refit should not exceed £3,750.

191. The references in the Minutes to Ministerial approval being obtained for the purchase of "Illawarra" are difficult to understand, partly because the Minister's approval was mandatory only for projects estimated to exceed £50,000, and partly because in evidence Mr. Watson said that he did not remember seeking approval. Mr. Dodd maintained, when he was giving evidence, that the Minister's approval was sought and obtained verbally by Mr. Watson and that the Minutes confirmed this. The Committee is of the opinion that some misunderstanding must have arisen between the Chairman and Secretary in the matter, but notes that the Minister was consulted by the Chairman about the general advisability of undertaking the Wessel Islands survey.

192. Although the Commission's order for purchase and refit of the vessel was placed with Australasian Civil Engineering Pty. Ltd., the purchase was actually conducted by G.H. & J.A. Watson Pty. Ltd., who on 12th March, 1953, informed the Secretary that the refit was estimated to cost £5,320. Without referring the revised estimate to the Commission, Mr. Dodd authorised the Company to proceed with the refit. G.H. & J.A. Watson Pty. Ltd. thereupon placed an order with Messrs. W.L. Holmes & Co. for the work.

193. The Committee directs attention to the fact that tenders were not called either for the purchase of the vessel or for the refit. Mr. Watson attributed the failure to call tenders to the necessity of securing a suitable vessel in the short time available and to the scarcity of suitable vessels at the time; but the Committee notes that although "Illawarra" was

purchased on 24th January, 1952, the order for refit was not placed until 19th March, 1952.

194. The orders on Australasian Civil Engineering Pty. Ltd. for the conduct of the Wessel Islands survey and the purchase of "Illawarra" required the Company to comply with the requirements of the Commonwealth Director of Navigation and State Navigation Authorities. Although the services of the Department of Shipping and Transport were not sought prior to purchase, Mr. Dodd informed the Deputy Director of Navigation of the proposed refit of the vessel and the purposes for which it would be used, and arranged for the contracting Company to submit the vessel for the Department's survey.

195. The refit did not progress as quickly as the Commission had expected, and as time progressed the cost exceeded the estimate. In spite of the fact that the Secretary claimed that the Commission was informed of these rising costs at every meeting, the Minutes contain no such reference. Furthermore, when referring to progress reports on the cost of "Illawarra", Mr. Benjamin stated :-

".... As far as I am aware no details of the cost of getting her to sea were submitted until after the survey work ceased".

196. The Minutes do refer, however, to the delay experienced in obtaining the certificate of the Director of Navigation that the vessel was seaworthy. Messrs. Watson and Dodd claimed that the delay was caused entirely by the Department, Mr. Watson stating :-

".... The Nautical Surveyor could hardly have delayed the work more effectively if he had set out with only this intention in mind. The attitude of the Nautical Surveyor was highly unco-operative so much so that the Secretary and others were obliged at times to interview the Deputy Director concerning his demands".

It should be mentioned, however, that the actions of the Surveyor were supported by his superior officers in the Department. In fact, the Principal Surveyor of the Department, who inspected the vessel with representatives of G.H. & J.A. Watson Pty. Ltd. and W.L. Holmes & Co., not only agreed with the

alterations required by the original surveyor but added others. The performance of the refit was not completely satisfactory to the Department even after this inspection, and it was not until 27th August, 1952 that a permit to sail was issued. It is the opinion of the Committee that Mr. Watson accurately described the position when he wrote to the General Manager on 12th June, 1952 :-

"We are probably to blame for not having ascertained requirements (of the authorities) before purchasing the vessel".

197. The failure of those responsible to ascertain the requirements of the Commonwealth Navigation Act before the decision to purchase was made involved the Commission in additional payments of several thousand pounds in order to make the vessel comply with the requirements of the Navigation Authorities. Had these requirements been investigated in the initial stage, it is possible that the vessel would not have been purchased. There appears to be a clear failure by an agent to protect the interest of his principal, who did not choose to hold the agent financially responsible.

198. The final cost of the refit and overhaul, including the provision of lifeboats, was £15,914 (original estimate £3,750; revised estimate £5,320). The Auditor-General has commented adversely on this cost and directed special attention to the cost of repairs to the engine, to the quantities of materials used and to the cost of labour.

199. It was suggested that the Atlas engine in "Illawarra" was at best second-hand in 1945, and that it would have been more economical to have substituted a new engine for that already installed. In reply to these suggestions, Mr. Watson submitted a copy of a Statutory Declaration signed by the vendor of "Illawarra" declaring that the engine in "Illawarra" was imported in new condition from the United States in 1945 and had given no serious trouble during the period of its use. He also presented figures showing that its replacement would have

cost £3,063, which was much more than the amount originally estimated as the likely cost of the engine overhaul.

200. Regarding materials and wages, the Department of Shipping and Transport advised that the amount of pine and copper used in the refit was approximately double what they would expect to use and that the £960 paid in wages for plumbing was irreconcilable with the work done.

201. It was also suggested that the auxiliary Blackstone engine originally installed in "Illawarra" had been removed after purchase and was later repurchased at a cost of £340. Australasian Civil Engineering Pty. Ltd. informed the Commission that the auxiliary engine, which had been used for operating a winch, was at first thought to be unnecessary, but later, when the requirements of a cool room were recognised, it was decided to repurchase it to lighten the load on the main engine and to avoid running the main engine for refrigeration purposes when the vessel was idle. The value of the engine was estimated by Mr. Watson at £200 and installation costs at £140.

202. During the voyage from Sydney to Darwin the Atlas engine did not perform satisfactorily, the Captain of the vessel stating that the engine did not once run for 36 hours continuously and only on rare occasions for 24 consecutive hours. Mr. Watson attributed this to inefficient engineers and pointed out that the Engineer-Surveyor issued a clearance for the vessel after it completed trials satisfactorily. This opinion was also held by a Director of G.H. & J.A. Watson Pty. Ltd., Mr. Burt, who supervised the reconditioning and inspected the engine at Cairns on the vessel's initial journey north.

203. After a major breakdown occurred between Marchinbar Island and Thursday Island, Mr. Dodd considered taking action against W.L. Holmes & Co. for the cost of all repairs required after the reconditioning performed by that firm. As the contract for refit had been arranged by G.H. & J.A. Watson Pty. Ltd., Mr. Dodd discussed the matter with Mr. Burt, whose view was

that both Companies were free from responsibility after the vessel was cleared by the Commonwealth Navigation Authorities. Mr. Burt requested the Commission to inform his Company in writing whether or not it held G.H. & J.A. Watson Pty. Ltd. responsible for engine breakdowns, so that the position of the Company could be clarified. After discussing the matter with Mr. Watson and obtaining his approval, Mr. Dodd wrote to G.H. & J.A. Watson Pty. Ltd. absolving the Company from responsibility for engine failures which occurred after "Illawarra" left Sydney.

204. The vessel reached Marchinbar Island on 25th September, 1952, after which it made two voyages to Thursday Island for supplies. In December, 1952, it broke down en route to Thursday Island and was towed to the Island, suffering superficial damage on the voyage. In February, 1953, it was sent to Cairns for an overhaul under the supervision of the Cairns Harbour Board. This overhaul, which cost £2,633, was not completed until September, 1953, when the vessel was directed to Marchinbar Island. Two weeks after its arrival it struck a reef while transporting plant and stores to the mainland, and was towed by a naval vessel to Marchinbar Island to unload its cargo, and thence to Darwin, reaching there on 5th November, 1953.

205. The Commission was faced with the alternative of disposing of the vessel as it lay - practically a total write-off - or having it repaired so that equipment, including a bulldozer, could be shipped from Marchinbar Island to Darwin. The Commission chose the latter course, because the removal of the bulldozer was an urgent matter, and it was thought that the cost of repairs could be more than recouped in a later sale. "Illawarra" was repaired at a cost of £2,703 and after conveying the bulldozer to Darwin was offered for sale. Public tenders were invited and the highest offer, £4,600, was accepted on 26th July, 1954.

206. The total cost of "Illawarra" was £38,756, made up as follows :-

	£.	£.
Purchase Price	6,250	
Refit in Sydney	12,844	
Boats and Equipment	<u>3,070</u>	22,164
Repairs - Cairns	2,633	
- Darwin	2,703	
Towage - R.A.N.	<u>656</u>	5,992
Operating Expenses		<u>10,600</u>
		<u>£38,756</u>

207. Although the contract was placed with Australasian Civil Engineering Pty. Ltd. and the purchase price of the vessel was paid to that Company, commission of £1,039 on the purchase and refit was paid to G.H. & J.A. Watson Pty. Ltd.. The apparent confusion in the division of functions between the two Companies becomes a little clearer if the purchase of "Illawarra" is viewed as an integral part of the Wessel Islands survey and if the work of preparing the vessel for the survey is regarded as an arrangement in the nature of a sub-contract between Australasian Civil Engineering Pty. Ltd. and G.H. & J.A. Watson Pty. Ltd..

208. The Committee is of the opinion that, although a proportion of the expenditure on "Illawarra" was necessitated by uncontrollable factors and some benefit was derived from the vessel, the Commission did not receive sufficient value for the total expenditure it was forced to incur. However, the most disturbing feature of the venture is the lack of candour displayed by Messrs. Watson and Dodd, who, it would appear from the Minutes, failed to provide the Commission with complete details of the circumstances of purchase and of the progress and costs of the refit.

(b) The Selection of a Site

209. There are two distinct processes in the production of aluminium ingots. The first is the alumina process in which the bauxite ore is treated to extract alumina; the second, the reduction process, involves the processing of the alumina in a reduction plant to produce aluminium ingots. The two processes are not necessarily or usually performed on the same site.

210. By the Aluminium Industry Act 1944, that was assented to on 7th December, and ratified the Agreement between the Commonwealth and the State of Tasmania, the Commission was required to establish a reduction plant in Tasmania - mainly because of the availability there of electric power in sufficient quantities and at an economic price - but it was free to decide where it would build the alumina works.

211. In the production of aluminium, the reduction process depends especially upon adequate supplies of electricity. Because direct current, which cannot be transmitted over long distances, was at the time more economical than alternating current, the Commission conducted a number of surveys in areas suggested by the Tasmanian Hydro-Electric Commission as being suitable for the development of direct current generating schemes. As a result of these investigations, the Commission decided, in January, 1947, to erect its combined alumina and reduction plant at Trevallyn on the Tamar River, approximately three miles from Launceston and adjacent to the site for a power station generating direct current. The decision was subject to a favourable report by the engineering officers of the Australian Aluminium Production Commission and the Tasmanian Hydro-Electric Commission who were carrying out technical examinations on the site.

212. Although the foundation-bearing qualities of the site were generally satisfactory, their examinations revealed that difficulties would be encountered in providing suitable

wharf facilities. The problems connected with the construction of wharves had not been solved by December, 1947, by which time objections had been raised to the site because of its proximity to expanding residential areas. Furthermore, the Commission was informed of changes in the relative costs of D.C. and A.C. power, the price differential in favour of D.C. being considerably reduced. Having in mind the wider choice of site available if A.C. were used, and the unsatisfactory features of the Trevallyn site, the Commission abandoned its plans for Trevallyn and appointed a Site Selection Committee to seek a more suitable locality.

213. In December, 1947, the Commission considered the possibility of establishing the alumina works at Inverell in New South Wales, where the existence of large deposits of bauxite had been proved. The Commission directed two members of its technical staff to compare the advantages of establishing the alumina plant at Inverell and the reduction plant in Tasmania, with those to be gained from a combined plant in the Tamar district of Northern Tasmania. They reported to the Commission in May, 1948, that it would be more economical to produce alumina at Inverell if Inverell ore exclusively were used, but that there would be little or no advantage if use was made of other ore, Australian or foreign. For this reason and because of defence considerations, the value of a unified plant and administration, and the greater flexibility of operating from a seaboard site, the Commission rejected the Inverell proposal.

214. In February, 1948, the Site Selection Committee recommended the construction of either the reduction plant or a combined plant at Native Point on the Tamar River, sixteen miles north of Launceston. However, tests conducted by technical officers of the Commission and a consulting engineer revealed that the foundation-bearing qualities of the site were unsatisfactory. Further surveys were made until March, 1949,

when alternative localities were recommended to the Commission, one at Windermere, 15 miles north of Launceston, the other at Bell Bay, some 20 miles north of Windermere. On both sites ample space was available and adequate wharf facilities could be provided, and tests revealed that the subsoils were in both cases suitable for the necessary foundations.

215. Because of criticism made to the Committee during the course of its Inquiry to the effect that the Bell Bay site was geologically unsuitable for the establishment of a reduction plant, the Committee draws attention to the fact that comprehensive tests were made of the geological structure of the Bell Bay site, and indeed, of all the sites considered suitable, before any irrevocable decisions regarding sites were made.

126. A Sub-Committee of the Commission appointed to investigate the economics of production on both sites reported that its estimates showed a margin of £25,000 per annum in favour of Bell Bay, mainly because it was accessible to deep sea shipping, whereas ships over 8,000 tons could not navigate the Tamar River as far south as Windermere. The only disadvantage associated with Bell Bay was the absence of rail transport - the nearest station being 25 miles distant - but the Commission was advised by local authorities and marine consultants that it could be overcome by using barge transport between the site and Launceston.

217. After full consideration of all relevant factors, particularly the availability of adequate power and water supplies, the Commission on 24th March, 1949, decided upon Bell Bay as the site for both the alumina and reduction plants and immediately informed the Minister and State Premier of its decision.

218. The acquisition of the site at Bell Bay was proclaimed in the Commonwealth Gazette on 27th October, 1949, and by the end of that year work on the site had commenced.

CHAPTER VI

ESTIMATES OF THE COST OF THE PROJECT

219. The Committee devoted much time to examining the several estimates of the cost of the project made by or on behalf of the Commission. It did this for a number of reasons:-

- (a) because the accuracy of the estimates of cost, especially the later ones, is directly affected by the efficiency and accuracy of the accounting system generally (the accounting system is discussed in more detail later, in Chapter VII);
- (b) because the successive estimates that were made show clearly the difficulties associated with a large-scale pioneering project such as the Bell Bay aluminium works;
- (c) because the problem of the responsibility of a statutory body such as the Commission, and in particular of the Chairman of that body, to the Minister, is aptly illustrated in connection with the estimates of the cost of the project; and
- (d) because the authority of the Parliament is much diminished when it is unable to consider, in authorising further expenditure, accurate estimates of the cost of the project.

220. The lack of accuracy in the various estimates of the full cost of the project is a theme that runs right through this section of the Report and must be ascribed, in different stages of the development of the project, to different causes.

(a) The Earlier Estimates of the
Cost of the Project

221. The first authoritative estimate appears to be that made by Sir Ronald Charles who, at the request of the Commonwealth Government, drew up a report on the subject in May, 1941. The report was based on a plant to produce 5,000 tons of aluminium per annum and estimated the cost of the alumina factory at £500,000 and the smelter at £1,000,000. Although this report sets out the major items of plant required for the project, itemised costs were not given.

222. After considering the foregoing report, the Government in 1943 decided, as a matter of policy, to enter into an agreement with the Government of Tasmania to proceed with the manufacture of ingot aluminium in Australia, preferably from Australian bauxite, each Government contributing £1,500,000.

223. Official inquiries were made overseas from that time on, directed both to deciding upon the type of plant to be installed and to making a further estimate of total cost. It was discovered, during talks with local aluminium interests, that a plant producing 5,000 tons of aluminium a year would not meet requirements and therefore estimates for a plant to produce 10,000 tons a year were prepared.

224. In 1943, Messrs. A.J. Keast and H. Hey (loaned respectively from Zinc Corporation and Electrolytic Zinc Company) visited Canada and the United Kingdom at the request of the Commonwealth Government. With information supplied by the British Aluminium Coy., they estimated that the plant alone, excluding such items as operating capital, general stores and spares, bauxite surveys, wharf, coal depot and housing, would cost some £2,250,000. It was increased by the Department of Supply and Shipping to £3,000,000 to take account of most of those items except housing, although the estimate specifically did not relate to any particular site. Further details of the estimate can be found in Appendix No. 11.

225. This estimate appears to have provided the basis for the financial provisions of the Aluminium Industry Act 1944, which validated the Agreement between the Commonwealth and the State of Tasmania.

226. In 1946, the Dorr Company of New York produced a report which put the cost of a reduction plant to produce 10,000 tons of aluminium per annum at \$4,765,000, which at the current rate of exchange amounted to £A1,489,900.

227. In February, 1947, the Australian Aluminium Production Commission appointed a Committee of Examination to investigate the estimated capital cost of the project. The Committee consisted of a Deputy Member of the Commission, two of its technical officers and a Commonwealth officer (who later became the Commission's Chief Engineer).

228. This Committee put the estimate at £2,822,000. Later in 1947, the estimate was revised to £2,940,000.

(b) The Estimate of \$7,250,000
1951-52

229. In November, 1948, the projected plant capacity was increased from 10,000 tons to 13,000 tons a year, and in 1949, as described in Chapter V of the Report, Bell Bay was selected, after much investigation, as the site for a combined alumina and reduction factory.

230. During 1950, the detailed features of the site were ascertained and it became clear that the rising level of costs and the need to provide for additional major items in the project made the 1947 estimate inadequate. The Commission directed that a revised estimate be prepared in February, 1950, and the then Minister for Supply was informed of the Commission's decision. The Chief Engineer commenced the preparation of a fresh estimate in the latter half of 1950, and it was completed

in June, 1951. Although the engineering plans and specifications were far from complete, the estimate was intended to provide a complete picture. For that reason, an amount of £1,864,000 was included for working capital and development expenses, and the estimate amounted to £6,865,000, based on costs in January, 1951.

231. In September, 1951, the estimate of £6,865,000 was submitted to the Minister, and two months later an amount of £385,000 was added to cover further possible price rises. Thus the total amount was set at £7,250,000. The submission incorrectly referred to the estimate as being at and based upon current price levels: it was actually based upon price levels and costs in January, 1951, and by the time the estimate was presented to the Minister in September, prices and costs had moved rapidly upward, and therefore the amount of additional funds to be provided was already inadequate. Details of the estimate are included in Appendix No. 11.

232. The Committee notes that the Minister had not been kept continually informed of the probable cost of the project, and in a letter dated 7th August, 1953 to the Chairman of the Commission, he said :-

"On September 21, 1951 the Commission, out of the blue as it were, wrote to me stating that the estimated cost of bringing the Project into production, including working capital, was now £6,865,000 instead of £3 million, saying - "this figure will be exceeded if costs continue to rise as appears likely". Less than two months later the Commission revised this figure and increased it to £7,250,000, which meant that the Commission was asking for an appropriation of £4,250,000 in addition to the £3 million originally granted.

During the detailed discussions which took place between the Chairman, the Secretary, Mr. Nette and myself when we drafted the Cabinet Agendum seeking this additional appropriation, I specially asked whether £4,250,000 would be sufficient to bring the Project into production, and was told that, as far as could be estimated, this sum would be sufficient. Paragraph 10 of the Agendum uses the words "present day costs", but it also includes an item of £385,000 as the "estimated margin to cover further price rises". Nowhere in the Agendum is there any suggestion of the possibility that large additional funds would be needed, and I have no doubt that, in advising me, these gentlemen believed that the sum asked for would be approximately sufficient. ..."

233. The Government considered the position in December, 1951. This led to a review of the Agreement between the Commonwealth and the State of Tasmania, the negotiation of which took some time. The Tasmanian Government indicated that it could no longer afford to retain its financial interest at half the total cost of the undertaking. Accordingly, the Agreement had to be altered and this led to a change in the number of Members of the Commission and the relative representation of the Commonwealth and Tasmanian Governments. The amending Commonwealth legislation* authorised the expenditure of a further £4,250,000 on the project and brought the total amount provided by the two Governments to £7,250,000, including the £1,500,000 that has been made available by the Tasmanian Government.

234. At this stage there were many sections of the work for which designs had either not been commenced or were as yet incomplete, such as the alumina plant, final drawings for which were not commenced until mid-1951. But in addition to the inaccuracies in estimating caused by incomplete designs, the Committee draws attention to such unstable and unpredictable economic factors as :-

- (a) the shortage of and delays in shipping;
- (b) the shortage of essential supplies, e.g. steel, cement and timber;
- (c) the inflationary condition of the economy, including such factors as the absence of any stable wage or price level and the continual rise in costs of labour and material;
- (d) the consequential rapid turnover of labour during this period of full employment.

235. It seems to the Committee that the error in estimating occurred not so much on the technical side as in the

* Act No. 16 of 1952, passed by the Commonwealth Parliament in May, 1952 and proclaimed in October, 1952.

interpretation of the economic conditions of the time²⁶. It observes that while, in the first place, the error was a result of the lack of appreciation of the economic conditions by the Chief Engineer (Mr. Leckey), it was the responsibility of the Commission itself to consider the broader aspects of the estimate that had been made; and it regards the failure to report on the cost basis of the estimate to the Minister as unfortunate. Nevertheless, the Committee appreciates the difficulty of making any firm estimate at the time, and the unsatisfactory character of any estimates that attempted to include an allowance for increases in general costs.

236. The Committee points out that because of the error in estimating, the Government was not in a position to consider the problem of the Australian Aluminium Production Commission in its true light, and therefore could not present to the Parliament a proper assessment of the Commission's need for further funds.

(c) The Estimate of £10,000,000
1952-53

237. In March, 1952, the General Manager instructed the Chief Engineer (Mr. Leckey) to make a fresh estimate of the total cost of the project. The Chief Engineer not having produced an estimate by May, the General Manager and the Sydney Accountant (Mr. Robertson) made a broad estimate of the total amount required, which it was said was given to the Chairman of the Commission, Mr. Watson, on the eve of his departure for England. Mr. Watson contested this statement and said that if the estimate were so made it would have been quite useless, because it was unsupported by essential data. The estimate

* See Appendix No. 12.

mentioned by the General Manager and the Sydney Accountant indicated that the cost would be between nine and ten million pounds.

238. At its meeting in October, 1952, the Commission was informed that the £7,250,000 made available by the Commonwealth and Tasmanian Governments would be insufficient to complete the plant; it requested information as to the final estimated cost of the project. The relevant Minute reads :-

".... The Chairman advised that this matter was receiving concentrated attention but that the estimates were not yet at a stage where they could be submitted to the Commission as firm figures. The General Manager advised that it was expected that the estimates would be ready in final form in approximately three weeks' time. All sections of the staff were seized with the importance of this work.

The Commission directed that the estimates when submitted should provide an adequate comparison with the previous estimate, details of increases and reasons therefor, and other information as listed in a questionnaire prepared by Mr. Hibberd. A special meeting to discuss the financial position would be held in Melbourne at 9 a.m. on the 31st October.

The Commission further decided that while the Commonwealth and State Governments would be advised as quickly as possible of any increase in the estimated cost of the plant, it was advisable to keep the discussions confidential at the moment, as the tentative information was too inadequate to warrant disclosure to the Minister at the present stage. The position should, however, be clear following the special meeting at the end of October".

239. The Commission advised the Minister orally through its Chairman that funds additional to the appropriation of £7,250,000 would be required to complete the project, whereupon the Minister intimated that he would attend the meeting of the Commission to be held in January, 1953, to discover from the Commission the real position.

240. The General Manager submitted an almost final revision of the estimates to the meeting of the Commission held in Sydney on 28th January, 1953, the meeting at which the Minister was present. The relevant Minute of the Commission reads as follows :-

"The General Manager submitted revised estimates of capital cost, showing that the amount to complete the plant at prices of January, 1953 was £9,525,000. Working capital, cost of housing and bauxite investigations brought the total to £11,468,000 of which £295,000 could be saved by modifications and deferments of non-essential sections. Any delay in the starting-up date at current prices would cost an additional £16,000 per month.

The Commission considered the estimates and supporting documents and prepared an amended statement allowing for the proposed savings, and assuming that £500,000 would be available by way of bank overdraft for financing production operations until the industry became self-financing. The capital cost under these conditions was reduced to £10,638,000.

The discussion was adjourned.

The Commission resumed its discussions on Capital Estimates, and agreed that to give the Minister full information, an analysis of expenditure on the lines drafted by Mr. Scott should proceed. Mr. Scott undertook to pursue this in conference with Commission officers on Thursday morning, 29th January, and for this purpose his further attendance at the meeting was excused.

Decided that the draft report to the Minister be prepared for consideration at the Commission's next meeting".

241. In March, 1953, the complete revised estimate of £10,500,000 was presented to the Minister with a detailed explanation of the increase over the previous estimate of £7,250,000*.

242. It should be pointed out that this revised estimate represented a substantial reduction on successive estimates submitted by the General Manager to the Commission, the highest of which, submitted to the meeting of the Commission held in November, 1952, amounted to some £11,500,000.

243. The Committee heard evidence from the former Chairman of the Commission, Mr. G.H. Watson, concerning the revision of the estimate of total cost that took place in 1952. Although Mr. Watson denied that prior to his departure for England in July, 1952 he had been told by the General Manager of the upward revision of the estimate of total cost that appeared

* For details of the estimate, see Appendix No.11, and for the items in which an increase took place, see Appendix No.12.

to be inevitable, he admitted that he had told the Secretary of his concern at the upward trend and had directed an urgent examination of the figures. Bearing in mind all the information it was able to obtain, the Committee is of the opinion that Mr. Watson must have had some misgivings over the correctness of the estimate of £7,250,000 before he went to England - and if that were the case he had a clear duty to inform the Minister immediately of the changed position.

244. The Committee regards Mr. Watson's actions in this matter, both towards the Minister and the Committee, as somewhat disingenuous.

245. Furthermore, the Committee noted that although the Commission decided, at meetings held in October and December of 1952, that the Commonwealth and State Governments should be advised as quickly as possible of any increase in the estimate of total cost, it also decided that its discussions were, pending the compilation of more reliable data, to be treated as confidential. The Committee has noted the Minute (quoted in paragraph 238 above) of the Commission's discussion in October, and adds the following Minute of the Commission meeting held in December, 1952 :-

"The Commission agreed that while the Estimates in final form should be presented to the Minister as early as possible, they must first be acceptable to all Members and thoroughly supported. In view of amendments and further information now wanted, there was little prospect of placing the Report before the Minister this month. It was therefore decided to finalise the matter at a meeting to be held early in January, 1953. Meanwhile it was agreed that the subject be treated as confidential, unless the Minister sought information, when he should be informed of the position as now estimated subject to further examination".

246. The Members of the Commission were obviously in a dilemma during the last quarter of 1952: their duty under the Act was "to keep the Minister continually informed of its operations" (section 14); but at the same time they desired, especially in view of the recently submitted estimate of total cost that now appeared to fall so far short of the probable

total cost, not to provide him with another estimate that also could prove to be substantially inaccurate. It may be difficult to see what other course the Commission could have adopted, but the Committee considers it did not take sufficient steps to keep the Minister informed of the position. The Committee also observes that because the then Chairman was smarting under the pungent comments made by the Minister in regard to the Commission's estimates of capital cost, and described in Mr. Watson's letter to Mr. Keast of 15th January, 1953,* an atmosphere was created rendering informal communications still less easy to make.

(d) Over-Commitment by the Commission

247. The 1944 Acts of the Commonwealth and Tasmanian Parliaments appropriated a total of £3,000,000 for the purpose of the Australian Aluminium Production Commission, of which £1,206,000 had been spent by 30th June, 1951. Commitments entered into, at the same date, amounted to a further £1,927,000, so that the actual expenditure, added to commitments entered into by the Commission, amounted to £3,133,000, or £133,000 above the expenditure of £3,000,000 authorized by the 1944 Acts.

248. The Solicitor-General advised the Committee that in the system of responsible government established under the Commonwealth of Australia Constitution Act 1901, the Executive Government may, by virtue of Statute or otherwise, have power to enter into a particular contract. The fact that the contract involves the expenditure of public funds in excess of or in advance of Parliamentary appropriation will not, as a matter of

* The Committee has noted the correspondence between Mr. Watson and Mr. Keast at this time, relating to estimates of the cost of the project.

law, of itself invalidate the contract. Assuming that the Minister, in the exercise of this power of the Executive Government, could approve the making of such a contract by the Commission, he could in this case have authorised the Commission to continue to incur commitments in excess of the appropriation of £3,000,000, in anticipation of obtaining the Parliament's approval for the additional amount*.

249. Actually, the Commission did not expend more than had been appropriated by the Parliament. The Committee noted, however, that it was not until October, 1952, when the Aluminium Industry Act 1952 was proclaimed, that a further appropriation of £4,250,000 was authorized and that the Commission was able to honour fully commitments it had entered into.

* This important issue is discussed in some detail in the Committee's Eighteenth Report, paragraphs 80-91. The Committee has not, however, considered or sought advice upon, the position of the Tasmanian Government.

CHAPTER VII

THE ACCOUNTS OF THE COMMISSION

(a) History of the control of the Accounts

250. During the period 1945-1948 the Commission's main activities were surveys of bauxite deposits and investigation of the design and structure of an aluminium works. The accounting transactions were small and were controlled from the Head Office at Sydney, which used the Department of Munitions as its agent. In December, 1946, the Secretary of the Commission (Mr. Dodd) was appointed Authorising and Certifying Officer under the Audit Act and thus was empowered to authorise expenditure on behalf of the Australian Aluminium Production Commission, subject to the accounting rules laid down under the Audit Act and Treasury Regulations. As from that date, the Commission set up its own system of accounts, and claims for payment were submitted by the Commission direct to the Sub-Treasury, Sydney.

251. On 27th August, 1948, with the need for a bank account in Tasmania near the site of the projected factory, an advance account with a limit of £800 was opened at the Commonwealth Bank, Launceston^{2c}, which the Field Engineer, Mr. McDowell, was authorised to operate for the payment of wages. In May, 1951, that account was closed and, with the approval of the Commonwealth Treasury, a new one was opened with the Launceston Branch of the Commercial Bank of Australia, because it provided banking facilities at George Town which is situated much closer to Bell Bay than Launceston. Expenditure through this advance account rose rapidly as the work on the Bell Bay

* Mr. McDowell had operated an advance account when conducting the survey at Inverell in 1947 and 1948, and when he returned to Tasmania in 1948, he was authorised to operate the advance account mentioned.

site gained momentum, the maximum permitted advance at the following dates being :-

	£.
June, 1950	1,500
1951	30,000
1952	130,000

252. In August, 1950, Mr. Matterson was transferred by the Commission from Sydney to Launceston as Accountant and Administrative Officer. In April, 1951, the Launceston Office was closed, and the local administrative organisation was set up in Bell Bay; the Commission agreed in its Minute No. 690 of 17th April, 1951 :-

".... that the Commission's accounting be centralised in Melbourne pending the completion of the permanent administrative offices at Bell Bay, the accounts functions now carried out at Head Office in Sydney to be removed to Melbourne at a convenient time as arranged between the General Manager and the Secretary.

In view of the restrictions imposed by the Treasury accounting system on commercial operations it was agreed that an amendment to the Act be sought at the earliest practicable date, to enable the Commission to handle its accounts wholly on a commercial basis. Meanwhile the central accounts system in Melbourne should be made as flexible as possible.

Decided also that the Secretary remain in Sydney to exercise Head Office functions and an overall control of accounts as required by the present Treasury system".

253. The position of Chief Accountant was created and advertised in July, 1951. An appointment was made but the appointee withdrew before taking up office, and eventually, after further advertisements, the services of Mr. Wilmshurst were secured in January, 1952. He took up his office at Bell Bay and held it until 29th September, 1952, when Mr. Conde was appointed. Mr. Conde resigned on 15th September, 1954, and was succeeded by Mr. Badman as Business Manager (see Appendix No. 13 for outline Organisation charts).

254. From its inception until 30th June, 1953, a Trust Account was operated for the funds of the Commission, in pursuance of section 12 of the Aluminium Industry Act, 1944. The Commission made repeated representations to the Treasury for

permission to operate an ordinary bank account and to use a commercial accounting system; but the Treasury ruled that because, under the Aluminium Industry Act, a Trust Account had been established, the Audit Act and Treasury Regulations should apply to operations upon it. As mentioned above, the Secretary was appointed Authorising and Certifying Officer in December, 1946, and had his headquarters in Sydney.

255. In April, 1951, the Commission decided that the accounts should be moved to Melbourne; but they remained in Sydney under the control of the Secretary (Mr. Dodd) for a year longer. In April, 1952, the ledgers and the work of preparing the financial statements were taken to Bell Bay. Until March, 1953, the main fund of the Commission was retained in Sydney, when it was transferred to Melbourne with the Head Office. In view of the discussion earlier in the Report concerning the Wessel Islands survey, it is worth recording at this point that the books of that survey, also, were kept in the Head Office until the end of 1953, and were then transferred to Bell Bay.

256. The following figures show the way in which, increasingly from 1951-52, the expenditure of the Commission was made through the Tasmanian office rather than through the Head Office, even though the main fund was retained at the Head Office until the end of 1953 :-

	Expenditure from		Total £'000
	Head Office £'000	Tasmanian Office £'000	
1949-50	334	15	349
1950-51	352	221	573
1951-52	1,388	1,322	2,710
1952-53	579	1,825	2,404
1953-54	364	2,061	2,425

257. The following Minutes of the Commission are quoted in order to record the responsibilities for its accounts as the Commission allocated them :-

Minute No. 386 of 8th July, 1949

The Commission directed that following the transfer of Mr. Boyd to Launceston, the Secretary should exercise, as Authorising and Certifying Officer, full control of the Commission's accounting system, and that accounts prepared for payment should no longer be submitted to the Chairman or his representative as required by its Minute of the 9th Meeting of 27th January, 1947.

Minute No. 458 of 20th April, 1950

In regard to clerical and accounting services, the Commission directed that these matters be administered by the Secretary, who should be responsible for the engagement of staff and the installation of systems to give the necessary assistance to the technical sections and adequate financial control. To do this the Secretary should visit the Melbourne and Launceston offices regularly* and should also take steps to close the Launceston office and transfer its activities to Bell Bay as early as practicable.

Minute No. 690 of 17th April, 1951 has already been quoted above (at paragraph 250).

Minute No. 960 of 21st July, 1952

It was noted that the accounts and stores organisation now set up at Bell Bay was providing a more adequate check on stores accounting and recording, that arrears were being overtaken steadily, and that the 1951-52 accounts should not be so long delayed.

Minute No. 1042 of 4th December, 1952

The General Manager submitted recommendations by the Chief Accountant for re-organisation of the Accounting and Stores Sections at Bell Bay. These were considered, it being noted that the organisation provided for present requirements and was adaptable to fluctuations as they would occur from time to time during the construction period. No permanent positions were being established.

258. With the appointment of a General Manager in February, 1951, the place from which the accounting system was to be controlled became a live issue. The Secretary considered that control should stay with the Head Office in Sydney, the General Manager that it should be transferred to Bell Bay. The ensuing conflict is recorded by the Committee as a typical example of the differences that arose between various members of

* There is little evidence to show that this direction was observed.

the staff and to indicate the loss of efficiency that resulted.

259. Mr. Dodd, Secretary of the Commission, told the Committee that he had been responsible for the accounts up to the date of Mr. Wilmhurst's appointment as Chief Accountant, Tasmania, on 14th January, 1952, and that, thereafter, his responsibility ceased :-

"For all practical purposes, my control as Authorising and Certifying Officer over stores accounting ended, as with general accounting, on the appointment of a Chief Accountant in January, 1952. But for months previously, all accounting controls at Bell Bay were exercisable by me only to the extent permitted by the General Manager".

260. On the other hand, the General Manager, Mr. Keast, said that during 1951 he had been unable to take control of the accounts because they remained in the hands of the Secretary in Sydney and only in April, 1952, by which time they were seriously in arrears, was he able to assume complete control of and responsibility for them. The Chairman (Mr. Watson) said that from February, 1951 (the date of Mr. Keast's appointment) the General Manager had wanted to take over control of the accounts at Bell Bay. He himself agreed that "ultimately, but only at the appropriate time, the best organisation would be to transfer all the main accounting functions to Bell Bay where the money was principally being spent"; but he considered that the arrears should first be overtaken, and only acceded to Mr. Keast's demands under some pressure, in April, 1952.

261. The difficulties to which this uncertain situation gave rise are aptly illustrated by the following passage from the statement of Mr. Matterson, Accountant at Bell Bay and up to the appointment of Mr. Wilmhurst in January, 1952, the senior accounting officer at Bell Bay :-

"In February, 1951, I gained the information from newspapers that a General Manager had been appointed to the Commission. Mr. Keast arrived at the Launceston Office later in the month and introduced himself as the General Manager. I waited a few weeks expecting to be advised by the Secretary as to where my responsibilities would be following upon the appointment of the General Manager. My responsibility for the Launceston Office up to this time had been directly to Mr. H.A. Dodd as Secretary.

Having failed to receive any advice from the Secretary, I approached Mr. Keast on one of his subsequent visits and in the presence of the late Mr. A.E. Woodall and Mr. G.W. Leckey, Chief Engineer, I was informed my immediate responsibility for the Launceston Office would be to Mr. J.W. Debenham as Resident Engineer who was to be regarded as the Senior Officer in Tasmania. Through Mr. Debenham, I was to be responsible to him as General Manager. I would, however, for the time being continue to look to Mr. Dodd for direction in Accounting matters.

I thus continued to correspond with Mr. Dodd in all accounting matters and address queries to him.

In April, 1951, at Mr. Keast's direction the Launceston Office was closed and I moved to Bell Bay.

At this time Mr. Keast commenced regular visits to Bell Bay, and also gradually took more and more active interest in the accounting organisation. At his direction accounting matters were referred to him. He would give a decision or request the matter be referred to the Secretary. The practice of referring Accounting matters to Mr. Keast arose as the result of the Secretary being situated so far away in Sydney and his most infrequent visits to Bell Bay. As the tempo of construction work daily increased the need for immediate decisions for higher authority on accounting matters became paramount, and Mr. Keast readily filled this need".

262. It seems, from the evidence given by Mr. Wilmshurst, Chief Accountant at Bell Bay between January and September, 1952, that during 1952 some clear lines of authority were being settled at last, even if the means of their establishment was not wholly satisfactory :-

"Upon taking up duty, I was under the early impression that I was responsible immediately to the Secretary, but I was soon left in no doubt that such was not the case. I was informed that I should regard Mr. Dodd as the Secretary to the Commissioners, not the Secretary of the Commission, and that henceforth I was to be responsible only to the General Manager".

263. The Committee notes that when the accounts were transferred to Bell Bay, they were transferred in the middle of the month. The Senior Finance Inspector of the Commission, Mr. Viret, aptly comments that "no Accountant should have made this transfer in the middle of the month and it was no surprise to me that various errors were perpetrated" only to be adjusted months later.

264. The Committee considers that the then Commission, and in particular its Chairman, were primarily responsible for permitting this fantastic situation to develop and draws

attention to the fact that it took more than eighteen months to bring order to the accounts. The steps taken are noted below.

265. While he was Chief Accountant, Mr. Wilmshurst attempted to remedy the position by preparing a report on the requirements for a satisfactory costing system and by endeavouring to catch up some of the arrears in the ledger and plant budget cards after their transfer from Sydney in April, 1952.

266. Some indication of the state of affairs with which the Accounting staff was grappling during 1952 is given by the description presented to the Committee in the course of a statement by the Senior Finance Inspector, Mr. Viret :-

"There is no shadow of doubt but that the accounts, costing and stores positions were deplorable when I came to Bell Bay in December, 1951. Everything was in arrears - the 1950-51 Balance Sheet was at a complete standstill, creditors claims to the extent of some 2,000 were strewn everywhere without any attempt at control, the Stores Clerks were attempting to maintain Stores Records in a manner which nobody appeared to understand, a very inadequate costing system was very much in arrears and the general office appeared to be toiling along listlessly".

267. The Committee now turns to indicate the differing efforts that were made from time to time to put the accounts in order in each of the several fields. In the following paragraphs a brief account is given of the institution of a suitable stores system, of a system of machine ledger-posting, of the overtaking of the arrears, and of the attempt to rationalise the uncosted expenditures which gave rise, in the latter half of 1953, to the various statements made by Mr. Storey. The lack of a system of accounting is dealt with in section (b) of this Chapter and the stores system in section (c); the neglect to appoint an internal auditor was discussed in paragraphs 82-85.

268. The person in charge of stores had to face an enormous increase in stores work during 1951-52. The occupant of the position of Stores Superintendent during the first half

of 1952, Mr. Green, was unable to cope with the work and to institute a proper system of stores control, and in October, 1952, was replaced by Mr. Wheeler. In a short time the system was completely re-organised, and the stores system has since operated, in the opinion of all the witnesses questioned on this matter, with complete efficiency. The Auditor-General has indicated that he also is satisfied with the stores system now in operation. (For further details, see section (c) of this Chapter).

269. Mr. Conde, the second Chief Accountant appointed by the Commission, took up office in October, 1952, and energetically set about the task of bringing the accounts of the Commission into some order. When he took up office, no formal statement of duties was available to him and no written instructions were issued. He set about overtaking arrears in postings and payments, took steps to see that the stores control position was corrected, proceeded to introduce proper safeguards over the incurring of expenditure and the custody of funds and sought to institute an adequate costing system, including the allocation of all costs to job numbers.

270. The 1952-53 ledgers were transferred to a machine-posting system and from October, 1952 onwards, monthly trial balances have been extracted and presented to the Commission. Further, the expenditure incurred by the Commission after 30th June, 1952, was dissected on a more satisfactory basis into both cost classifications and job numbers, in order that as the production phase commenced, the costs of construction could properly be allocated.

271. However, the dissection of the expenditure for the year 1952-53 just described left unsolved the problem of the expenditure of the Commission prior to that date. When the books were transferred from Sydney to Bell Bay in April, 1952, it was found that they had been written up only to 30th June, 1951, and it was not until the advent of Mr. Conde in October,

1952, that any serious inroad was made on the arrears. In order to overtake the arrears in posting for 1951-52 it was arranged that the Bell Bay Accountant should be set free to concentrate wholly on that objective. Not until September 1953, were the accounts for 1951-52 finally posted, and in that month, or October, 1953, the first Trial Balance to take in the whole of the expenditure of the Commission up to 30th June, 1953 was produced.

272. In that Trial Balance appeared for the first time the now famous "X" Costs. The symbol "X" was given to expenditure incurred before 30th June, 1952; it was classified only according to broad job or cost classification such as "site development", "alumina silos", "electrostatic precipitation plant", "calcination", "coal handling plant", "river transport", and "digestion equipment". When expenditure under these broad job classifications was broken down into greater detail so as to include charges for items such as labour, materials, building costs, stores handling and plant hire, it was found that the records for expenditure up to 30th June, 1952, were not adequate to permit a ready posting to those items in all cases. Thus at the end of 1952, it was possible to post the costs prior to 1st July, 1952, to, say, "coal handling plant", but not to allocate them in all cases to the "items" such as "labour" and "plant hire". In order to bring out a complete Trial Balance as at 30th June, 1953, the Chief Accountant included the expenditure incurred up to 30th June, 1952, in the ledger, but where he could not break it up into the various costing items being used, he called it an "X" Cost. Originally, the "X" Costs amounted to the £3,915,642 expended by the Commission up to 30th June, 1952.

273. The Chief Accountant had to decide how he would resolve the difficulties. He was faced with two problems : with the large amount of costing work involved in breaking down the "X" Costs and a staff that was not adequate to cope with

both current work and catching up arrears, and with the problem of getting current expenditure under control.

274. The first Chief Accountant, Mr. Wilmshurst, set about remedying the situation by dividing the staff. Mr. Ward, the then Assistant Cost Accountant, said :-

"Mr. Wilmshurst realised that he could not deal with the past, and produced what the General Manager wanted, which was a cost system relating to current costs. He conceived the notion of dividing the office into two; there would be the old accounts band of workers who would still struggle to bring the posting up-to-date, and the new band concerned with costs from the 1st July, 1952. I was responsible for that aspect of costing Our prime concern was to stop the rot and to make a certain amount of information readily available to the management. Therefore we started off from the 1st July on this costing, despite the fact that 1951 and 1952 were still tremendously in arrears. What is more, that work remained in arrears for another year and a quarter - until September, 1953. This procedure proved to be a wise one; at least we began to accumulate figures, and although the handwritten methods that we used turned out to be inadequate, it was the figures that we produced from the 1st July, 1952, by the hand-written methods that were subsequently brought to the machine cost ledgers".

275. But when Mr. Wilmshurst resigned in October, 1952, the progress made in costing the expenditure of the Commission up to 30th June, 1952, was not very considerable. The new Chief Accountant, Mr. Conde, made a survey of the position and :-

".... I found out that certain things were being done and certain things were not being done. I would not like to create the impression that absolutely nothing had been done in the way of setting up a costing system. The position was that Mr. Wilmshurst and Mr. Ward had attempted to do something along those lines, but I think the difficulties which they encountered prevented them from doing anything really effective. To the best of my recollection, a costing statement for one month, that is the first month of the 1952-53 financial year had been got out and nothing had happened since then. Following on that, I came to the conclusion that it was necessary to do something quickly in order to bring the situation under control. It occurred to me that probably the immediate situation at any rate, allowing for future developments, would be met by the adaptation of the system of job-costing control which was then in use in the Department of Works and with which I was very familiar. So I arranged with the Director of Works in Adelaide, who prior to my going to the Commission had been my chief, to have two officers, Mr. Ward and Mr. Cooper, in his office for a period of some days during which they could have a look at the system which was then in use so that they would be familiar with it and so that we could put it into effect, with adaptations, at Bell Bay".

It was not, in fact, until October, 1954, that sufficient staff was set aside to make a complete allocation of the "X" Costs to the appropriate cost items.

276. When the Assistant Mechanical Construction Engineer, Mr. Storey, became aware of these "X" Costs, he was disturbed because he thought there were incorrect allocations to certain works under his control, and in December, 1953, he wrote to the Chief Accountant setting out his criticisms*. (It later became clear that some of the "X" Costs were actually allocated to the wrong job classifications, some of them patently wrong). In discussions between the Superintendent of Accounts, Mr. Ward, and the Chief Accountant, Mr. Conde, which ensued from the Assistant Mechanical Construction Engineer's note, it was decided that at least for the time being, the work of allocating the "X" Costs correctly would have to be deferred. It was felt that the work involved was too heavy for the existing staff, who were already attempting to grapple with the arrears of accounting, and that from the point of view of cost control it was more important to establish adequate controls for continuing and future expenditure.

277. Thus by December, 1953, it could be said that although the total expenditure of the Commission to that date had at last been brought to account, the expenditure for the period up to 30th June, 1952, had not yet been satisfactorily allocated to cost heads.

278. Roughly a year later, in October, 1954, it was decided that the work of costing should proceed in order to eliminate the "X" Costs from the detailed accounts by allocating them to the detailed charge heads described above. The Superintendent of Accounts, Mr. Ward, said that a clerk could, by then, proceed unaided to post the full remaining "X" Costs

* The matters raised by Mr. Storey are the subject of Chapter IX of the Report.

from the original records to the cost ledgers, by reference to the plant budget cards*. That job was undertaken in October, 1954, and was completed early in 1955. (It should be noted that the Auditor-General has emphatically stated that the original records are not sufficiently reliable for him to give his certificate in any circumstances).

279. To obtain the views of experts other than its own employees, the Australian Aluminium Production Commission, on 8th November, 1954, requested the firm of Edwin V. Nixon and Partners, Chartered Accountants :-

- (a) to review the bases upon which the Commission's expenditure prior to 30th June, 1952, was allocated amongst cost heads;
- (b) to recommend any changes in the basis of allocation that might be necessary to enable a reasonably accurate statement to be produced;
- (c) to recommend for the Commission an adequate accounting and costing system for the production stage of the Commission's activities.

280. Edwin V. Nixon and Partners produced a progress report in February, 1955, which stated that no evidence of fraud or misappropriation had been revealed as a result of their investigations. The contents of their report are dealt with more fully when Mr. Storey's statements are considered in Chapter IX. Mr. Ferguson, the partner in Edwin V. Nixon and Partners conducting the investigation, appeared before the Committee and stated that a further report had now been prepared and that the condition of the accounts in 1953-54 was, with only some minor exceptions, satisfactory.

281. Such, in brief, is a narration of what the Committee considers a sequence of unfortunate personal incidents and

* The plant budget cards show details of expenditure incurred by the Commission on each section of the works.

regrettable ineptitudes, a sequence which resulted in the refusal by the Auditor-General to certify the Commission's 1950-51 Balance Sheet, which gave credence to the belief that the accounts might have been manipulated without such action being shown up in the available records, and which gave rise to the chaotic condition of the accounts that prevailed during 1951-52. But it is also the story of slow recovery from a state which deserves, and to which the Committee directs, the severest censure, to a state in which the Auditor-General himself is prepared to say that, apart from the trammels of past defects and a few minor adjustments, the general accounting system operated satisfactorily during the year 1953-54.

(b) Criticisms by the Auditor-General

282. The Auditor-General certified the Balance-sheets of the Commission up to and including the year 1949-50 and the Committee has received no criticisms of the accounts for those years. He refused, however, to certify the Balance-sheet for 1950-51, and Balance-sheets for the subsequent years have, in consequence, not been presented to him for certification.

283. The comments in the Reports of the Auditor-General on the Commission's accounts for 1950-51 and the year following are quoted in paragraph 77; the Committee points out that it was not until November, 1954 that he set out systematically the specific features of the accounts to which he took exception. He summarised his criticisms in a statement prepared for the Committee as follows :-

- "(a) There was a general lack of instructions so that officers were not aware of their duties and consistent procedures were not followed.

- (b) Records and procedures were changed frequently, often by individuals attempting to overcome some particular difficulties but without understanding how the change might cause other difficulties, and confusion resulted.
- (c) The unreliable records and arrears of work resulted in a lack of control which made it impossible to say whether stores and other property had been lost or improperly used.
- (d) The unsatisfactory procedures regarding receipts and expenditure, such as non-issue of receipts for moneys received and lack of detail in the receipts cash book; and the payment by open bearer cheques without acquittances and lack of acquittances for wages and salaries made it impossible to verify that moneys had been properly accounted for".

284. Three other criticisms made by him in the same statement concerned the purchase of certain vessels by the Commission, unsatisfactory features in some contracts entered into by the Commission, and the purchase of some stores and supplies at what he suggests were excessive prices. The purchase of "Illawarra" is discussed in paragraphs 186-208 and the other matters raised will be dealt with in Part 11 of this Report.

285. At the outset of its discussion of the criticisms of the accounting methods of the Commission made by the Auditor-General, the Committee wishes to record that it was his Report to the Parliament that drew its attention to the affairs of the Australian Aluminium Production Commission and that it has relied heavily on information he has made available to it. The Auditor-General's criticisms have in addition been given much publicity and the Committee therefore made an extensive investigation of the matters raised by him. In this section the Committee examines the four criticisms quoted in paragraph 283.

- "(a) There was a general lack of instructions so that officers were not aware of their duties and consistent procedures were not followed".

286. In June, 1952, the Audit Office asked the Chief Accountant (Mr. Wilmshurst) for copies of finance or accounting instructions, but was told by him that none existed. It seems

that the Commission had accepted the view of its Secretary that accounting instructions could not usefully or properly be prescribed until production began and the introduction of commercial accounts was authorised; meanwhile, the Audit Act and Treasury Regulations provided a sufficient guide. It should be mentioned, however, that during the time when Mr. Matterson was Accountant at Sydney, a manual containing general accounting instructions was prepared by him and signed by both him and the Secretary (Mr. Dodd): but no detailed manual was prepared, and Mr. Matterson stated :-

"At no time were instructions of any significance issued by Sydney office in relation to accounting systems, etc..

I had on occasions attempted to prepare an accounting manual, and had often discussed the need for one with the Secretary, but the pressure of detailed work, the lack of sufficient staff and the rapidly increasing tempo of construction prevented my doing so.

Instructions were received from the Secretary from time to time on individual subjects, but these instructions were always in answer to queries raised by myself".

287. Accounting instructions were prepared during 1953 and a first draft was issued and used from October, 1953, pending Treasury approval. In December, 1954, the Auditor-General reported to the Committee :-

"In February, 1954, the Chief Accountant was advised (presumably by Treasury) that the Commission must comply with the Audit Act and Treasury Regulations in its accounting and as the draft instructions would need considerable amendment to follow this compliance they have not yet been approved.

The position is still confused. It would appear that the Commission is intended to have the power to operate commercial accounts not subject to Treasury accounting. There is urgent need for the position to be clarified and for the accounting organisation to be determined on an approved and permanent basis".

288. The Committee emphasises the difficulty of applying the Treasury system of accounting to large enterprises operating on business lines and recommends that their position in regard to accounting procedures be clarified in the revised Audit Act. It calls attention to the fact that only in March,

1955, did the Commission approve the first section of the new set of accounting procedures which are designed to cover the production operations that have now commenced.

"(b) Records and procedures were changed frequently, often by individuals attempting to overcome some particular difficulties but without understanding how the change might cause other difficulties, and confusion resulted".

289. The following facts were submitted to the Committee to support this criticism. The Sydney office altered the accounts classification on a number of occasions with the result that Bell Bay stores records became difficult to reconcile with Sydney costing allocations. Mr. Matterson gave an example of the difficulty :-

"MR. MATTERSON : We would take something into stores - a stores item. One was stretchers for the men's huts. We would cost the goods to stores because we knew that they had gone into stores to be used at a subsequent date in the camp. I know that Sydney got those accounts and altered the entry to the cost "camp site". They made a direct capital charge on the goods. We could never reconcile our stores when that went on.

COMMITTEE MEMBER : When did you find out about those alterations?

MR. MATTERSON : In conversation with Mr. Dodd when he was in Tasmania on one occasion".

290. The Committee appreciates that at that time the staff of the Commission was under heavy pressure both in Bell Bay and at the Head Office in Sydney; nevertheless, it considers that there was a lack of effective and consistent control of the accounts. The Committee recalls its earlier conclusion in sections (a) and (b) of Chapter IV, that the location of the Head Office in Sydney, once construction activities at Bell Bay got under way, was well-nigh disastrous to the Commission's control of its financial affairs.

291. Accounting procedures were also changed from time to time. Thus the procedure for paying wages was changed in June, 1951 and November, 1952, and the procedure for classifying expenditure was altered in March, 1952 and June, 1952, the variation in March actually being in the middle of a four-

weekly costing period.

292. In November, 1952, machine-posting was introduced for the accounts of the year 1952-53 and a costing system for the Commission was finally determined. Since then, the expenditure for the years up to 30th June, 1952 has been adjusted to the new cost classification, and the Committee notes that the system worked satisfactorily for the allocation of expenditure during 1953-54.

293. Another feature of accounting procedure which was not standardised was that for writing off losses. It was not until 1953 that appropriate delegations for writing off losses were issued, following discussions between the Audit Office and the Chief Accountant (Mr. Conde).

"(c) The unreliable records and arrears of work resulted in a lack of control which made it impossible to say whether stores and other property had been lost or improperly used".

294. The unreliable records referred to by the Auditor-General are of stock and stores. They relate to such matters as discrepancies in the annual stock-takings and the inability to make an accurate valuation of steel and timber, which at 30th June, 1951, comprised a book value of £82,000 out of a total book value for all stores of £114,000.

295. As an example of the difficulties encountered by both the Commission and the Auditor-General in their endeavours to rectify the position, the following section of a statement made by the Auditor-General in December, 1954 is quoted :-

"Steel. Comprised nearly 75% of the stores stock on hand at 30.6.51 and over 75% at 30.6.52. Large quantities of reinforcing rods and plant were received in shipments from overseas and accepted on the shipping documents. There are no facilities for weighing large items at Bell Bay and the stacking was carried out hurriedly as ships unloaded, sometimes at night thus making reasonably accurate measuring of the stacks impracticable. In December, 1952, the Audit Inspector discussed with senior officers of the Commission including the General Manager, what action was possible to effect a stocktake of steel as it comprised over 75% of the value of stock on hand at 30th June, 1952. It was agreed that an effective stocktake would involve restacking; that this would cost about £1,000; and

that it would be a long time before a check on the quantities could be obtained by exhausting the most uneven stacks first and straightening others. In March, 1953, he was advised that the steel was to be restacked and it was expected a stocktake would be complete by end of May, 1953. During April, 1953, it was ascertained that the steel had been restacked and stocktaking was complete except for a quantity of rod which needed straightening before it was restacked".

296. In addition, writing up books and the payment of accounts was heavily in arrears. It has already been mentioned that when the accounts were transferred to Bell Bay in April, 1952, it was found that the general ledger accounts and most of the subsidiary records, such as plant inventory and creditors' ledgers, had not been written up beyond June, 1951. Only by June, 1953, had the arrears been overtaken sufficiently to enable a trial balance as at 30th June, 1952, to be taken out.

297. The payment of many accounts, particularly at Bell Bay, was much in arrears by the end of 1950 and continued so to be until towards the end of the year 1953. In some cases, the arrears are traceable to the complex system of accounts and the exercise of overall control from Sydney; in many others, simply to the inability of inadequate staff in Bell Bay to keep up with the enormous increase in the volume of work that occurred during those years; and in yet other cases, the arrears were not the fault of the Commission. The following quotation seems to the Committee to sum up the position :-

"COMMITTEE MEMBER : We have had it suggested that the Launceston tradespeople would not supply any further goods because they had not been paid for goods supplied twelve months previously?

MR. MATTERSON : There are isolated instances of that. One was a firm whose accounts are the worst in Tasmania. We refused to pay those accounts because we could not check them. They turned nasty and refused to supply us with any goods. Finally, I spent half a day with the firm's accountant trying to sort out our accounts from their books. That is an isolated case".

298. The condition of the accounts between 1950 and 1952 was described as appalling; the Committee reports, however, that in this sphere also, the position has now been made good.

- "(d) The unsatisfactory procedures regarding receipts and expenditure, such as non-issue of receipts for moneys received and lack of detail in the receipts cash book; and the payment by open bearer cheques without acquittances and lack of acquittances for wages and salaries made it impossible to verify that moneys had been properly accounted for".

299. The Committee was informed that in regard to receipts, the Department of Munitions had, before December, 1946, carried out all the Commission's accounting transactions. Between December, 1946, and March, 1950, the Commission acknowledged receipts by letter and paid the collections to the Sub-Treasury, Sydney, whence official receipts were issued. After that date, an official receipt book was issued to the Secretary. Between January, 1950 and May, 1952, the Bell Bay office had to accept money without issuing a receipt, transmitting cheques to Sydney for acknowledgment and paying cash either to the Bank or to petty cash. In May, 1952, the Chief Accountant (Mr. Wilmshurst) insisted upon the introduction of what became the official receipt book.

300. In regard to the payment of money for services rendered to the Commission, the Auditor-General drew the attention of the Committee to several cases in which the requirements of the Audit Act and Treasury Regulations were not complied with. One of the defects in the system of payments was that satisfactory acquittances were not received, either because the appropriate forms were not signed by the officer at Bell Bay with an indication that the services had been correctly and faithfully performed, or because "bearer" "not negotiable" cheques, and a few open "bearer" cheques, were issued for wages and other debts. ("Bearer" cheques of any kind are, for purposes of the Audit Act and Treasury Regulations, an improper form of payment because for payment the signature of the recipient is not required upon them as it is for "order" "not negotiable" cheques, which are the prescribed form of payment).

301. That the accounting system of the Commission was in a bad state in the years 1950-52 the Commission did not seek to deny, nor does the Committee desire to condone it. Without embarking upon excessive detail, the Committee mentions in the following paragraphs certain of the more flagrant breaches of the provisions of the Audit Act and Treasury Regulations that were brought to its notice.

302. Unacquitted vouchers* for the year 1951-52 amounted to £21,269, and for 1952-53 to £20,664. They were accepted in December, 1953, with the approval of the Treasury and without Audit Office objection. The General Manager stated :-

"It must be admitted that a large number of vouchers were unacquitted but to say that the "great bulk" were not acquitted can only be described as an exaggeration. Apart from unacquitted vouchers for wages, the total number of missing acquittances in the 1951-52 financial year was 395. It is estimated that the number of cheques drawn (excluding wages) would be 2,500. The figure of missing acquittances relates, of course, to the position before action was taken to obtain duplicate receipt or acknowledgements".

303. Bearer cheques were made out during the early months of 1952 without the Commission's approval, and indeed contrary to the Secretary's instructions to Mr. Matterson, then Accountant at Bell Bay. However, the Committee noted the extenuating circumstances under which the cheques were issued and the comment by the present Chairman of the Australian Aluminium Production Commission :-

"The lack of documentary receipts in respect of some payments to creditors is due to the lack of basic accounting knowledge on the part of at least one officer who acted as an Accountant and cheque signatory; he stated in response to subsequent inquiries that he considered that the payee's signature on a claim for payment constituted sufficient evidence that the payment was made bona fide.

The practice of accepting receipted duplicates of the pay slip in exchange for a pay envelope without proper acquittance of the payroll was carried on in the

* Under the Audit Act and Treasury Regulations, Vouchers, which are claims for payment in respect of the performance of a service, are to be submitted together with supporting evidence, showing that the service has been performed or the goods supplied as the case may be; otherwise the account should not be paid.

Commission's Tasmanian offices for a number of years without attracting adverse comment from the Audit Office".

304. Stores procedures* left much to be desired and in the opinion of the Committee warranted the severest censure. Thus Mr. Green, who was appointed Stores Superintendent of the Commission by the General Manager in August, 1951, said :-

"The second day that I was at the Aluminium Commission the Senior Stores Clerk came to my office and said he had a very important problem that he thought needed my attention. He then drew my attention to this colossal number of accounts outstanding. After a discussion with him I learnt what seemed to be the main cause of these accounts outstanding. His difficulty, of course, was that he had no paper work in evidence to pass those accounts for payment, namely, a purchase order, and secondly, a Goods Received Report. With those two documents he should be able to pass them for payment. But they were lacking and he had difficulty in passing them for payment. His difficulty was in seeking the people concerned individually and asking this one and that one, "Did you have anything to do with the purchase of this"? If the answer was "no" he would go to the next one. He said on some occasions it took him nearly a day to pass one account for payment".

305. The Australian Aluminium Production Commission No. 2 Account was a further object of criticism by the Auditor-General. Both he and the Chief Accountant (Mr. Conde) gave evidence that the Account was opened without authority. The Auditor-General said that the existence of the Account was not known to the Audit Office until it had been closed.

306. The Committee found that the Account was opened in May, 1951, under authority of the Commission, with the prior approval of the Treasurer (although there was not a formal exercise of the delegation by the Treasurer to approve the opening of such accounts). But on the instructions of the first Chief Accountant (Mr. Wilmshurst), operations on the Account were suspended in June, 1952 and the succeeding Chief Accountant (Mr. Conde) closed it in June, 1953.

307. The evidence given to the Committee on this subject was extremely unsatisfactory and the Committee notes that it was suggested by Mr. Conde that the Account was of a nature

* Section (c) of this Chapter deals fully with the Stores System.

that would permit manipulation. The Auditor-General agreed with this comment, notwithstanding that it was shown in a Statement submitted to the Committee by the Commission that the Account had been the subject of a favourable Audit Office report in July, 1951. No evidence whatever was brought before the Committee that there were any but proper operations upon this Account and it concludes that the suggestion of possible malpractice could not be substantiated, and as submitted could have misled the Committee in its inquiries.

308. The Committee considers that it is difficult to set down in terms sufficiently strong the deplorable state into which the accounts of the Commission in 1950, 1951 and 1952 had fallen, and notes the substantial breaches of the requirements of the Audit Act and Treasury Regulations that occurred. It is to be regretted that the Auditor-General did not see fit to give to the Parliament a detailed indication of the seriousness of the Commission's accounting system until November, 1954. The Committee also notes that, although no doubt in some cases due to the state of the Commission's accounts at that time, Audit Office criticisms were not always brought to the attention of the appropriate authorities in the Commission as soon as they might have been.

(c) The Stores System

309. The unsatisfactory condition of the stores system that developed during 1951 was the subject of comment by the Auditor-General and was the reason given in his Report of 30th October, 1952, for withholding his certificate from the Balance-sheet at 30th June, 1951.

310. From the commencement of the activities of the Commission until the appointment of a Chief Accountant at Bell

Bay in January, 1952, the Secretary of the Commission (Mr. Dodd) admitted that he was responsible for stores records and accounting arrangements.

311. After the site had been decided upon late in 1949, the Secretary issued instructions for the stores and tool organisations at Launceston and Bell Bay. The instructions, although fairly comprehensive, were not a detailed set of rules covering every eventuality; they laid down the general principles that were to be followed in the work of the stores organisation and provided for a stores and purchasing officer to be responsible for the organisation.

312. It was not intended that the stores procedures laid down in the instructions should be more than a guide for action and they were from time to time amended to conform to a new practice that had developed. A variation would be approved and written into the copy used by the officer concerned and probably also into a central copy; most of these records were lost when fire destroyed the administrative building at the end of 1951. In September, 1950, the Resident Engineer, Mr. Debenham, took the initiative in having the instructions so altered as to limit his responsibility to scrutinising the acceptance only of items of plant and not of all the minor items that were received into store.

313. Although it is not clear what precisely were the lines of responsibility for stores, the intention seems to have been that authority flowed from the Secretary (in Sydney) through the Stores and Purchasing Officer to the Storekeeper, the Stores Ledger Clerk and the Storeman. Certain responsibilities were placed by the stores instructions on other members of the staff. For example, the Resident Engineer had specific duties in regard to such matters as initiating requisitions for supplies, perusal of the Goods Received and Goods Returned Reports, the Daily Stores Issued Books, and the reception of reports from the Storekeeper on damage, loss and so on.

314. The General Manager was appointed in February, 1951 and he told the Committee that from that time he assumed a general responsibility for Stores.

315. During 1951, the work of the Bell Bay stores organisation increased enormously, consequent upon the accelerated rate of construction of the plant. A heavy burden was placed on the stores staff and it became apparent that they were unable to cope with the work or to keep a proper check upon stores. It was at this stage that the Audit Office first made stores the subject of criticism. In July, 1951, the Chief Auditor, Sydney, pointed out that no stock ledger control account was maintained at Bell Bay and that reconciliation of stock balances with the ledger accounts in Sydney would be very difficult.

316. Further, he pointed out that the physical check of stock as at 30th June, 1951 was unsatisfactory, mainly because the stocks of steel, comprising over 70% of the total value of stores, had not been checked physically. It would as a result not be possible to present a satisfactory statement of stock on hand at that date. The Committee appreciates that because of the manner in which steel was landed from overseas, subsequent re-stacking for stocktaking would have involved a disproportionate cost in money and manpower.

317. The growth of stores activity during 1950-51 can be seen by comparing the value of stock on hand at the end of each financial year: at 30th June, 1950, stock on hand was valued at less than £1,000, while a year later it was approximately £110,000. The disorganisation of the system is indicated by the fact that only a partial stock-take was made at 30th June, 1951, and that it was six months before the results were tabulated. Even then, the check did not include steel and timber, with a combined value of £82,000, out of a total stores book value of £114,000. The stock-take at 30th June, 1952, on the same items as for the check at 30th June,

1951, revealed surpluses of £26,000 and deficiencies of £26,500 in a book value of £103,000.

318. In August, 1951, the General Manager appointed Mr. Green to be in charge of the stores. There was a conflict of evidence whether he had initially been appointed Purchasing Officer or Stores Superintendent, the latter position involving a more general responsibility for the stores organisation of the Commission. Whatever his position may technically have been, he was paid as Superintendent of Stores and the General Manager gave him an opportunity to study the methods of store-keeping used by large works on the mainland with a view to placing the stores organisation at Bell Bay on a satisfactory footing. In February, 1952, he spent two days at Broken Hill and a further two days at Port Pirie*.

319. However, the stores position continued to deteriorate and in April, 1952, the position of Stores Superintendent was advertised. The present occupant of the position, Mr. Wheeler, was one of the applicants and took up duty in October. He described the position when he took up his duties in the following manner :-

"It is my considered opinion that the Stores Section, as a whole, has been a leaderless legion.

The synchronisation of all Sections of Stores, radiating from the Stock Control, which is the hub, to the Ordering, Purchasing, Receiving, Stock Piling and Issuing, is essential.

I regret to report that no such combination existed, or was even remotely visible, with the result that a complete functional and individual re-organisation is necessary".

320. The stores organisation was thoroughly revised under Mr. Wheeler's supervision, and a unified control over stores accounting, procurement and on-site stores instituted. From late in 1952 a perpetual stock inventory has operated, and the Audit Office agrees that since then the stores

* See also paragraphs 145 and 268.

organisation has functioned satisfactorily.

321. The Committee felt that the Resident Engineer should not, in 1950, have secured an alteration in the stores instructions to restrict his responsibility to accessions of plant only. It considers that an obligation to ensure adequate protection of the stores would lie upon the Resident Engineer, who at the time was the senior officer in Tasmania and could not have been unaware of the condition of the stores at Bell Bay. At the same time, the Committee is impressed by the work at that time being undertaken by the engineering staff and notes Mr. Debenham's comment :-

".... The responsibilities of the Resident Engineer with respect to this organisation were only such as were specifically delegated to him in this document".

322. Although the staff at Bell Bay had ample notice of the arrival of increasing quantities of material, the Committee considers that adequate provision was not made during 1950, 1951 and 1952 to receive and safeguard these stores or to instal an effective system of controls. As it was, a great quantity of valuable material was stacked in an open paddock which was unfenced, unguarded, unlit and fronting a public road.

CHAPTER VIII

THE PURCHASE OF THE "UNIT" CRANE

323. In February, 1953, it became apparent that there was urgent need for a mobile crane of 10 to 12 tons capacity at Bell Bay. G.H. & J.A. Watson Pty.Ltd., the Commission's purchasing and inspection agents in Sydney, who had recently arranged several crane purchases, were requested to locate a suitable machine: at the time a scarcity of this type of equipment existed in Australia (new cranes were almost impossible to obtain). On receiving advice from the Watson Company that a second-hand 10 ton "Unit" crane was available for £9,000 from Cole Constructions Pty.Ltd. in Sydney, Mr. Keast, the General Manager, directed Mr. MacGregor, an engineer employed by the Commission, to inspect the crane in Sydney, to ensure that it was suitable for the Commission's requirements and to expedite delivery if it appeared satisfactory.

324. Prior to the arrival of Mr. MacGregor, G.H. & J.A. Watson Pty.Ltd. had negotiated a reduction in price from £9,000 to £8,500. After inspecting the crane and discussing it with engineers of the Watson Company in the presence of Mr. Watson, Mr. MacGregor recommended purchase of the machine at that price. Mr. Keast accepted this recommendation and on the assurance by Mr. Watson that it was subject to a 90 days' guarantee covering the replacement of defective parts, the crane was purchased. For their services, G.H. & J.A. Watson Pty.Ltd. received £425 commission on purchase, and inspection fees of £46.17. 9d.

325. The crane reached Bell Bay on 23rd March, 1953, and within the next five weeks it failed on two occasions. An examination of the machine revealed that the prime cause was badly worn hoist gears. The Commission replaced them at a cost of more than £500 and lodged a claim for £500 compensation with G.H. & J.A. Watson Pty.Ltd., who referred it to the vendors, Cole Constructions Pty.Ltd., for payment.

326. The Committee received conflicting evidence concerning several aspects of the purchase, particularly on the extent of the inspection by G.H. & J.A. Watson Pty.Ltd., on the information given to Messrs. MacGregor and Keast, and on the cause of the breakdown.

327. From the evidence available to the Committee it appears that the inspection was not comprehensive and that the Watson Company relied considerably upon information supplied by the vendors. On 18th August, 1953, G.H. & J.A. Watson Pty. Ltd. wrote to Cole Constructions Pty.Ltd:-

"When we purchased this crane from you for the Commission, we were given to understand ... that the internal gearing of the crane was in excellent order".

The attitude of G.H. & J.A. Watson Pty.Ltd. was described similarly by Mr. Watson in a statement submitted to the Committee :-

"An engineer of the Watson Company inspected the crane and tested it under operating load. This inspection included removal of the inspection plates of the gear box and visual examination of all parts that could be seen. The boom hoist gear was not visible, but the Manager of the vendor Company stated that the gear box had been completely dismantled and all its parts found to be in good working order before the crane was re-assembled and offered for sale. There is no reason to doubt his veracity."

(Committee's italics).

328. However, it would appear that the inspecting Agent gave to Messrs. Keast and MacGregor the impression that the inspection had been more extensive. On 3rd March, 1953, G.H. & J.A. Watson Pty.Ltd. wrote to the General Manager :-

"From close inspection of the crane shown, it appeared to be in good condition"

329. In a report on 6th December, 1954 made to Mr. Keast by Mr. MacGregor, after the Committee had commenced its inquiries, he stated :-

"The Chairman (Mr. Watson) explained that his engineers had made a thorough inspection of all motions and gears on the crane."

In evidence to the Committee on 24th February, 1955, he said :-

"I was assured by Mr. Smith and Mr. Burt (engineers of G.H. & J.A. Watson Pty.Ltd.) that the gear box had been dismantled and the gears were in good condition. I had to accept the assurance."

330. After receiving this evidence the Committee was surprised to learn of the following statement made by Mr. MacGregor in a letter to G.H. & J.A. Watson Pty.Ltd., on 30th April, 1953 :-

"As you may be aware, the whole of the transmission gear is housed in a massive cast steel box, the inspection of whose internals involves the removal of the engine and other relevant parts, in effect, a complete stripping down of all parts above the turntable. Inspection has shown that the primary cause of the trouble is the excessive wear on certain gears and dog clutches; in particular, the swing and traction spur gear and the swing pinion. We appreciate that such parts could not easily have been inspected prior to purchase of the crane."

(Committee's italics).

The only feasible explanation for this inconsistency seems to be the possibility that Mr. MacGregor's statement on 30th April, 1953, represented his considered judgment on the matter, whereas his opinion when he made the inspection may have been influenced by the urgency of obtaining a crane.

331. Mr. Watson's part in the transaction is also a subject of conflicting evidence. Mr. MacGregor reported to Mr. Keast in December, 1954 :-

"On their (Watsons' engineers) favourable report he (Mr. Watson) strongly recommended the purchase of the crane."

Mr. Watson, denying this statement, said :-

"... I did not 'strongly recommend the purchase of the crane', as any recommendation was entirely Mr. MacGregor's affair after his own inspection, and I observed an impartial attitude, and took no personal interest throughout the transaction."

332. Nevertheless, Mr. MacGregor's report of the Chairman's attitude was a most important factor in the decision to purchase. Mr. Keast, when asked what value he placed on Mr. Watson's recommendation, stated :-

"I would accept the Chairman's recommendations".

A recommendation to purchase the crane was clearly contained in the letter from G.H. & J.A. Watson Pty.Ltd. dated 3rd March, 1953 :-

".... After discussion with Mr. MacGregor regarding the type of work being done we are confident that this 'Unit' crane would be very satisfactory for the type of work required and at the price decided on is a really good purchase".

333. When the crane broke down for a second time within five weeks of its installation, G.H. & J.A. Watson Pty. Ltd. disclaimed responsibility. One of the Watson Company's engineers reported, after inspecting the dismantled machine, that the breakdown was attributable to incorrect re-assembly after overhaul by Cole Constructions Pty.Ltd. and the Commission's staff at Bell Bay. Mr. MacGregor gave the Committee a technical explanation to demonstrate that the finding of the Watson Company engineer was incorrect, and his view is supported by the terms of a letter written by G.H. & J.A. Watson Pty.Ltd. to the vendor on 18th August, 1953, in connection with the Commission's claim for recovery of expenses incurred in replacing defective parts :-

".... Mr. Burt of this Firm visited the site (Bell Bay) and carried out a thorough inspection of the parts and can specifically state that the gears were in a shocking condition.

.... One other point of proof of the wear which must have been obvious on these gears is the fact that the driver you sent to Bell Bay to train their employee was emphatic that he must firmly hold the gear to keep these gears in mesh while the jib was being lifted.

.... The crane had received particularly good attention at Bell Bay and during operations there was no evidence of negligence in any way."

334. After Cole Constructions Pty.Ltd. went into liquidation the Commission, on legal advice, pressed its claim for £500 (see paragraph 325) with the Official Liquidator, but because a written guarantee could not be produced by the Commission, and evidence of a guarantee was not available in the records of the vendor Company, the claim was refused by the Liquidator.

335. During the course of the Inquiry Mr. Watson

submitted to the Committee a letter from Cole Constructions Pty.Ltd., dated 16th October, 1953, which stated that a 90 days' guarantee against defective parts had been given; but to the knowledge of the Committee no further action has been taken.

336. The Committee believes that the General Manager was misled regarding the condition of the crane by the recommendations of G.H. & J.A. Watson Pty.Ltd., but considers that it would have been wise to obtain a written technical report on the condition of the crane and to ensure that a written guarantee was held, especially as the crane was a second-hand machine and the purchase had been arranged in great haste.

CHAPTER IX

THE MATTERS RAISED BY MR. STOREY

(a) Mr. Storey's Statements

337. Because of the way in which certain information given by Mr. Storey became a matter of public comment in the latter part of 1954, the Committee has decided to make a special report upon it. The Committee emphasises, however, that it would in any case have investigated most of the matters raised by Mr. Storey, especially as the Commission itself had considered them sufficiently important to make them the subject of inquiry by both the Commonwealth Investigation Service and Edwin V. Nixon & Partners.

338. Mr. Storey joined the Australian Aluminium Production Commission in the capacity of Assistant Mechanical Construction Engineer in September, 1952. In January, 1953, he was appointed Assistant Planning Engineer and in June was promoted to the position of Planning Engineer. He received further promotion in October, 1954, when he was appointed Acting Chief Engineer, and that post he occupied until his services were terminated in January, 1955. It was stated on a number of occasions, both in evidence and in Statements submitted to the Committee, that while his professional qualifications may not have been as claimed by him, Mr. Storey's technical capacities were considerable. The General Manager stated that his successive promotions were in themselves adequate evidence of the Commission's satisfaction with his services as an engineer.

339. In December, 1953, when Mr. Storey had been in the employ of the Commission for some 15 months, he indicated in a note to the Chief Accountant that he was not satisfied with the Statement of Accounts as at 30th June, 1953, which appeared in the Trial Balance extracted on 11th November, 1953. As explained earlier, in paragraphs 271 and 272, the expenditure

incurred by the Commission up to 30th June, 1952 had in September or October, 1953, been allocated for the first time to cost heads in the Trial Balance as at 30th June, 1953. Mr. Storey stated that the total amount involved was £3,899,343, and he queried the correctness of the allocation of £1,176,343. In a note to the Chief Accountant dated 15th December, 1953, he wrote :-

"I am unable to reconcile the expenditure shown as having been incurred prior to 30th June, 1952, with visual evidence of work undertaken. These amounts appear to be additional to actual costs incurred and have the effect of inflating the final cost of the particular project to an unreasonable degree. In some cases, costs are shown as having been incurred months before the particular job was commenced".

Thus while he had been able to accept as equitable a distribution of some £2,723,000, he said he was unable to accept the allocation of a further £1,176,343 and gave details of the allocations to projects he was questioning.*

340. The Chief Accountant (Mr. Conde) assured Mr. Storey that he and his staff were working on the costs and that they would, in due course, be allocated to their proper heads: Mr. Storey readily admitted that he had received both this assurance and some assistance from the Chief Accountant. The pressure of business, however, and the desire of the Chief Accountant to keep abreast of current accounting operations, meant that the work of costing the expenditure of the £1,176,343 to the correct heads did not actually commence until October, 1954, almost a year later (see paragraphs 276-278 for a fuller discussion).

341. Between December, 1953 and March, 1954, Mr. Storey made known his further conclusion that £800,000 of expenditure had been unnecessarily incurred. His opinion was that the engineering advice as to the foundations for the reduction bays and furnaces had been incorrect and that, had the foundations

* The Committee notes that the Commission gives the total expenditure to 30th June, 1952 as £3,915,642, and the other amounts are therefore £2,739,299 and £1,176,343 respectively.

been built of concrete rafts on a bed of sand instead of upon deep-sunk piers and beams which required a vast amount of concrete, some £510,000 could have been saved on them alone. He gave further instances of unnecessarily expensive design, particularly in raw material and fuel handling equipment, and one case of equipment ordered but not used, which he claimed would together have enabled a further £300,000 to be saved from construction costs. All these, amounting to some £800,000, he termed "unnecessary expenditure".

342. During the same period, late in 1953 and early in 1954, the Commission was endeavouring to prepare its 1952-53 accounts for submission to the Auditor-General, and it had to deal with certain stock discrepancies that were disclosed in the stock-taking as at 30th June, 1953. These discrepancies were in construction stores (mainly steel) and in furniture and equipment, and although it appeared that the discrepancies were probably connected with accounting defects, the Chairman of the Commission stated :-

"There was, however, a general uneasiness in the Commission's mind, especially about the reported shortages of the fixed items of furniture and equipment which could not be attributed to errors and omissions in store keeping in former years. The Commonwealth Investigation Service was, therefore, asked to enquire into shortages of stores and furniture and at the same time to ascertain whether there was any evidence of theft of Commission property".

343. In April, 1954 the inquiry was extended to cover certain inadequately vouched expenditures as well as both statements made by Mr. Storey, the one concerning the incorrect allocation of £1,176,343, the other concerning unnecessary expenditure which Mr. Storey attributed to wrong choice of site and bad planning. The inquiries of the Commonwealth Investigation Service were directed to investigating the amount of £1,176,343 on the basis that it was expenditure that could not be traced. Mr. Ward, the Superintendent of Accounts at Bell Bay, said :-

"I made strong efforts to persuade them that the matter was purely one of bad recording and cost dissection and in doing so, produced the Plant Budget Cards, which I said supported every figure which Mr. Storey had questioned, and which I said contained only expenditure which had been vouched for by Commonwealth Audit (to June '50) by our own Internal Audit (for Y/E June '51 and Y/E June '52). All that was needed, I told them, to put the matter right, was time and the employment of competent cost clerks to review the entries".

344. In evidence, Mr. Ward stated that both he and Mr. Conde were satisfied that the errors referred to by Mr. Storey were a result of bad clerical work rather than of actual deficiencies, although he knew that Mr. Conde was concerned about the lack of proper authority for certain payments. Further, he said that it was often - as in all major constructional works - extremely difficult, even if the costing system was working efficiently, to allocate costs to the appropriate heading :-

"In point of fact, Mr. Storey and I and Mr. Conde have all discussed this, and Mr. Storey's view is that every piece of plant should have notices painted on it as to what section it is and what reference number the plant has so that, in future, when any worker in the production period does a job anywhere, he will not be confused. If he works on job number so and so he can see it and put the number down. That is Mr. Storey's solution to the problem and it is an excellent one. But as I have said, in the past we have constantly had to correct people and correct records".

And, Mr. Ward concluded, while there might be some minor inaccuracies, the major work of costing the Commission's current expenditure is now being done with sufficient accuracy, and has now also been done with sufficient accuracy for expenditure in the period up to 30th June, 1952.

345. It is clear that during the first nine months of 1954, up to the time when certain information was given by him to Mr. Barnard, M.P.,^{*} considerable attention was paid by the

* The Committee is satisfied that when Mr. Barnard moved the adjournment of the House to discuss happenings at Bell Bay, and when Senator O'Byrne raised the same matters in the Senate on the following day, they were justifiably disturbed by the information that they had been given, and would have failed in their duty as Parliamentary representatives of the area if they had not brought the matter before the Parliament.

Commission's accounting officers to Mr. Storey's views and that they were at some pains to meet his criticisms. Further, the Committee considers that the rate at which the correct costing of the Commission's past expenditure took place was accelerated by queries properly raised by Mr. Storey.

346. Not only did the staff of the Commission go to some length to assist Mr. Storey, but the Commission decided in August, 1954, that he should be requested to attend its September meeting in order to discuss the statements he had made concerning the allocation of £1,176,343. The Committee records in this context that the questions of the allocation of £1,176,343 and of the "unnecessary" expenditure of £800,000 raised by Mr. Storey have come to be termed "the allegations of Mr. Storey". He, however, in a letter to the Commission dated 9th September, 1954, and several times in evidence before the Committee, denied that he made any "allegations" :-

"I made no allegations. All I want to see is the expenditure properly allocated to cost heads".

The Committee notes these statements and regards them as important, because by making them, Mr. Storey indicated to the Committee that he was not making any allegations of fraud or misappropriation and only desired to see an accurate allocation of costs made by the Commission's accounting staff.

347. The Chairman of the Commission stated that later in the same month, September, 1954, information was conveyed by Mr. Storey to Mr. Barnard, M.P. through the medium of a junior

The Committee found that most of the matters mentioned by them were brought to its notice by Mr. Storey, and the Committee has considered them in this Report.

A matter that also caused concern to them was the gossip around the district suggesting that thefts of Commonwealth property were rife. This Committee issued invitations through the press urging any person who had any information to put before the Committee to attend its meetings and disclose what he knew. No-one accepted the invitation and the Committee can only say that no evidence was submitted to it in support of the gossip that thefts had occurred. See also, for its other investigations into this matter, paragraphs 386-389.

officer of the Commission, upon whom Mr. Storey later sought to lay the blame for making available the information, which was contained in documents confidential to the Commission. This information was the subject of debate in the House of Representatives on 14th October, and in the Senate on 15th October, 1954.

348. It was largely because the matter was raised in both Houses of the Parliament that the Superintendent of Accounts, Mr. Ward, finally allocated sufficient staff to make the adjustments in posting that were required to correct the costing of the expenditure incurred by the Commission up to 30th June, 1952. He said :-

"I was first sent to Canberra with the Commission's replies to the points raised in Parliament when I was at the same time questioned by Mr. Beale, whom I assured that this £1,176,343 problem was purely one of bad clerical work.

Upon my return I began a detailed examination of the Plant Budget Cards and discussed several of those which I considered contained serious errors with Mr. Storey, in particular I referred to the Ardal Steel also the Ardal Plant, purchases which covered about £150,000. Subsequently, I elaborated the points which needed cleaning up in a memo. to Mr. Storey asking him to give the correct dissections of the costs enumerated.

I purposely picked upon and showed to Mr. Storey cards which manifested gross errors, because I was aware that his mind was becoming biased towards the conception that the problem was greater than that of mere clerical error and I thought that a demonstration of the extent of the clerical errors might have a beneficial effect upon his outlook, while at the same time assisting in making our accounts more accurate.

About the same time I was able to appoint a clerk whole time to the task of reviewing the costs of all the Plant Budget Cards referred to and thus, by working through the period for annual recreational leave at Xmas, was able to present to the Auditors of Sir E.V. Nixon & Partners when they arrived in January, 1955, a full statement of these costs, together with supporting vouchers, thus considerably shortening their task".

349. Mr. Storey was not convinced by Mr. Ward's explanation and the Committee notes that at that stage he persisted in his claim that it was more than an accounting matter. He also insisted that it was for the Commission to prove him to be wrong and not for him to establish that he was right.

350. In this connection the statements he presented, and some of the evidence he gave took on a personal note, and became highly censorious of the ability and conduct of the executive officers of the Commission.

351. In examining the detailed criticisms that led to the discussion of the aggregate amounts of £1,176,343 and £800,000, the Committee has found that the foundations for Mr. Storey's statements were not always sound. He does not appear to have had a proper understanding or to have made an adequate study of the successive monthly Trial Balances, the entries in which formed the initial basis for his criticism. For instance, in the November, 1953 Trial Balance, an incorrect posting of £205,380 had been made to cost head C.401X - Switchyard. But the error was detected by the Commission's Accounts Branch during November, and an adjusting journal entry was made transferring relevant amounts to proper cost heads, so that the Trial Balance for the period ended 9th December, 1953 reflected this correction. Nevertheless, Mr. Storey continued all along to refer to the November Trial Balance, and took no cognizance of the correction.

352. The Committee therefore finds it difficult to give credence to his statement that he compared the monthly figures with those of the preceding month. The Committee notes, however, that when Edwin V. Nixon and Partners made their examination of the accounts of the Commission, they found that of the allocations amounting to £1,176,343 queried by Mr. Storey, only £205,380 had been re-allocated by the Commission; but, as recorded in paragraphs 276-280, the Commission had in October, 1954 set in hand the work required to enable the rapid posting made by Edwin V. Nixon and Partners in early 1955.

353. Further, the basis for Mr. Storey's statements was a visual examination of the site. The Commission held the view that there existed sufficient documentary proof by way of vouchers and records to show that Mr. Storey's visual

examination failed to take into account substantial expenditure incurred for administration, overhead, stores in transit and stores on site but unused: Edwin V. Nixon and Partners, a firm of Consulting Accountants engaged by the Commission, were rapidly able to establish that costs of this nature, amounting to £630,000, reduced by approximately half the discrepancy referred to by Mr. Storey.

354. The Committee received a progress report from the firm of Edwin V. Nixon and Partners to the effect that it is possible to allocate to appropriate cost heads, with sufficient accuracy, all the costs called into question by Mr. Storey. It notes also the assurances of the Commission's accounting staff that this is so; but that the Auditor-General does not agree with some of the conclusions in the Nixon Report. The Committee has discussed in Chapter VII the state of the accounts that resulted in the inaccurate costing.

355. The Committee also discusses at more length in Chapter X the considerable evidence relating to the actual cost of the project that was put before it. It observes here, however, that £500,000 of the £800,000 said by Mr. Storey to have been unnecessarily expended was on the provision of foundations of a particular type for the reduction furnaces. It heard evidence from the Chairman and General Manager of the Commission who both stated that, while the proposal suggested by Mr. Storey was a possible alternative, was at all relevant stages given careful consideration, and was the subject of a special report from Messrs. MacDonald, Wagner and Priddle, Consulting Engineers, it was rejected and the existing type of foundation decided upon.* The Chairman of the Commission said:-

"If I had been faced with the decision and with my own experience behind me, I would have felt bound to accept the opinion of the competent authority referred to rather than accept the risk, on the grounds of costs alone, of installing Reduction Furnaces on a foundation

* This matter is discussed in greater detail in paragraphs 390-406.

that could prove to be unstable within a measurable space of time and involving possibly a collapse of the plant. The fact also that the British Aluminium Co. Ltd., the technical advisers of the Commission, were not prepared to commit themselves in favour of the suggested lighter foundations would have made me still less inclined to ignore the advice tendered by the Consultants called in by the Commission".

356. Mr. Storey first appeared before the Committee in Launceston on 23rd February, 1955, and there changed in part the nature of his statements regarding the £1,176,343 which he had, for over a year, been saying was incorrectly allocated to cost heads. He said that as well as the errors in accounting, there was some doubt about the efficiency with which the work was done :-

"There is an expenditure of £1,176,343 which did not belong, in the main, to that list of projects which I gave. In some cases, it did belong, but where that is added, it makes that particular project costly. This particular statement of Nixon and Partners, while it allocates it to the costing, does not prove the equity of the payments or efficiency".

357. The Committee made considerable efforts, but with a complete lack of success, to obtain detailed information from Mr. Storey or from other persons concerned, about excessive costs being incurred in the construction operations up to 30th June, 1952, either because of inefficiency, extravagance, or actual defalcation. None of the 'allegations' was substantiated: but some of them gravely impugned the bona fides of many people and all brought discredit upon the aluminium project.

358. Because they received a certain prominence during its hearing of evidence, the Committee considers that two other matters raised by Mr. Storey should briefly be mentioned. The first concerns Mr. Storey's assertion that certain statements prepared for the Committee by the staff of the Commission had been 'vetted' by the Commission; the second, the circumstances surrounding the 'resignation' of Mr. Storey from the staff of the Commission.

359. Mr. Storey said that he had been informed by the General Manager that the Commission would 'vet' his statement :-

"I expressed myself at the time that anything I put must go unaltered My report came back unaltered, but the Commission suggested that I should confine my comments to point of time only. But I think that is due to the fact that I took a stand and objected to my statement being altered".

360. The Chairman of the Commission stated, in reply to that accusation, that because of the large number of statements that were found necessary to advise the Committee on various points of administrative and technical detail concerned with the activities of the Commission :-

".... the Commission adopted the only practical and it is submitted perfectly proper procedure of having drafts prepared in the first place by officers. These staff drafts were then considered by the General Manager and myself and by Commissioners, either individually or at Commission meetings. The purpose of this procedure was to divide the work and to ensure, as best it could, factual accuracy and clarity. It was clearly understood by all Commissioners and the General Manager that, when submitted to the Committee, the statements were the responsibility of either the General Manager or myself as Chairman, as he and I had actually been asked to make them. The statements involved in this procedure contained little, or no, opinionate material, but, where they did, those opinions were either the General Manager's or mine.

On 24th February, 1955, Mr. Storey in oral evidence stated to the Committee that he could vouch that, at the Commission meeting held at Bell Bay on 29th and 30th November, 1954, the Commission spent the whole of its time re-writing every officer's statement that had been submitted. The truth is that the foregoing procedure was followed, and, as recorded in the Commission's minutes, it, on that occasion, considered staff drafts covering the twelve statements submitted by myself and the first seven, by the General Manager. No officers' statements were involved.

Either because of the lack of time, the pre-occupation of Commissioners in their own affairs, or the nature of the statement required by the Committee, some of the ninety odd statements* submitted by the General Manager and myself were prepared either personally or from staff drafts. These statements were not seen by Commissioners before submission to the Committee".

361. That was the normal procedure adopted by the Commission in the extremely onerous task of presenting information to the Committee, information which the Committee found clear, comprehensive and presented with the minimum of delay;

* The Commission finally submitted 137 Statements to the Committee: see Appendix No. 2.

it has greatly facilitated the task of the Committee in its efforts to unravel the tangled skein of financial, engineering and managerial operations of the Commission during the years 1950-52. The Committee considers that the procedure as outlined was both in accord with the best canons of administrative procedure and, in the circumstances, entirely justified.

362. Mr. Storey's statement for submission to the Committee was considered by the Commission at a meeting in Melbourne in December, 1954 :-

"Concern was expressed that in Mr. Storey's attempt to clear up his statement, which fundamentally related to the period prior to 30th June, 1952, he was introducing into it references to current efforts being made by Mr. Ward to clear up the problem"

that had the effect of confusing the issue somewhat. The Commission accordingly instructed the General Manager to suggest to Mr. Storey that he might eliminate the references to recent correspondence. The General Manager said :-

"I made it a point to assure Mr. Storey that whatever he wished to do about it was acceptable to the Commission. There was no feeling of disagreement during the whole discussion - on the contrary, in fact - and Mr. Storey readily agreed to the suggestion".

363. Mr. Storey himself told the Committee that the statements he presented were not altered in any way by the Commission :-

"COMMITTEE MEMBER: The reports sent by the Commission to this Committee are those of Mr. Debenham and the General Manager, apart from your own which you read. You did not alter your report at the request of the Commission?"

MR. STOREY: My report came back unaltered, but the Commission suggested that I should confine my comments to point of time only. My original report which I prepared for this Committee gave supporting evidence to show the chaos that existed in the accounts branch. I quoted from statements of the cost accountant in which he stated the confusion that existed in regard to those things and how difficult it was to get them.

COMMITTEE MEMBER: You wrote that without direction from anybody else?

MR. STOREY: Yes, I wrote that.

COMMITTEE MEMBER: You wrote an additional one for us?

MR. STOREY: I included that in the report, but the Commission suggested I should omit that from the report to be submitted to you and confine myself purely to matters up to June, 1952.

COMMITTEE MEMBER: That is within their right seeking that you were one of their officers?

MR. STOREY: Yes, quite. I accepted that.

COMMITTEE MEMBER: You submitted another statement which was entirely without vetting. There were no expurgations?

MR. STOREY: No.

COMMITTEE MEMBER: You could say what you wanted to give us?

MR. STOREY: Yes.

COMMITTEE MEMBER: You have not been affected by any direction that the Commission gave you?

MR. STOREY: No, but I think that is due to the fact that I took a stand and objected to my statement being altered. The General Manager worked on me regarding a particular statement he thought I should strike out. That was a statement that if you take that sum of money and re-allocated it to other projects, those projects would be in the same position as earlier ones."

364. A conflict of evidence arose concerning the circumstances under which Mr. Storey ceased to be employed by the Australian Aluminium Production Commission. Mr. Storey stated to the Committee on 24th February, 1955, that "I am no longer employed by the Commission. I resigned", and the clear inference that he conveyed to the Committee was that he had only stayed on with the Commission in order to assist in the correction of the position to which he had drawn attention. In fact, he did write a resignation; but his services were terminated by the Commission. He wrote to the General Manager on 9th December, 1954, stating that he wished to resign from the Commission as from the close of business on 2nd February, 1955. The General Manager brought the matter before the Commission at its meetings later in December and the Chairman of the Commission stated :-

"In reconsidering Mr. Storey's position on 13th and 21st December, 1954, the Commission did not deny Mr. Storey's right to ventilate any alleged grievances or wrong-doings in a proper manner. The Commission was, however, of opinion that the taking by Mr. Storey of

confidential Commission papers without authority, coupled with his attempt to blame a junior officer, amounted to improper conduct, and, after careful deliberation the Commission felt it ought to record its disapproval of this conduct and decided that Mr. Storey should be dismissed. Accordingly, a letter was sent to him terminating his services as from the close of business on 19th January, 1955".

(b) Mr. Storey's Credibility

365. After the Committee had concluded its examination of the statements by Mr. Storey that have been considered at some length in the previous section of this Chapter, two matters were brought to its attention. The first was a statement of the Australian Aluminium Production Commission which impugned his character and refuted his claim to possess professional qualifications. The second was a report of a Member of the Committee giving a short account of a recent visit he had had from Mr. Storey.

366. The Committee gave special consideration to the question of admitting the first statement, and decided to do so since it went to Mr. Storey's status as an Engineer and therefore to his professional right to challenge the types of engineering plans and methods adopted by the Commission.

367. In addition, he made contradictory statements to the Committee regarding his reasons for resigning, which threw doubt upon his credibility in general.

368. The following extract from the evidence records some of the reasons why the statement prepared by the Commission was admitted by the Committee. The Chairman of the Committee said :-

"Take one matter as a case in point that influenced me. You told me at Launceston that one of the reasons why you resigned was that of solicitude for the Committee because you thought that it had been ... brushed off by the Commission. You also read a resignation which you described as such to the Committee. You did not tell us at that stage that you had written

a letter to the Commission giving an entirely different reason for your resignation.

These things came up, and the Committee considered them and decided that it would admit both documents dealing with your qualifications and the document dealing with your general professional standing. The Commission has brought these documents and the Chairman of the Commission, Mr. N.K.S. Brodribb, is here. I ask him to present them to the Committee.

CHAIRMAN, A.A.P.C.: Yes, Mr. Chairman, I present Statement 132 and the Appendix.

THE CHAIRMAN: Mr. Brodribb, I shall have to ask you to do more than just present the Statement. It is a long Statement, and I do not know whether it is necessary to read all of it. I think it would be enough if you read the parts that are particularly relevant and leave the others which can be handed out as a document to go into the Committee's archives

CHAIRMAN, A.A.P.C.: I propose to ask the permission of the Committee to read the whole of the Statement.

THE CHAIRMAN: The Committee will agree to whatever course you wish. You can read the whole of the statement or the parts that are relevant.

CHAIRMAN, A.A.P.C.: It may be sufficient to read the salient portions.

THE CHAIRMAN: I asked you to be here, Mr. Storey, for other reasons. I wanted you to be here. You will have an opportunity to answer any questions you wish to answer after Mr. Brodribb has produced his statement.

MR. STOREY: I do not know what it is all about at the present moment.

CHAIRMAN, A.A.P.C.: I should like to preface my Statement by giving the reasons why we made this investigation. During the public statements attributed to Mr. Storey there have been many severe criticisms from a technical angle of the effectiveness or the designing of the work. We felt bound to check up and see to what extent Mr. Storey's training and experience could be related to him as a witness to give a constructive and accurate criticism on the points he has made".

369. Once professional and personal qualifications are canvassed, it is difficult to stop short of a full inquiry and the Committee, while it regrets that it was ever necessary to receive evidence refuting Mr. Storey's professional claims, considers that it had no option but to allow the facts of his career to be revealed.

370. The second matter mentioned above not only revealed Mr. Storey's scant regard for truth but his indifference

to embarrassing other people whose help he had enlisted.

371. Both in a letter to the Commission following his dismissal, which was dated 3rd March, 1955, and in a statement to the Committee, he said that he had met Messrs. Barnard and O'Byrne (see footnote to paragraph 345) "for the first time at Launceston on the morning of 23rd February": Mr. Thompson, a Member of the Committee, reported to the Committee that Mr. Storey had called upon him late in March, 1955, in Adelaide and had made certain statements to him in reference to Mr. Storey's giving information to Mr. Barnard. The following evidence was given to the Committee by Mr. Storey on 14th April, in connection with his letter of 3rd March :-

"MR. THOMPSON: You had never met Mr. Barnard before?"

MR. STOREY: Not at that date.

MR. THOMPSON: You did not tell me or anybody else subsequently that you had?"

MR. STOREY: I told you I had subsequently met Mr. Barnard.

MR. THOMPSON: You told me that you had met Mr. Barnard early in September and had given him certain particulars on the instruction of Mr. Keast, and you thought that Mr. Keast had not been quite fair to you because on his instructions to you you were to give Mr. Barnard any information that he required?"

MR. STOREY: That is true.

MR. THOMPSON: How could you subsequently have met him?"

MR. STOREY: I remember Mr. Keast asking me had I met Mr. Barnard. With any Members of Parliament coming to Bell Bay it was Mr. Keast's practice to pass them to me so that I could take them round.

MR. THOMPSON: Do you remember saying to me, although I did not ask you, that you gave that information to Mr. Barnard in September before the matter was raised in the Parliament?"

MR. STOREY: He got information from me before September.

MR. THOMPSON: I asked you where you gave him that information, at Launceston or Bell Bay, and you told me that you gave it to him at Bell Bay. You got papers from an accountant, not the Chief Accountant, and gave those particulars to him. I have been put in an invidious position about this. Evidence was given by you, castigating Mr. Barnard and Senator O'Byrne, and

you stated you had never met them until the 23rd February, in Launceston. Then you come to me voluntarily and tell me that Mr. Keast has not been fair to you It has made it very difficult for me to take evidence from you here when you made a definite statement that you had never met persons until the 23rd February, and then tell me, off your own bat, that you met Mr. Barnard early in September and gave him certain particulars as directed by Mr. Keast. You have put me in an invidious position in trying to adjudicate on the credibility of what you say on other things. I wanted to make that clear to you. I did not ask you these questions. You told me these things and I think that it has, to a great degree, prejudiced your other statements to me on this Committee. I feel that I should make that statement to Mr. Storey out of fairness to myself".

372. While the Committee paid full attention to the statements by Mr. Storey in which he reviewed at length his concern about the manner in which costs were allocated to the several heads, it finds it difficult to accept them at their full value. It finds it impossible to accept the views of Mr. Storey in the cases where engineering and accounting experts presented views on oath which differed from those advanced by him.

373. In conclusion, the Committee offers its opinion of the procedure appropriate to servants of a Statutory Corporation desiring to ventilate some matter concerning the activities of the Corporation, ventilation of which they believe is in the public interest.

374. The recognised procedure for a senior member of the staff of a Statutory Corporation who finds himself as dissatisfied with the conduct of the Commission's affairs as Mr. Storey did, is to bring the matter before the General Manager or the Commission itself. Both of these Mr. Storey did, and from both of these he received, in the Committee's opinion, an extremely fair hearing and some visible, if tardy, action. If these authorities, entrusted by the Parliament with the conduct of the activities of the statutory authority concerned, do not appear to be taking appropriate action, the final recourse of an officer of the staff, but not one that should be undertaken lightly, is to intimate to his superiors that he

intends to seek an interview with the Minister responsible to the Parliament for the activities of the authority. Mr. Storey at one stage indicated that he realised that the Minister was taking action to rectify the position, but said that he did not feel impelled to seek an interview with him.

375. In no circumstances, the Committee considers, is a member of the staff of such a corporation entitled as a matter of law to make available to any outside person or body, however reputable, information that is confidential to the Commission, without the permission of the appropriate authority. It is conceivable that there are circumstances under which a person would consider himself morally obliged to take such a step: but the Committee is of the opinion that such circumstances did not exist in the present instance, particularly as no approach had been made to the Minister direct. The Committee also observes that the position of a person who has left the service of the statutory body in question, for whatever reason, is no different from the position of one still in its employ. At all relevant times, Mr. Storey was still a member of the staff of the Australian Aluminium Production Commission.

376. The Committee cannot conclude this section without expressing its surprise at the failure of the responsible authorities to investigate the qualifications of Mr. Storey at the time of his first employment as a public servant.

CHAPTER X

THE ESTABLISHMENT OF ASSET VALUES

377. From time to time when giving evidence, the Auditor-General has intimated to the Committee that it will be impossible to present him with accounts based on present documents which he will be ready to certify. He stated these views less emphatically in his Report to the Parliament for the year 1953-54 and in the one letter (dated 3rd December, 1954) he wrote to the Minister of Supply regarding the condition of the accounts at Bell Bay. *

378. In his Report for the year 1953-54 the Auditor-General said :-

"In my view the previous unsatisfactory accounting records will not permit reliable asset values to be ascertained for Balance-sheet purposes and it is quite possible that the Commission will have to obtain an independent valuation of its assets by technical and costing experts".

379. His letter to the Minister is couched in less definite terms :-

"It is apparent, however, that reliable asset values suitable for Balance-sheet purposes cannot readily be ascertained from past accounting records. To overcome this difficulty it is possible that an independent valuation of assets by technical and costing experts may be necessary".

380. The Auditor-General has insisted that even if vouchers could now be produced to cover the whole of the expenditure for the years in question, that in itself would not enable him to certify the accounts of the Commission for the years 1950-51 to 1952-53. He points out that it is one thing to produce receipts for expenditure, but quite a different thing to guarantee that the receipts actually represent assets. His criticism of the accounts is discussed in Chapter VII and here it is only necessary to say that he refuses to accept the vouchers now being posted because of the loose system of accounting and store-keeping that existed during 1950, 1951

* For further discussion of these matters, see paras.71-97.

and 1952 and because there was no internal audit upon which he could rely.

381. The attitude of the Auditor-General and his office is supported by Mr. Conde, former Chief Accountant, and Mr. Storey, former Acting Chief Engineer.

382. On the other hand, the Commission has suggested that the problem is purely one of accounting, in order to ascertain from the Commission's records what was spent on its various assets during the period in question. The Chairman of the Commission, commenting upon the Auditor-General's suggestion that a valuation of assets should be made by technical and costing experts, the valuation then becoming the basis for Balance-sheet asset figures, stated :-

"This procedure would not be satisfactory. It is difficult to see how an accounting problem involving the dissection of expenditure can be solved by a valuation of assets, which would have to be made on some subjective judgment of values. The simple fact is that the costing of expenditure prior to July, 1952, became confused and that it is a matter of reviewing a part of that expenditure with the purpose of allocating it to various expenditure heads on a proper basis".

The Committee notes that the Business Manager of the Commission and its Superintendent of Accounts have indicated that they also consider the problem to be an accounting one (see paragraphs 273-278 and 344: and that Mr. Conde himself was at first of that opinion.

383. The Commission points to the fact that although the Commonwealth Investigation Service during 1954 conducted investigations that lasted for several months, they were unable to find any evidence of fraud or misappropriation that could form the basis of legal proceedings :-

"..... a searching and extensive investigation has been made by the Commonwealth Investigation Service and no evidence has been disclosed that stocks and stores were not legitimately used in constructing the plant at Bell Bay. The evidence is that the discrepancies arose from errors and omissions in recordings and to a weak accounting system".

384. The present Treasury official on the Commission, Mr. Hibberd, agrees with the view just quoted. He told the Committee :-

"The Commission was faced with the problem of knowing that there was certain laxities in control in the past. It went to the trouble of trying to get some proof that some stealing or theft of money or property took place. It had a lengthy Commonwealth Investigation Service investigation, and that investigation, with one possible exception of a minor character, did not reveal that any labour or materials were used improperly. I suggest that it is reasonable to take the expenditure recorded in the Commission's accounts and say that that was the actual expenditure incurred on the assets that the Commission is creating. I do not think it is a function of the Audit Office to refuse to certify a set of accounts because they think that there may have been some excessive expenditure on certain items because of inefficient management, if that did take place. If the Auditor thinks that there was inefficiency, that is something for general comment. It does not go to the authenticity of the accounts - that is, the recording of the expenditure actually made".

385. There is further support for the view of the Commission in the Report made to the Commission by Edwin V. Nixon and Partners in February, 1955. The Commission had requested them to undertake an investigation of the accounting system of the Commission and of the matters raised by Mr. Storey and their report in part reads :-

"The purpose of our investigation was to determine whether there was any basis for the suggestion that fraud had occurred and to supply, if possible, reconciliation of the figures and comments in Mr. Storey's statement with the evidence available in the Accounts and records of the Commission.

As a result of our investigation, we find no evidence of fraud or misappropriation. The differences between Mr. Storey's figures and the Accounts were, in our opinion, due to :-

- (a) Accounting errors made by the Accounts Department in allocation of expenditure,
- (b) Failure of the Accounts Department to supply Mr. Storey with any reconciliation of the figures quoted by him and the figures shown by the Accounts although such information was available to the Accounts Department,
- (c) Inclusion in the Accounts of an Overhead Charge, Progress Payments on Contracts and payments for Goods in Transit or in Store, of which items Mr. Storey was apparently not informed. These items total £630,311, more than half the aggregate expenditure of £1,176,341 quoted by Mr. Storey. The Assets represented by this expenditure of £630,311 would not be visible on the job sites.

.....

* See also paragraphs 279-280.

Our examination indicates that the expenditure has been incurred for the benefit of the Commission, and in our opinion there is no evidence to support any suggestion that any of the moneys so expended have been misapplied although numerous accounting errors have been made in the recording thereof".

386. Finally, the Committee mentions that because it was deeply concerned over the refusal of the Auditor-General to accept the accounts of the Commission, even in a certificate subject to reservations expressed on its face, it interviewed the Director of the Commonwealth Investigation Service in an endeavour to ascertain the possible extent of the misappropriation of the Commission's property that had occurred. He was asked :-

"COMMITTEE MEMBER: Did you find any evidence in the course of your investigation that would lead you to believe that quantities of materials disappeared in other directions, not matters you could prove but the matters which would justify you in saying that considerable quantities of goods went in other directions?

MR. WHITROD: Apart from "X" there are only minor incidents.

COMMITTEE MEMBER: Petty things?

MR. WHITROD: Yes, such as the making of foreign orders in workshops, the use of motor vehicles unnecessarily and the loaning of equipment to charitable bodies: that sort of thing.

COMMITTEE MEMBER: You did not find that anyone was taking away enough timber to put a roof on a house or to put up some building privately? There was nothing like that apart from "X"?

MR. WHITROD: I think there is still petty thieving going on, but of a minor nature, say £10 or £15 worth of material. I do not think there is any major thieving going on now or that any major thieving went on in the past."

387. The Committee agrees with the view expressed by Mr. Ferguson that if to any great extent fraud or misappropriation did take place, there would have been at least some evidence in the vouchers examined by them :-

"I think that there would have been evidence in the vouchers that were examined. I do not think that misappropriations of any magnitude could have been concealed unless there was collusion between certain people. Collusion could have resulted in the yardage in a bulldozer contract being over-charged for but it would be impossible for any auditor to check that".

388. The Committee has elsewhere expressed the opinion that while no actual cases of fraud, theft, or misappropriation of money or stores were brought to their notice, it was at the same time not possible to say that some of these things did not occur.* As the Director of Commonwealth Investigation Service pointed out, the absence of correct records, including vouchers, made it impracticable in some cases to obtain sufficient evidence of shortage in the Commission's property to proceed against persons. Indeed, he mentioned that in one case where it was suspected that cement belonging to the Commission had been used in the construction of an employee's home :-

"There was no deficiency of cement at Bell Bay. They had, in fact, a surplus of cement so it was difficult to prove that it came from there".

389. Therefore, the Committee concludes that the amount of goods of the Commission that was misappropriated was not significant, if judged by the total amounts involved in the construction of the aluminium works: nor of a particularly flagrant character, if judged by the experience of other organisations of similar dimensions. At the same time, as the Committee has observed elsewhere, it takes the most serious view of these breaches of the conduct expected of those in a position to exercise a trust over public property.†

390. It is a different matter, however, to try to decide whether full value was received for the amount of labour and constructional material - cement, timber, steel - that went into the foundations or into some of the units of plant. On this matter the Committee received considerable, and conflicting opinions from experienced engineers, and it mentions in the following paragraphs the most important instances of this differing opinion.

* See Chapter VII, especially paragraph 280, and section (a) of Chapter IX, especially the footnote to paragraph 345.

† For the conduct expected of employees of a Statutory Corporation, see paragraphs 107 and 108 and Appendix No.8.

391. The most controversial of all the sections of the works in dispute were the concrete foundations laid in accordance with the designs of the first Chief Engineer, Mr. Leckey. The Committee's attention was drawn especially to the foundations for the reduction furnaces and reduction bays.

392. It was stated by Mr. Storey that the foundations for the reduction furnaces and bays could have been constructed on a concrete raft system far more cheaply than following the deep-sunk pier system the Commission adopted, and that in this way some £510,000 could have been saved.

393. The Committee received statements and evidence from a number of highly qualified and experienced engineers, including the Chairman and General Manager of the Commission, its former Chief Engineer, and Mr. Mawby (who was appointed as Member of the Commission in April, 1953, but gave his opinion as a professional engineer). All these statements were to the effect that although the engineering viewpoint represented by Mr. Storey had been given the fullest consideration by the Commission and the persons concerned, it had been decided to proceed with the foundations on the present plan of construction. The Chairman of the Commission said :-

"The Commission at the time when considering this matter, which was during April, May and June, 1952, went to considerable trouble to get alternative schemes prepared and finally endorsed a report presented by Messrs. MacDonald, Wagner & Priddle, Engineering Consultants, of wide experience and outstanding reputation, who recommended that the pier type of Foundation be adopted and that piers be taken down to the level of fissured rock. The following is an extract from the Minutes of the 42nd Meeting of the Commission held in Melbourne on Friday, 6th June, 1952.

Reduction Furnace Foundations

The Commission considered a report presented by Messrs. MacDonald, Wagner and Priddle, engineering consultants, on furnace foundation design, recommending that the pier type of foundation be adopted, and that piers be taken down to the level of fissured rock.

The Commission confirmed the Chairman's action in directing that the recommendations of the consultants be adopted in work in progress at Bell Bay, and it was agreed that when the physical conditions permitted under-cutting in the decomposed rock as recommended by MacDonald, Wagner & Priddle, the practice of sinking to fissured rock versus decomposed rock would be reviewed.

If I had been faced with the decision and with my own experience behind me, I would have felt bound to accept the opinion of the competent authority referred to rather than accept the risk, on the grounds of costs alone, of installing Reduction Furnaces on a foundation that could prove to be unstable within a measurable space of time and involving possibly a collapse of the plant. The fact also that the British Aluminium Co. Ltd., the technical advisers of the Commission, were not prepared to commit themselves in favour of the suggested lighter foundations would have made me still less inclined to ignore the advice tendered by the Consultants called in by the Commission."

394. The Committee quotes also the statement submitted to it by Mr. Mawby :-

"I have read all the evidence of Mr. H.J. Storey before this Committee relative to these foundations. I have also read the report and recommendations of Messrs. McDonald, A.S. Wagner and Priddle as well as all the Commission's relevant files on this matter. As a member of the Commission since April, 1953 I have a detailed knowledge of the problem of these foundations to withstand stresses and heat over a period of years.

I completely disagree with Mr. Storey's opinion. It is my considered view that the decision of the Commission of 6th June, 1952 in adopting the recommendation of its advisers, Messrs. McDonald, A.S. Wagner and Priddle, was a wise and prudent one.

The consulting engineering firm of Messrs. McDonald, A.S. Wagner and Priddle are well-known to me. They have from time to time been, and still are, advisers to my own company and to other companies with which I am, and have been associated. They are a firm of wide experience and the highest possible reputation in connection with problems of this sort. If I had had to make the decision concerning these foundations which the Commission made on 6th June, 1952, I would have felt bound in the circumstances to follow the advice of so eminent and experienced a firm of experts, which entirely accords with my own professional opinion on the matter".

395. There was wider conflict of opinion over the question of the extravagance of the concrete set for the foundations of the plant at Bell Bay. The Committee quotes Mr. Storey's assertion of extravagance and notes the method by which he calculated the saving that could have been effected :-

"In regard to building and plant foundations for the remainder of the plant, it is difficult to ascertain what the foundation costs total. Our records show that since 30/6/52, £366,338 has been charged to foundations constructed since that date. The dissection of costs covering the expenditure to 30/6/52 of £3,900,000 does not enable me to extract foundation costs. Taking the sum of £366,338 and applying the same formula used in the case of the bays, a saving at least of £228,000 could have been effected with a satisfactory foundation

modification plan. I do not doubt that when total foundation costs are available, a very considerable amount in excess of the figure given could have been saved".

396. The General Manager said that he was in accord with Mr. Storey that much of the Commission's foundation work, specifically excluding the reduction foundations, "could have been taken to decomposed rock or, in some cases, to what he calls the sedimentation layer, with complete safety and a large saving of capital expenditure". He continues :-

"The protests against the extreme and expensive precautions of the Chief Engineer by all the Engineers at Bell Bay and even by the Engineers of the Contracting Company of Haunstrup & Company and not the least by the General Manager, were brushed aside".

397. The Committee notes that in the case of the reduction foundations there was at least considerable ground for the comment by Mr. Storey.

398. However, the Committee considers it relevant to mention that a considerable proportion of the total cost of the furnace foundations as given by Mr. Storey was subsequently found to have been posted incorrectly to them. In their investigations in early 1955, Edwin V. Nixon and Partners discovered that of the total cost of £208,251 charged to their laying up to 30th June, 1952, £197,401 was incorrectly allocated to the cost head "Furnace Foundations". *

399. The Committee is unable to decide such technical matters as these: but considers the unresolved conflict of views revealed during its examination of furnace costs is another example of the costly and unproductive dissensions, mentioned more fully in Chapter IV, that disturbed the functioning of the staff of the Commission during its early years. The wrong posting in the case of the reduction furnace foundations gave both credence and force to Mr. Storey's original statements. At the same time, the Committee observes that insofar as the allegations of extravagance resolve themselves into

* In paragraphs 351 and 352, mention is made of another allocation queried by Mr. Storey, to "Switchyard".

questions of accounting (and have been interpreted as such by the Commission), questions not necessarily involving any suggestion of wasteful expenditure.

400. The Committee mentions the controversy over the wharf at Bell Bay because it is an example of another type of alleged extravagance, containing some suggestion of ineptitude. Mr. Storey explained that he brought the wharf to the attention of the Committee because it was a good example of the unsatisfactory advice given to the Commission by its first Chief Engineer, Mr. Leckey. Mr. Storey said :-

"The new wharf, which is a very solid structure on concrete piles with a platform and storage bin, rocks under the operation of one wharf crane. I found out when sitting in a vehicle watching the cranes as they were put through their tests ... It was moving half an inch from shore to sea front".

401. Both Mr. Leckey and Mr. Keast replied to Mr. Storey, denying the suggestion that the site for the crane was unsuitable and also the possibility that the wharf might eventually slip into deep water. Mr. Leckey said :-

"Tests for the wharf site, conducted by the Launceston Marine Board, showed excellent foundation conditions and, in fact, the driving of the concrete piles was found to be much harder than expected and piles of length shorter than expected were required.

The general appearance of the site indicates previous stability for a long period of time".

402. Mr. Keast agreed in substance with this comment by Mr. Leckey and, in discussing the possibility that the wharf might move from its original position, said :-

"In respect to the deflection in the wharf when the cranes are operating, when this was brought to my notice by Mr. Storey, I made enquiries of the Marine Board of Launceston as to their views and received an assurance from their Engineers that this did not represent movement at the base of the piles, but rather that it was reasonable to expect this effect in piles that were forty feet in clay and forty feet in water and air. They completely discount any suggestion that the movement represents eventual slipping of the whole wharf into deeper water, to protect which would require tying the wharf to anchors in the shore".

403. The cost of the foundations was the main item on which it was suggested to the Committee that savings might have

been made. They were, the Committee mentions, savings that in part could have been made consequent upon the adoption of different engineering techniques permitting less costly erections and in part were "savings" that have since been achieved by the correct cost allocation of some items of expenditure.

404. But there were some items on which, it was suggested, savings could have been made. These included such matters as the cost of clearing the site and the expenditure of the Commission plant, especially for handling raw materials. The Committee does not comment upon these matters in its Report because, as with the foundation costs, the excessive cost has either been discovered by Edwin V. Nixon & Partners to be due to an incorrect cost allocation, or else the excessive expenditure has not been proved to the Committee. Furthermore, the Committee considered that it should not seek detailed and comprehensive engineering evidence concerning these matters as it has neither the time, the qualifications nor the facilities to make such an investigation, nor does it regard the reception and consideration of such evidence as relevant to the purpose or the main lines of its Inquiry.

405. The Committee considers that in fairness to Mr. Storey whose evidence is more fully treated in Chapter IX and whose reliability as a witness is specifically referred to in paragraph 372, it should mention that he said that he regarded his statements concerning the excess costs of design and location as matters of opinion :-

"It is my considered opinion that in addition to the large savings made by the General Manager where time and condition factors permitted such economic action, site, design and plant modifications could have effected additional savings totalling £800,000. This statement is, of course, my personal opinion. It could be challenged by other Engineers. I am preparing a comprehensive report on these matters in detail and I feel confident that my assertions will be endorsed by a competent examining authority".

406. The Committee reviews these divergent opinions because they have a most important bearing upon the decision of the Auditor-General concerning asset values that was mentioned at the beginning of this chapter. On the one hand, there is the view that the vouchers are in such a condition as to provide, in the words of Mr. Ferguson, sufficiently accurate data from which to apportion the costs of the various sections of the plant. On the other hand, the Auditor-General contends that, because of the circumstances that existed, sufficiently accurate data acceptable to him could not be produced. There is, therefore, the opinion that nothing less than an analysis of the expenditure by a qualified quantity surveyor and an accountant will be able to establish accurate asset values.

407. Some Members of the Committee are convinced that any effective analysis of the labour, plant and material used so long ago for constructing the works would be impossible, and are prepared to rely upon the accounting approach. Other Members believe that the determination of asset values will have to be settled at Government level because of the situation in which the Australian Aluminium Production Commission finds itself with regard to its accounts.

408. In the view of the Committee, no evidence of shortages or thefts have occurred of a magnitude sufficient materially to affect asset values as recorded in the books of account; and no clear evidence of extravagance has been given, such as would provide a compelling reason for deciding that a fresh assessment of asset values is the only means that will enable the production operations of the Commission to have a proper start.

CHAPTER XI

GENERAL COMMENTS BY THE COMMITTEE

409. Much of the Inquiry by the Committee has been concerned with the status of Statutory Corporations in the scheme of Parliamentary government, with the overall constitution of the Australian Aluminium Production Commission and its functions, and with the responsibilities of the Commission and its Members to the Minister and to the Treasury.

410. One important aspect of the Committee's Inquiry was a critical examination of the internal administrative organisation of the Commission in order to determine whether that was so constructed and managed as to enable the Commission to fulfil effectively its functions and obligations to produce aluminium in terms of the constitutive Acts. This included an examination of the manner in which the accounts were kept, stores recorded, and costing carried out, and of the reasons why the Auditor-General had refused to give his certificate clearing the Commission's accounts for 1950-51.

411. The Committee had to investigate a large number of statements suggesting that accounting methods and stores recording were such as to allow of the perpetration of fraud or the commission of theft. These suggestions compelled the Committee to sift voluminous evidence and to make an assessment of attitudes.

412. The Inquiry deals primarily with the conduct of the affairs of the Commission from 1st July, 1950 to June, 1953. The period from that latter date to the present assumes importance in the investigations of the Committee only to the extent that it is necessary to follow up the steps taken to restore the position as it had developed between 1950 and 1953. Many of those who played leading roles during the earlier period were no longer employed, but their recollection of what was done at that time, and why it was done, was essential to an under-

standing of the situation.

413. Some of these witnesses told their story with considerable emotion, and showed deep resentment that their bona fides should be called in question by people who were unaware of the conditions under which they had worked. In addition, the time factor affected the nature of the evidence, for it is not given to many people to recall with accuracy, after a lapse of up to five years in this case, what was said and done, and what meaning was to be attributed to those statements and actions.

414. The volume of evidence, both oral and documentary, also distinguished this Inquiry from others so far undertaken by this Committee. The Committee repeatedly received evidence which required re-opening investigations into matters which the Committee hoped had been completed. Each new opening meant the preparation of papers by the person affected and their close study by the Committee, or the reception of further oral evidence. It was found that while the Parliament was not in session, a week's meetings necessitated a break of at least three weeks while the material was being prepared and examined. Meetings were, perforce, of long duration and made exhausting demands upon witnesses, observers, the staff and the Committee.

415. While the Parliament is in session, week-ends become almost the only time to examine witnesses. Private sessions have been many and arduous but inevitable in the light of the serious issues involved.

416. The Committee makes a general comment on the particular limitations associated with the conduct of an investigation of this type by a Parliamentary Committee. As the investigation proceeded and evidence emerged in the nature of reflections on or recriminations or charges against individuals, the Committee became acutely conscious of its responsibility to avoid acting in the role either of prosecutor or counsel for the defence.

417. The tone of the investigation was unavoidably struck by the statements made imputing inefficiency, waste, extravagance and dishonesty to the management and staff of the Commission. These statements were supplemented by others prepared by the Auditor-General, the former Chief Accountant (Mr. Conde) and the former Acting Chief Engineer (Mr. Storey). Each prepared statements that were highly critical of the management and the Committee found it necessary to take voluminous evidence in its task of testing the validity of the charges made.

418. The main features of the statements by the Auditor-General and Mr. Conde were concerned necessarily with such technical matters as keeping accounts, costing and keeping records of the receipt and issue of stores in accordance with prescribed rules. They made much of the possibility that the failure to observe well-tried forms and methods under the conditions that existed at Bell Bay favoured fraud or thieving and the application of stores, moneys, or property for purposes other than the benefit of the Commission.

419. Little investigation was needed to reveal the chaotic condition of the records and documents for 1950 to 1952; but the most searching questions and repeated invitations to people to give instances of misappropriation failed to produce conclusive evidence that such had occurred.

420. The case of Mr. Storey was different. His original expression of doubt about the proper allocation of costs in connection with expenditure upon the plant prior to 30th June, 1952 became distorted, and in the minds of other people became an allegation that \$800,000 had been wasted, and that £1,200,000 was not accounted for.

421. Whatever element of accuracy there was in Mr. Storey's original contentions, the Committee holds the view that he failed, in view of their serious import, to take such precautions

as were warranted thoroughly to check his facts before arriving at conclusions. Such failure became grave after his statement received publicity and were subsequently distorted, and an implication more sinister than that which he had intended to convey emerged. It is noted that he apparently did not consider it necessary to correct, publicly or privately, the misapprehensions which his statement had created.

422. However, it cannot be said that Mr. Storey received at an early stage as much co-operation as might have been expected from the management or the appropriate officers of the Commission and that would have reassured him. His request for access to accounting documents appeared to have been met with the comment that they would be of no use to him as Assistant Planning Engineer: his task was considered to be the completion of construction of the plant.

423. It was not until after the Committee had considered on their merits Mr. Storey's "charges", that evidence was placed before it proving that he had stated incorrectly to the Commission his professional qualifications and that he had a record that was unenviable.

424. For the rest, the Committee has elsewhere dealt with the many issues involved, and its recommendations have been stated in Chapter XII.

P e r s o n a l

Mr. Hulme

425. During the time that the Committee was examining witnesses and reviewing the material presented to it, Mr. A.S. Hulme was engaged as Chairman of the Commonwealth Committee on Rates of Depreciation.

426. Mr. Hulme has therefore been unavoidably absent from its meetings much to the regret of the Committee.

Mr. Caffin

427. The Committee lost the services of Mr. N.R. Caffin, B.A., LL.B. (Melb.), A.A.I.A., A.C.I.S., its first Secretary, just before the taking of evidence at this Inquiry was completed.

428. Mr. Caffin has been appointed to the staff of the Inter-Governmental Committee for European Migration at Geneva.

429. The Committee places on record its appreciation of the unremitting help it received from Mr. Caffin during his term with it as Secretary, and congratulates him upon his appointment.

Mr. Bailey

430. Mr. P.H. Bailey, LL.M. (Melb.), B.A. (Oxon), and Victorian Rhodes Scholar, has been appointed as Secretary to the Committee in succession to Mr. Caffin. Mr. Bailey was appointed after almost all the evidence was taken in this Inquiry, which placed him at some disadvantage.

431. The Committee records its appreciation of the very valuable assistance he has given them in writing this Report.

Staff

432. The Committee has had the help of Mr. Austin Selleck, who was seconded to it by the Treasury. He has enthusiastically thrown himself into the work of the Committee and has given much help in writing this Report.

433. All members of the staff have not spared themselves in the work of producing this Report; it has often been at the cost of much personal sacrifice.

434. The Committee also thanks the Principal Parliamentary Reporter and his staff for their readiness to meet the exacting demands the Committee made upon them.

CHAPTER XII

C O N C L U S I O N S

1. The Acts constituting the Australian Aluminium Production Commission do not clearly set out either the terms and conditions upon which the Members of the Commission hold their office, or their duties and responsibilities as "representatives" of the Commonwealth on the Commission.

The Committee recommends that the several Governments consider a review of the legislation now that the aluminium plant is in operation. (Paragraph 103).

Duties of the Commissioners

2. The Committee notes that it was the intention of the Minister when appointing the Members of the Commission in 1945 that the various Members should apply their several qualifications and resources to achieving the purposes of the Commission. (Paragraphs 55-56).
3. The Committee directs attention to the Opinion of the Solicitor-General that individual Members of the Commission do not have individual responsibilities and believes that adherence to this view resulted in much of the confusion to which it has drawn attention. (Paragraph 100).
4. The evidence given to the Committee indicated no common agreement regarding the duties and responsibilities of Members of the Commission in their "representative" capacity. (Paragraphs 35, 58).
5. In the opinion of the Committee, a Member who was at the time also a Treasury official, owed a duty to the Treasury, to report the state of the accounts, if he knew of it, to his Permanent Head or to the Treasurer, which transcended his loyalty to the Commission to keep his counsel respecting its affairs. (Paragraphs 64-70).

The Independence of the Commission

6. The Committee believes that the creation of the Australian Aluminium Production Commission as a Statutory Corporation carried with it the intention of the Parliament to give it a measure of independence; in particular, freedom from Ministerial interference with its day-to-day administration. (Paragraph 35).
7. The requirement that the Commission was to keep the Minister continually informed of its operations preserved the doctrine of Ministerial responsibility. (Paragraph 42).
8. The practices and conventions covering the working of Statutory Corporations inside a system of Parliamentary Government have been less clearly defined in Australia than in England. (Paragraphs 36 ff.).

The Appointment of the General Manager

9. The failure on the part of the original Commission to appoint a General Manager immediately the site was selected in 1949 and the preliminary preparations for construction had been made, threw an insuperable burden upon the Chairman and to a lesser extent upon his colleagues, who were all giving to their duties as Commissioners the time they could spare from the management of their own affairs. (Paragraphs 28, 142).
10. The Committee was told by one of the Tasmanian Members of the Commission that the delay in appointing a General Manager was partly because of difficulty in convincing successive Ministers that the expense of the appointment was justified. Although the original Chairman several times declared that he could not spare the time that the work of the Commission demanded, the Committee thinks it must have been evident that a Commission of part-time Members, as it was then constituted, could not effectively

manage the activities of the Commission in a period of rapid expansion. (Paragraphs 127-130, 134).

Audit

11. The provisions of the Acts constituting the Commission are ambiguous respecting the duties of the Auditor-General. The Committee found that there were wide differences of opinion as to whether or not the Audit Act applied in its entirety before October, 1952. (Paragraph 75).
12. The Committee considers that the type of Audit conducted at the offices at Bell Bay during 1950-51, 1951-52 and 1952-53 was inadequate for the purpose. (Paragraph 308).
13. The Committee notes that it was not until his Report of 1953-54 to the Parliament (2nd November, 1954) and his letter to the Minister (2nd December, 1954) that the Auditor-General disclosed any details of his criticism of the Accounts of the Commission to support his refusal to certify. (Paragraphs 77, 78, 308).
14. The Committee accepted the Auditor-General's contention that he need give no reasons for his refusal to certify; but it is surprised that not until November, 1954, did he indicate that the state of the accounts was such that he might not be able, except with a complete physical valuation, to certify the accounts of the Commission after 1950-51. (Paragraphs 88, 89, 91-93, 308).
15. The Committee recommends that the whole question of the audit of Statutory Corporations should be reviewed when amendments to the Audit Act are being made. Meanwhile, consideration should be given to securing commercial audit of the accounts of the Australian Aluminium Production Commission to supplement that of the Auditor-General. (Paragraphs 97, 288).

The Form of the Accounts

16. The Committee considers that the question of responsibility for the form of the accounts for Statutory Corporations and Government trading undertakings should be reviewed when the amendments to the Audit Act are being considered. (Paragraph 69).

Financial Transactions of Members

17. The Acts constituting the Commission do not contain any prohibition restraining Members of the Commission from engaging in business transactions with the Commission. (Paragraph 106).
18. The Committee considers that engaging in such transactions as were entered into was not only unwise, but showed a lack of appreciation of the limitations imposed by official practice. (Paragraphs 121-122).

Administration

19. In many matters **that**, during 1950-53, affected the administrative organisation of the Commission and its relations with the Government and the Treasury, the Committee sensed a lack of awareness on the part of Members of what was happening. (Chapters III and IV).
20. The Committee noted that as early as 1949 the Commission was concerned to improve the administrative organisation by concentrating its staff and more clearly defining their duties. In the light of that decision, the Committee finds it hard to understand why the Commission should have allowed the re-organisation to drag on month after month until the General Manager took the matter in hand on his appointment in 1951. (Paragraphs 129, 137, 142).

Keeping the Minister Informed

21. (a) During 1950 the need to get the Minister's approval to a large number of contracts exceeding £50,000 resulted in his being kept continually informed of its operations. (Paragraph 44).
- (b) During 1951 and 1952 the Commission failed to keep the Minister and the Premier of Tasmania continually informed. (Paragraphs 45-48).
- (c) The Commission failed during these years to keep the Minister continually informed of the great increase in the estimated cost of the whole project. In part this may have been because of the condition of the Accounts and the consequent inability of the Commission to make sufficiently accurate estimates to put before the Minister. (Paragraphs 54, 235-236).
- (d) Before the Auditor-General had, in September, 1952, indicated to the Commission that he would not certify its accounts, but after the Auditor-General's Report of May, 1952, the Minister appointed the Secretary of his Department as a Deputy Member of the Commission with instructions to keep him directly informed about the financial position of the Commission. (Paragraphs 49-51, 77).
- (e) The Minister thus took the first step towards re-organising the Commission and remedying the weaknesses that had been revealed in the methods of control. (Paragraphs 50, 52).
22. The Committee is satisfied that the Minister at all stages took such steps as he might reasonably have been expected to take toward remedying the weaknesses that were revealed in the operations of the Commission. (Paragraphs 20-21, 50).

The Site

23. The Committee considers that the Commission exercised due care and prudence in selecting the site at Bell Bay, having regard to the terms of the Agreement providing for the establishment of a reduction plant in Tasmania. (Paragraphs 209-218).

The Accounts

24. The increased tempo in construction that followed the appointment of the General Manager in 1951 resulted in a thorough dislocation of the system of keeping accounts and stores. (Paragraphs 146, 258, 264, 317).
25. It was noted that the then Secretary of the Commission maintained that his responsibility for the Accounting system and its operation ceased in January, 1952, although the Accounts were not transferred to Bell Bay until April, 1952. (Paragraph 259). The Committee is satisfied that the Secretary :-
- (a) did not realise the immense volume of work involved when construction commenced in earnest, (Paragraph 258)
 - (b) did not supply the staff with suitable instructions to meet the new position, (Paragraphs 286-288)
 - (c) did not realise, until it was too late, that the frequent changes in methods and systems had produced chaos at the Bell Bay offices, (Paragraphs 289-293)
 - (d) did not properly co-ordinate the accounting and costing work being done at Sydney with that at the Bell Bay offices, (Paragraph 289)
 - (e) did not take effective steps to recruit in time sufficient competent men who could be entrusted with the accounting, costing and store-keeping involved, (Paragraph 135) and

- (f) resisted for too long the appointment of an internal auditor for the Commission's accounts. (Paragraphs 82-85).

Getting and Keeping Staff

26. The Committee realises that :-

- (a) the dispersion of the staff between the offices at Sydney, Melbourne and in Tasmania, (Paragraphs 124-125, 126-134)
- (b) the isolation of Bell Bay and the conditions under which the employees and their wives and families lived, (Paragraphs 139, 233) and
- (c) the unstable nature of the economy in a period of full employment and of rising costs and prices (Paragraphs 139, 234)

were all factors that made the recruitment and retention of an adequate force of sufficiently competent technical and clerical employees more than ordinarily difficult.

Laxity in Methods

27. There was ample notice of the rapid increase in activity to be expected at the Bell Bay site during 1951 and 1952, when expenditure was five times greater than it was in 1950-51, and the Committee feels that the failure of all concerned to make provision for the protection of valuable stores and to instal effective methods of accounts and stores control warrants the gravest censure. (Paragraphs 309-322).
28. The dispersion of staff, the frequent changes in methods and the absence of instructions made effective control over the accounts impossible, and this led to laxity in certifying claims for payment and in obtaining acquittances. (Paragraphs 289-308).

29. Once the erection of the plant began in earnest, the volume of stores that arrived was too much for the system, and resulted in irregularities in keeping the stores records that made it impossible to say whether or not any shortages had occurred. (Paragraphs 295, 304, 316-319).
30. The Committee is satisfied that the weaknesses and loose practices that existed at the Bell Bay office left the door open for manipulating vouchers and for the illegal removal of stores. No evidence of fraud or theft, however, was submitted to the Committee. (Paragraphs 300-308, 382-389, 407-408).

Staff Relationships

31. The Committee believes that the strained relationships that at times existed between the General Manager and some members of the staff tended to impair administrative efficiency, and, for a time, retarded the task of remedying the chaotic conditions that developed in Bell Bay during 1951-52. (Paragraphs 140-146).
32. Because they neglected to define clearly the respective functions and responsibilities of the senior staff, the former Chairman and the Commission cannot escape blame for the conditions that developed. (Chapter IV, paragraphs 144, 146).

Did Fraud Occur?

33. The Committee was told by the former Chief Accountant (Mr. Conde) that many transactions that involved breaches of the Audit Act and Treasury Regulations made possible fraudulent appropriation of funds; but Mr. Conde said that he was not able to submit any instance in which fraud had taken place. (Paragraphs 294-308).
34. The Committee, having examined Mr. Conde about the condition of the Accounts when he was appointed, the competence of the staff, and his criticisms of the General

Manager, concluded that Mr. Conde was sometimes inaccurate in his statements; his conclusions also were unsound, no doubt because his judgment was affected by the chaotic condition of the records. (Paragraphs 418, 419).

35. Having carefully investigated the possibility of fraudulent practices in connection with the letting of contracts, the Committee found that the practice followed by the Commission of calling tenders before letting contracts was generally satisfactory, given the conditions prevailing at Bell Bay. The letter of the Audit Act and Treasury Regulations was not always adhered to, but the Committee is satisfied that the methods adopted were characterised by due care and prudence. (Paragraphs 299-306).
36. The Commonwealth Investigation Service informed the Committee that it could find no evidence to support the contention that members of the staff had obtained pecuniary benefits from contracts entered into by the Commission. (Paragraphs 383-384).
37. The evidence given by the Commonwealth Investigation Service showed that after that Service had interrogated more than fifty persons, only one case was found of likely theft of cement, timber, steel, etc., involving a loss to the Commission of possibly £2,000. (Paragraphs 383-389).

At the same time, the Commonwealth Investigation Service told the Committee that there was not wanting suspicion that minor thefts of stores had taken place, a conclusion with which the Committee agreed. (Paragraph 386).

The Survey at Wessel Islands

38. The Commission acted promptly, following its receipt of a report from the senior geologist of the Bureau of Mineral Resources, in authorising a survey of the bauxite deposits in Arnhem Land. It was prudent to accept the offer of the British Aluminium Corporation of geological assistance. (Paragraph 155).
39. The Commission's employment of Australasian Civil Engineering Pty. Ltd., particularly without the invitation of tenders, to conduct the survey at Wessel Islands and the adjacent coast (notwithstanding that Mr. Watson's interest in Australasian Civil Engineering Pty. Ltd. was known to it), showed little appreciation of the construction which would inevitably be placed on such an action. (Paragraphs 121, 157-158, 163).
40. The decision of the Commission to enter into a cost-plus contract with Australasian Civil Engineering Pty. Ltd. without the usual safeguards is open to similar criticism. (Paragraphs 159-160, 175-176).
41. The rising cost of the survey alarmed the Chairman and the Secretary, but the Committee was concerned to find that the Minutes of the Commission do not disclose that the Commission was informed that the cost of the survey would be more than double the estimate. The total cost of the Wessel Islands survey was approximately £140,000. (Paragraphs 167-170).
42. The Committee is satisfied that the criticism made by the Minister and the then Chief Accountant regarding the conduct of the survey was well-founded. It notes the vigorous defence made by Mr. Watson when his actions were questioned by the Minister during 1954 and, in this connection, it records the fact that the survey revealed the existence of 10 million tons of high grade bauxite on Wessel Island, and of deposits estimated at 30 million

tons in Arnhem Land. (Paragraphs 169-170, 173-175).

43. The Committee has no reason to doubt that Australasian Civil Engineering Pty. Ltd. carried out the survey with expedition and due care. (Paragraphs 158, 175-176, 185).

The M.V. "Illawarra"

44. The Committee is of opinion that the Commission was justified in purchasing a vessel to transport men and material to Arnhem Land and Wessel Islands for the conduct of the survey. (Paragraphs 187 and 208).
45. The Committee considers that the arrangements made by the Secretary for the purchase and particularly for the reconditioning of the vessel i.e. "Illawarra", were very unsatisfactory and failed to safeguard the interest of the Commission. (Paragraphs 188-193).
46. The association of Mr. Watson with the firms of G.H. & J.A. Watson Pty. Ltd. and Australasian Civil Engineering Pty. Ltd. was disclosed to the Commission when "Illawarra" was being purchased; but the Committee considers that Mr. Watson did not fully protect the interests of the Commission by seeing that the terms of the contract for refitting, and for carrying out the requirements of the Navigation Authorities, were observed. (Paragraphs 189, 197).
47. The amount of commission paid to G.H. & J.A. Watson Pty. Ltd. in connection with the purchase and refitting of the "Illawarra" was £1,039; their profit in connection with "Illawarra" was very small (£205), and in some of the other transactions in respect of which details were submitted to the Committee, the Company operated at a slight loss.
48. The Committee records that the Commission was informed that the vessel ("Illawarra"), which it was estimated would cost £6,250 and would need a refit estimated to cost £3,250, finally cost the Commission for repairs,

- refits and operating, £38,100; after having rendered negligible service in the survey, the vessel was sold by tender to the highest bidder for £4,600 on 26th July, 1954 as she lay at Darwin. (Paragraphs 187, 205-207).
49. It seems that the Minister was not specifically asked to give his approval to the purchase of "Illawarra". He was not informed of the transaction at the time; his approval was unnecessary because the estimated cost was below the sum of £50,000. (Paragraph 191).

The "Unit" Crane

50. The Committee believes that the General Manager was misled regarding the condition of the crane by the recommendations of G.H. & J.A. Watson Pty. Ltd., but considers that it would have been wise to obtain a written technical report on the condition of the crane and to ensure that a written guarantee was held, especially as the crane was a second-hand machine and the purchase had been arranged in great haste. (Paragraph 336).
51. The purchase price of the crane was £8,500, plus 5% commission to G.H. & J.A. Watson Pty. Ltd., amounting to £425, and inspection fees of £47. (Paragraphs 323-324).

The Watson Agencies

52. The Committee agreed with the Commission that it was to its financial advantage to utilize the services of Messrs. G.H. & J.A. Watson Pty. Ltd. for making inspections and providing other services in Sydney thereby saving the cost of sending the Commission's inspectors and other officers from Melbourne and Tasmania to attend to each job that had to be done. The wisdom of the arrangement is less evident. (Paragraphs 111, 120-121).

53. While there was no legal restraint against Mr. Watson's having a financial interest in and being a Director of two Companies that engaged in transactions with the Commission, and while he always disclosed his interest in the relevant Company, the Committee feels that he acted unwisely, compromising not only himself and his fellow Commissioners but also the Minister responsible to the Parliament for the operations of the Commission. The Committee is satisfied, however, that Mr. Watson always believed that he was acting in the best interests of the Commission. (Paragraphs 100, 120-121).
54. The Committee believes that Mr. Watson did not spare himself to advance the work of constructing the plant at Bell Bay. Evidence was given to the Committee of the many highly advantageous purchases that he made of plant and equipment on behalf of the Commission during his business trips overseas, amongst which may be mentioned the switchyard plant which was worth several hundred thousand pounds and was bought by him for £25,000. (Paragraphs 127-131, 142).

Estimates of the Cost of the Project

55. The Committee considers that the original estimate of £3,000,000 for a plant of 10,000 tons (increased from 5,000 tons) was unreal since it did not include the cost of many essential items. (Paragraphs 229-230).
56. The decision in 1948 to increase the plant capacity to 13,000 tons, together with rapidly rising prices, raised the revised estimate of the cost of the plant to £7,250,000 by January, 1952. (Paragraphs 229-231).
57. The Committee notes that there was some confusion over the estimate made to take account of the increased costs caused by rapid rises in wages, prices and other services during 1951, and believes that the delay in advising the Minister of the extra money that would be needed

prevented him and the Government from considering in proper perspective their policy in regard to the project as a whole. (Paragraphs 234-237).

Informing the Minister

58. The Committee considers that the Commission failed to observe its statutory duty when in October, 1952, it decided that 'unless the Minister sought information', it would withhold the fact that more money was needed to complete the plant: the Commission explained that before informing the Minister it wanted to obtain more reliable figures. (Paragraphs 238-246).

Commitments

59. The Committee noted that there is some doubt regarding the power of the Commission to enter into commitments in excess of a Parliamentary appropriation; at 30th June, 1951, the Commission was over-committed by £133,000. (Paragraphs 247-249).

Mr. Storey's Statements

60. The Committee agreed that Mr. Storey was justified in bringing before the Commission his anxiety about the accuracy of the system of allocating costs to the several sections of the plant. (Paragraph 347).
61. The Committee discussed at length with Mr. Storey his contentions that a sum of £1,176,343 was improperly allocated and that a saving of £800,000 could have been effected if different methods had been used. (Paragraphs 339-356).
62. The Committee finds that the facts supported some of Mr. Storey's contentions, but that his main arguments were quite erroneous. (Paragraphs 351-355, 357, 372, 404).
63. The Committee believes that Mr. Storey did not exhaust all resources available to him to check his statements.

before making them public. (Paragraphs 345-346, 375).

Had he done so, a great deal of public anxiety which was aroused by his statements would not have arisen at all, and much of the work this Committee had to do would not have been necessary. (Paragraphs 337, 345, 358-365, 420-423).

64. The Committee draws attention to the apparent failure of the several authorities to check properly the qualifications of Mr. Storey before he was appointed. (Paragraph 376).
65. In the light of the embarrassment caused by the canvassing of Mr. Storey's qualifications, the Committee thinks inquiry should be made into the methods adopted to check the qualifications of candidates seeking employment by public authorities.

"Foreign Orders"

66. Following up statements made to it, the Committee found that the workshop at the plant made a set of copper pots, two frying-pans and two copper fire-screens for the General Manager.
67. The Committee also found that the General Manager had bought some glasses and some napery from a Melbourne retail firm for the official Commission Guest House at Bell Bay, without first obtaining the approval of the Contracts Board to the purchase. The approval was subsequently obtained. It was alleged that the cost, which was £297, was greater than would have been the case if bought under contract.
68. It also found that a second-hand piano had been bought by the General Manager from a dealer in Melbourne for use in the Staff Welfare Club at Bell Bay, again without observing the prescribed procedure for such purchases. The cost of the piano, including freight, was £261.

69. Finally, the Committee examined charges that the General Manager was improperly using a motor car that had been purchased for his use by the Commission as part of his contract of employment. Similar statements were made in respect of the car driver. The Committee found that the use of a car and a driver was part of the terms of the General Manager's contract of employment with the Commission.
70. The Committee examined all these allegations because they might have indicated a course of conduct by the General Manager which represented the standards of all employees. Rumours and gossip and malicious statements freely circulated, and much of the Committee's time was taken in tracking them down. As a result of its investigations, the Committee feels that the manner in which many matters were presented to it savoured more of malice than of an expression of high ethical standards.
71. The Committee reminds all concerned that what might be winked at in private establishments is no guide to those who work in Government undertakings, where the principle of trusteeship of public property is generally accepted. In this case, and under the circumstances existing, anything less than the most rigid adherence to principle by those in charge of the undertaking could result in a looseness throughout the whole organisation.

Asset Values

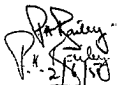
72. The Committee notes that the Auditor-General, in his Supplementary Report dated 2nd November, 1954, said :-
- "... previous unsatisfactory accounting records will not permit reliable asset values to be ascertained for Balance-sheet purposes and it is quite possible that the Commission will have to obtain an independent valuation of its assets by technical and costing experts". (Paragraphs 377-379)
73. In oral evidence to the Committee, the Auditor-General unequivocally committed himself to a decision not to

accept any records which resulted from a re-writing or other treatment of the books and vouchers containing records of financial transactions that took place before June, 1952. (Paragraphs 278, 380).

74. Other witnesses, including representatives of the Commission, its Business Manager (recently appointed), and a Partner in Edwin V. Nixon and Partners told the Committee that the vouchers have been checked and posted, and are now in a sufficiently acceptable form to allow the allocation of costs to the various sections of the plant for the period prior to 30th June, 1952. (Paragraphs 279-280).
75. As between these two approaches to the establishment of asset values, the Committee finds itself divided. (Paragraphs 406-408).

The Present Position

76. The Committee has been told that the Commission now has an adequate accounting, costing and stores staff and that all the defects that existed prior to 1953 have been remedied. None but routine audit queries and on relatively minor matters have been made regarding transactions since 1953.
77. The Committee ventures the opinion that although the preparation of the plant of the Australian Aluminium Production Commission for production was marked by some extremely unsatisfactory features, it is now, as a going concern, an asset of which the Australian people may hope in the future to be proud.

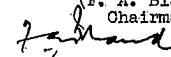

Peter H. Bailey,
Secretary,
Parliament House,
Canberra, A.C.T.

1st June, 1955.

On behalf of the Committee,



(F. A. Bland)
Chairman.



M I T N E S S E S .

APPENDIX No. 1.
Report Para No. 4.

Being a list of persons who appeared before the Committee and of those who submitted statements for the Committee's consideration.

No. of Announcements
before the Committee. No. of Statements
Submitted.

OFFICERS OF THE COMMONWEALTH PUBLIC SERVICE.

Department of the Treasury:

Mr. D.J. Hibberd, First Asst. Secretary and
Member of Reconstituted Commission.

3

Attorney-Generals Dept.:

Professor K.H. Bailey, Solicitor-General

1

Commonwealth Investigation
Service :

Mr. R.W. Whitrod, Director, Commonwealth
Investigation Service, Canberra.

1

Mr. P.J.S. Fife, Deputy Director, C.I.S.Hobart.

1

Mr. H.E. Shaw, Investigator, C.I.S., Hobart.

1

Commonwealth Audit Office:

Mr. J. Brophy, Auditor-General, Canberra.

3

Mr. F.A. Johnson, Senior Audit Inspector, Camb.

2

Mr. R.E. Baker, Chief Auditor, Hobart.

1

Mr. G.V. Davey, Audit Inspector, Hobart.

4

MEMBERS OF THE AUSTRALIAN ALUMINIUM PRODUCTION COMMISSION.

Members since Reconstitution of Commission in April, 1953:

Commonwealth

Mr. N.K.S. Brodribb, Chairman.

3

Mr. L.R. Benjamin, Vice-Chairman (Tasmanian
Member before reconstitution of Commission)

1

Mr. L.M. Mawby

1

Mr. H.B. Bennett.

1

Tasmania.

45

2

1 (LAFG.108A)

2

No. of Appearances
before the Committees.

No. of Statements
Submitted.

Members of Former Commission:

Commonwealth

Mr. G.H. Watson, Chairman
Mr. W. Scott, Management Consultant
Mr. P.W. Nette, Treasury Representative

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STAFF OF THE AUSTRALIAN ADMINISTRATION PROMOTION COMMISSION.

Present Staff :

Mr. A.J. Kenst, General Manager.
Mr. J.W. Debenham, Acting Works Manager.
Mr. J.G. Bedman, Business Manager.
Mr. R.W.J. Ward, Superintendent of Accounts
Mr. B.H.M. Maxwell, Secretarial Superintendent
Mr. E.C. Viret, Senior Finance Inspector
Mr. I.A. MacGregor, Mechanical Construction Engineer.
Mr. R.G. Pride, Assistant Mechanical Engineer (Wkshop)

84
2(AAPG.33)
1(AAPG.133)
2(AAPG.19)
- 127)
1(AAPG.128)
1 " 92
1 " 97

Former Staff :

Mr. H.A. Dodd, Secretary.
Mr. H.T. Matterson, Accountant
Mr. W.F. Wilmshurst, Chief Accountant
Mr. P.A. Conde, Chief Accountant
Mr. G.W. Leckey, Chief Engineer
Mr. H.J. Storey, Acting Chief Engineer
Mr. J.S. Wood McDowell, Field Engineer
Mr. R.H. Green, Stores Superintendent.
Mr. K.F. Carmichael, Technical Superintendent.

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1
1
2
1
4
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OTHERS :

Mr. D. McLeish Ferguson, Partner, Edwin V. Nixon & Partners, Chartered Accountants,
Melbourne.

1

	<u>No. of Appearances before the Committee.</u>	<u>No. of Statements Submitted.</u>
<u>OFFICIAL OBSERVERS.</u>		
Dept. of the Treasury.		
Mr. G.L.S. Hewitt, Actg. First Assistant Secretary.	-	2
Mr. F.H. Cox, Chief Finance Officer	-	-
Mr. T. Lowe, Finance Officer	-	-
Attorney-General's Department		
Mr. E.J. Hook, Chief Assistant, Advisings, Camberra.	-	-
Mr. T. Bennett, Deputy Crown Solicitor, Sydney.	-	-

APPENDIX NO.2
Report para.no.4

STATEMENTS RECEIVED FROM
THE AUSTRALIAN ALUMINIUM PRODUCTION COMMISSION.

<u>No. of</u> <u>Statement:</u>	<u>Prepared by:</u>	<u>Topic:</u>
1	Chairman	Functions of the Commission.
2	"	Organization and Staff.
2A	"	Salary Classifications.
3	"	History of Membership of Commission.
4	"	Senior Staff changes.
5	"	Financial statements.
6	"	Cost of Project
7	"	Location of Head Office.
8	"	Auditor-General's comments.
9	"	Remedial action after Audit criticism prior to November 1952.
10	"	Remedial action after November 1952.
11	"	The Costing Problem.
12	General Manager	Main events in Commission accounting prior to November, 1952.
13	"	Stores accounting.
14	"	"Polperro" and "Fantomé"
15	"	M.V. "Banshee".
16	"	M.V. "Illawarra".
17	"	"Unit" Crane
18	"	Erection of residence by Commission Officer and glass screens for laboratory.
19	Superintendent of Accounts.	Expenditure between 1st July, 1949, and 17th November, 1954.
20	General Manager	Purchase of gum boots.
21	"	Customs matters.
22	"	M.V. "Banshee".
23	"	Balance Sheet as at 30th June, 1954. (Reserves and Provisions).
24	"	Balance Sheet as at 30th June, 1954. (Creditors £107,909. 0. 9).
25	"	Balance Sheet as at 30th June, 1954. (Provision for depreciation).
26	"	Balance Sheet as at 30th June, 1954. ("Illawarra" transaction).
27	"	Detailed Working Account 1953/54 (Details of Accident Insurance)
28	"	Working Account 1953/54 (Consultants, Analysis and Audit fees £34,993.10.5)
29	"	Working Account 1953/54 (Authorised write-offs £18,793. 0. 5).
30	"	Working Account 1953/54 (Rent received £2,770.14.1).
31	"	Working Account 1953/54. (Adjustment to 1952/53 Sales figure).
32	"	Slow moving stores.
33	Works Manager	Questions raised by the Committee.
34	General Manager	Commitments and Expenditure.
35	"	The Costing Problem (allocation of £1.2m.)
36	"	Purchase of "Unit" Crane.
37	"	Towage of barge "Polperro".
38	"	Agent for vendor of M.V. "Illawarra".
39	"	Test footage sunk on Marchinbar Island.

Appendix 2

- 2 -

<u>No. of Statement:</u>	<u>Prepared by:</u>	<u>Topic:</u>
40	General Manager.	Bonus paid to miners on Marchinbar Island.
41	" "	Deliveries of steel.
42	" "	Possible use of small, self-propelled barges.
43	" "	Receipts procedure at Head Office prior to May, 1952.
44	" "	Orders placed with G.H. & J.A. Watson - Minute 925.
45	" "	Purchase of "Unit" Crane.
46	" "	Reaction of Department of Works to abandonment of bulldozer on Marchinbar Island.
47	" "	Saucepans, frying pans, etc.
48	" "	Purchase of green hardwood timber.
49	" "	Action taken on Audit report of 27th July, 1951.
50	" "	Retail Store.
51	" "	Reports on M.V. "Banshee".
52	" "	Timber Mill contract.
53	" "	The Haunstrup contract.
54	Chairman	Cost of Project : Increase from £7.25m. to £10.5m.
55	General Manager.	Erection of staff houses.
56	" "	Comments on statement by Mr. Storey.
57	" "	Proposed Tamar Bridge.
57A	" "	Proposed Tamar Bridge (Supplementary).
58	" "	Departures from original designs.
59	Chairman	Transport for General Manager.
60	General Manager.	Australian Aluminium Production Commission: Account No. 2.
61	" "	Delays in provision of designs.
62	" "	Written accounting and Stores Instructions.
63	Chairman	Capacity and cost of Project.
64	General Manager	Purchase and refit of "Illawarra".
65	" "	Hire of bulldozers.
66	" "	Transport.
67	" "	Cartage of stone and gravel.
68	Chairman	Rewards for discovery of bauxite deposits.
69	"	Balance Sheet 30.6.54. (Cash Balance £229,347).
70	General Manager	Cost of Project - Effect of conversion from "ingot" only and increases in capacity.
71	" "	Contracts let without approval
72	" "	Contract for supply of crushed rock.
73	Chairman	Use of bauxite deposits on Marchinbar Island.
74	General Manager	Missing and duplicated Stores Dockets.
75	" "	Expenditure on air travel.
76	" "	Engagement of G.H. & J.A. Watson Pty. Ltd., as purchasing and inspecting agents.

No:	Prepared by:	Topic:
77	Chairman	Ministerial approval of Commitments
78	"	Information given to Minister on operations of Commission
79	General Manager	Unacquitted expenditure - Admission under Section 46 of Audit Act.
80	Chairman	Comments on Mr. Debenham's statement
81	General Manager	References to stores accounting control.
82	" "	Comments on Auditor-General's statement
83	" "	General Comments on Statement made by Mr. P.A. Conde.
84	Chairman	Contracts schedule appended to Statement No. 33.
85	"	The Costing Problem - Report by Edwin V. Nixon and Partners
86	General Manager	Tip-Top Paint.
87	" "	Comments on Statement by Mr. Watson.
88	" "	Firewood contracts (ref. Mr. Conde's comments - Evidence pps.215-219)
89	Chairman	Admission of Wessel Islands expenditure.
90	"	Valuation of assets.
91	"	Decision to leave bulldozer on Marchinbar Island.
92	Mr. McGregor	"Unit" Crane.
93	General Manager	Duplication of orders.
94	" "	Sundry Debtors' accounts at 30.6.52.
95	" "	Charters of aircraft and ships.
96	" "	"Unit" Crane (letter to G.H. & J.A. Watson, 30.4.53)
97	Mr. R. Prido	Frying pans, saucepans, etc.
98	General Manager	Review of Mr. Leckoy's statement 2.2.55 and evidence 22.2.55.
99	" "	Haustrup contract - Comparison of costs with estimates.
100	Chairman	Mr. Storey's dismissal.
101	"	"Vetting" of statements.
102	General Manager	Comments on Mr. Green's statement.
103	" "	Comment on Mr. Storey's oral evidence (General) 23.2.55.
104	" "	Comment on Mr. Storey's oral evidence - Certificates.
105	Chairman	Comments on Mr. Storey's written statement.
106	"	Interview with Mr. Storey on costing - Melbourne, November, 1954.
107	General Manager	Mr. Storey's dismissal.
108	Chairman	Comments on Mr. Storey's evidence 23.2.55.
108A	Mr. Mawby	Comments on Mr. Storey's evidence
109	General Manager	Delays in provision of designs.
110	" "	Relationships of Senior Staff and Executive control.
111	" "	"Vetting" of Mr. Storey's statement.
112	Chairman	Memorandum from Secretary to Chairman 12.2.53 - "Illawarra" engine.
113	"	Estimates 1951-52.

<u>No.</u>	<u>Prepared by:</u>	<u>Topic:</u>
114	Chairman	Order from Wessel Islands survey with Australasian Civil Engineering Pty.Ltd.
115	"	Correspondence between Messrs.Dodd and Watson - July, 1952 (Wessel Islands survey).
116	"	Letter to Commission from G.H.& J.A. Watson re "Illawarra" (Supplementary to Statement No.64).
117	"	No knowledge of written request for Minister's approval to purchase "Illawarra".
118	"	Monthly statements of receipts and payments.
119	"	Strategic planning in relation to aluminium.
120		Letter - Mr. Watson to Rt.Hon.R.G. Casey, 28.2.50.
121	"	Ministerial approval for contracts over £50,000.
122	"	Discussion with Minister, October, 1951 - Estimates.
123	General Manager	Replies to Committee questions concerning : 1. Stores Records of Wessel Islands survey. 2. Use of Plant Ledger Cards by Mr. Storey. 3. Value of equipment mentioned in Statement No.93. 4. Unit Crane.
124	General Manager	Significance of the amount of £1,176,000
125	Chairman	Copies of Documents mentioned by Mr. Carrichael.
126	General Manager	Comments on Mr. Storey's statement of 1st March, 1955.
127	R.W.J. Ward	Personal statement.
128	E.C. Viret	Personal statement.
129	General Manager	Enquiries between December, 1953, and March, 1954, re wrong allocations.
130	"	Amounts paid to contractors to 30th June, 1952.
131	"	Items queried by Mr. Storey.
132	Chairman	Comments on Mr. Storey's experience.
133	Business Manager	Commission payable on Wessel Islands Survey.
134	Chairman	Terms of reference for Commonwealth Investigation Service enquiries.

OPINION OF THE SOLICITOR-GENERAL.

30th November, 1954.

Aluminium Industry Act 1944-1954: Areas of
responsibility of the Minister, Commission
and Members.

In a memorandum dated 15th November, 1954, the Secretary of your Committee requested me to outline briefly those features of the Aluminium Industry Act 1944-1954, which define the areas of responsibility of the Minister, the Australian Aluminium Production Commission and the members of the Commission, both past and present.

The Minister and the Commission.

2. The relevant provisions of the Act are relatively few and specific. But the mutual relations of the Minister and the Commission cannot be ascertained from the terms of the law alone. Resort must also be had to the pattern or system of constitutional conventions, understandings or practices within which the statutory provisions are intended to operate. The constitutional conventions in this field, however, are by no means clearly established, and leave room for much diversity of opinion.

3. The respective legal powers and duties of the Minister and the Commission are delimited or indicated, in the Aluminium Industry Act 1944-1954, as follows :

- (i) The Commission is a body corporate, whose members are appointed by the Governor-General; four of them "~~represent~~" the Commonwealth, and one (nominated by the State) "~~represents~~" the State: see ss. 5 and 6 of the Act, as amended by Act No. 16 of 1952, and cl.3 of the Agreement, as amended by s.11 of the 1952 Act.
- (ii) Section 7 of the Act, as amended by s.6 of the 1952 Act, states as follows the general duties, powers and functions of the Commission:

"7. Subject to the provisions of this Act and of the Agreement, as amended by the Supplementary Agreement, it shall be the duty of the Commission, with all possible expedition, in order to promote the naval, military and air defence of the Commonwealth and its territories, to do all such acts and things as are necessary for the production of aluminium in primary form, including aluminium in the form of ingots, rolling and extrusion billets and wire bar, and for that purpose it shall have and may exercise the powers and functions, and shall perform the duties and obligations, of the Commission set out in the Agreement, as amended by the Supplementary Agreement."

This section, it will be noted, is in itself, incomplete. It is "subject to" the other provisions of the Act. Furthermore, to ascertain the powers, duties and functions for which it provides reference must be made to the Agreement.

- (iii) Other provisions of the Act reserve to a Commonwealth Minister certain specific powers of control over the Commission. Thus -
- (a) the Commission must keep its accounts in a form approved by the Treasurer: s.14A, as inserted by 1952 Act;
 - (b) the Commission cannot, without the Treasurer's approval, borrow money except on overdraft from the Commonwealth Bank: s.12, as inserted by 1952 Act;
 - (c) the Commission may not, without the Minister's approval, enter into a contract involving payment by the Commonwealth of more than £50,000: s.14D, as inserted by 1952 Act.
- (iv) The Commission cannot sell or dispose of its undertaking or an interest therein, except with the approval of the Commonwealth Parliament: s.9, as amended by 1952 Act.
- (v) The Agreement prohibits the Commission from taking any action relating to the policy of the Commonwealth in connexion with defence or external affairs, or certain other matters, without the consent of the Commonwealth, as expressed through its representatives on the Commission: Agreement, cl. 3(i).
- (vi) The Agreement (by cl. 4) spells out in some detail the powers which the Commission is to have for the purpose of producing aluminium. This list of powers is expressly stated to be "subject to any directions given on behalf of the Commonwealth and the State by the Minister of State for the Commonwealth".
- (vii) The Auditor-General is required to audit the Commission's accounts, and to report to the Minister the result of each inspection and audit: s. 14A(2) and (3), as amended by the 1952 Act.
- (viii) The Commission is required to "keep the Minister continually informed of its operations", and to present to him annually a report on its operations for the preceding financial year, together with a statement of its accounts : s. 14C(1), as amended by the 1952 Act.
- (ix) The Commission has power to appoint or employ persons on such terms and conditions as it determines, and not under the Public Service Act: Agreement, cl. 4(i); Act, s.11.

4. Though the 1952 Act greatly enlarged the representation of the Commonwealth on the Commission, and the Commonwealth's financial stake in its operations, and gave to the Treasurer the specific powers set out in para. 3(iii)(a) and (b) above, the legal powers and responsibilities of the Minister for Supply have not been substantially changed since 1944.

5. These legal arrangements may be summed up as follows:

- (i) the Commission is not an ordinary Department of State, and the ordinary day-to-day administration of its business undertaking is vested in it, though there are some few important business steps which it may not take without the approval either of the Minister or of the Treasurer;
- (ii) on the other hand, the Minister is entitled to receive, from the Auditor-General and from the Commission itself, much information about the affairs of the Commission, and (apart altogether from the specific cases where the Commission cannot act without his approval) the Commission is subject generally to any directions he may give on behalf of the Commonwealth and the State;
- (iii) in addition, four out of the five members of the Commission are appointed not as so many individuals chosen to conduct a business enterprise but as "representatives of the Commonwealth", and as such undoubtedly subject to instruction from the Minister on behalf of the Government.

6. In the result, it is I think clear, if one looks at the legal position alone, that the Minister is in a position to make himself just as fully responsible for the operations of the Commission, if he so wished, as he is for the affairs of his Department. But the question is whether, as so often in our constitutional system, the Minister's legal powers are intended to be exercised in full, or whether the Minister should in practice be guided by special conventions or understandings, and if so what they are. In my opinion, constitutional practice does not require the Minister to assume, and would not justify him in assuming, the same degree of detailed responsibility for the Commission as he does and should for his Department. The sections and clauses reserving specific matters for Ministerial approval or direction seem to me radically inconsistent with any assumption that detailed Ministerial control will be the rule.

7. The Commission belongs, clearly enough, to the now familiar category of the "public corporation", created to conduct a business undertaking which none but Governments could establish. The participation in the scheme of the State of Tasmania (more prominent under the 1944 Act than since the 1952 amendment) gives the Commission a special character as a joint Commonwealth-and-State enterprise, but does not in my opinion destroy the relevance of the growing body of accepted principles which may fairly be regarded as now applicable to public corporations in general.

8. Each statutory corporation must be considered in relation to its own individual Act. Where the Act expressly requires Ministerial approval, the Minister must of course be responsible either for giving or withholding his approval to what the Commission proposes. As to the role of the Minister in matters not expressly reserved, however, differing views have been expressed by writers of standard works on the subject. Nevertheless, I think constitutional practice may with fair confidence be summed up in the

following propositions :

- (i) that the establishment by Parliament of a public corporation rather than a Department of State as the chosen instrument for the conduct of a business undertaking implies an intention that the corporation should enjoy a substantial measure of freedom from political direction and control;
- (ii) that Ministerial control over the public corporation should be restricted to matters of general policy and principle, and should not extend to the details of management;
- (iii) that in order to promote business efficiency and flexibility it is necessary to accept some derogation from the complete measure of Ministerial accountability to Parliament which is insisted on, in the constitutional systems of the British Commonwealth, in relation to the Departments of State.

9. The literature in this field is voluminous. Special reference however, is made to -

- (a) Government and Parliament, by Herbert Morrison: pp.255-285, esp. 264-5, 282-3.
- (b) The Public Corporation, edited by W. Friedmann: pp.576-593.
- (c) State Socialism in Victoria, by Sir Frederick Eggleston: pp. 41-56.
- (d) Ministerial Control and Parliamentary Responsibility of Nationalised Industries, by Ernest Davies M.P., (1950) 21 Political Quarterly 150.

Responsibility of Members of the Commission.

10. In relation to the position of members (past and present) of the Commission, I am not altogether confident of having directed my mind to the points contemplated by the Committee. The Aluminium Industry Act does not deal specifically with this matter, but by inference some hints may perhaps be gathered. The Committee will be able to elucidate by oral questions any further points on which advice is desired.

11. The Act and the Agreement, as stated in para. 3(i) above, designate the members of the Commission as "representatives" of the Commonwealth or the State, as the case may be. The choice of this word is I think significant. A representative, in ordinary usage, is something more than a mere servant or agent. The Agreement does indeed expressly contemplate that the views of the Commonwealth will be made known to the Commission, on certain major points such as matters affecting defence and external affairs, through its "representatives". But the specific mention of this matter seems to me to suggest that in ordinary day to day administration the members of the Commission will not be subjected to Government control. The relation to the Minister, therefore, of the individual members of the Commission seems

to me to be affected by very much the same constitutional understandings as apply to the Commission itself.

12. If a member of the Commission were to disregard the views or instructions of the Government which he represents, his appointment would no doubt be terminated. The terms and conditions of appointment are fixed by the Governor-General. I understand that members are not in practice appointed for specified periods. They must, therefore, I think be regarded as holding office during the Governor-General's pleasure.

13. So far as concerns the accountability in the ordinary Courts of members of a public corporation such as the Commission, the established rules are that -

- (a) a member of the Commission is not personally liable for any act of the Commission or for any act done by him as a member of the Commission;
- (b) a member who actively participates in an act which is beyond the powers of the Commission to perform is, to the extent of his participation, liable personally for the consequences.

14. The question might arise whether the Commonwealth has any administrative remedies against individual members of the Commission. But advice on such a matter seems scarcely required for present purposes.

APPENDIX NO. 5
Report Para.No.69

OPINION OF THE SOLICITOR-GENERAL.
14th February, 1955.

Aluminium Industry Act 1944-1954, s.14A : Form
of Accounts : Responsibility of Treasurer and
Auditor General

I refer to your memorandum dated 11th January, 1955, regarding the above matters. The questions you ask are as follows :-

- (a) the meaning and scope of the term "form of accounts" as used in the legislation referred to;
- (b) the responsibilities of the Treasurer in regard thereto; and
- (c) the nature and scope of the Auditor General's responsibility under the provisions of such legislation.

2. None of your questions admits of a completely accurate short answer. Briefly, it seems to me that section 14A(1.) refers not only to the final accounts but also to all the ledger accounts; it covers the form of the final accounts, the form and subject matter of the ledger accounts and the cash book. It is the responsibility of the Treasurer to consider whether the forms submitted for approval are suitable, and to approve of the forms submitted, after amendment to make them suitable, if this is necessary. Thereafter, the responsibility for seeing that the forms are adopted is, in my view, the Minister's. The Auditor General's responsibility is to report to the Minister if no forms have been approved; if forms have been approved, he should report if the forms are not being observed or if there are, in his view, any deficiencies in the forms. In this memorandum I have used the words "the Minister" to indicate the Minister administering the Act. The short answers are elaborated below.

3. Though, as a matter of a law, the meaning of the section seems to me beyond doubt, I am aware that quite different views were entertained and acted on in practice by those who were concerned with the actual administration of the Act. It is only at this stage that legal advice has been sought.

General:

4. Before proceeding to consider the individual questions, I think I should make some general comments. In the first place, this memorandum concerns only the position of the accounts of the Aluminium Commission after the 1952 Act came into operation. All of your questions are directed to the form of the accounts mentioned in section 14A, which was inserted by the 1952 Act. I have, therefore, not covered at all the position before the 1952 Act, although I understand that the Public Accounts Committee is concerned with that period.

- 2 -

5. My second comment affects the approach to all three questions. I mentioned in my memorandum of 30th November, 1954, to the Chairman of the Public Accounts Committee that, in considering the position under the Act, one must have regard not only to the legal position but also to the "pattern or system of constitutional conventions, understandings or practices within which the statutory provisions are intended to operate", in other words, to the growing body of accepted principles regarding the operation of public corporations. Regard must be had, of course, to the statutory injunctions in each case, but it is assumed that the Minister will exercise his statutory powers in such a way as to leave a substantial measure of independence to the corporation.

6. In my evidence before the Committee, I suggested that this general approach could affect the interpretation of section 14A(1.). It did not follow that the Parliament desired to put the Commission in the position of having no responsibility for the form of its own accounts, but the purpose of paragraph (ha) of clause 3 of the Agreement, and of section 14A(1.), was, in part, to make it clear that any decision at governmental levels on the form of the accounts was to be, finally, the function of the Commonwealth Government.

Question (a) : The meaning and scope of the term "form of accounts".

7. It has been suggested, I understand, that section 14A(1.) refers only to the final accounts, that is, the balance sheet and profit and loss account ("working account"). As I understand the suggestion, it is that this is sufficient; a requirement that, for example, assets be treated in a certain way in a balance sheet in itself would necessitate certain action in the ordinary accounts to ensure that the necessary information would be available for inclusion in the balance sheet. It is also suggested that any greater requirement would be out of keeping with the principle of setting up a statutory corporation. With this latter approach, I am, myself, in sympathy. It arrives at a compromise which is so much in line with the general principles outlined by me above that I would agree that it is an interpretation which should be adopted if the words used in the Act permit. In my view, however, they do not.

8. As a matter of law, it seems clear that section 14A(1.) refers to something more than the final accounts. At the outset, I think I should draw attention to the fact that your question uses a phrase, "form of accounts", which does not appear in the sub-section. This provides that the "Commission shall keep accounts in a form approved by the Treasurer". The distinction is not without significance. It is not the "form of accounts" which is to be approved but the form in which the Commission shall keep its accounts. In that context, the word "form" could include not only the set up of the accounts, but also some reference to the manner of keeping the accounts. Again, the word "keep" seems to me to be most significant. One "keeps" the ordinary accounts during a year, and "presents" the final accounts.

8.(Cont.) If section 14A(1) were intended to relate only to the final accounts, I would not expect the use of the word "keep". This conclusion is reinforced when one looks at paragraph (ha) of clause 3 of the Agreement. This reference is permissible as the Agreement is in the Schedule to the Act. Paragraph (ha) reads as follows :-

"(ha) the powers, duties and procedure of the Commission with respect to borrowing money, banking and keeping accounts shall be subject to regulation by the Parliament of the Commonwealth;"

9. Further support is obtained for this view when one looks at the remainder of section 14A and at section 14C. By section 14A(2.), the accounts are made subject to inspection and audit by the Auditor General. I appreciate that an audit of final accounts involves inspection and audit of the ordinary accounts and, indeed, of the supporting vouchers and documents. In some circumstances, a series of "audit inspections" during a financial year might be regarded as steps in the auditing of the final accounts to be prepared at the end of the year. In the present context, however, it is clear that the Auditor General has two functions : to report on the "statement of accounts" under section 14C(2.), and to inspect and audit the accounts under section 14A(2.). In my view, there can be little doubt that the "accounts" mentioned in section 14A(2.) are the ordinary books of account. Sub-section (3.) shows that these must include the Ledger accounts and cash book. Section 14A, taken as a whole, shows that the "accounts" which the Auditor General is to audit under sub-section (2.) are the same "accounts" as are covered by sub-section (1.).

10. Section 14C also leads to the same conclusion. In this section, there are four clear references to the final accounts. On three occasions the words used are "statement of its accounts" and on the fourth occasion the reference is to "the statement". I think it must be assumed that the "accounts" referred to in section 14A(1.) are something different from the "statement of accounts" referred to in section 14C.

11. It is, I think, for the Treasurer to decide how far to go in approving the accounts. The general principles should exclude too great an interference with the affairs of the Commission. I do not believe that the Treasurer was intended to be clothed with a power to approve of such matters as systems and forms in relation to stores, or purchases journals, or forms of requisitions, or restrictions on purchases. The Treasurer might well not desire, moreover, to approve a specimen ledger page, but could content himself with approval of a statement of the ledger accounts if it was proposed to keep. His function, I would think, is only to satisfy himself that the accounts are being kept in a form which will conform to proper public standards of accounting and enable the Commission to supply information to meet the exigencies of Parliamentary discussion.

Question (b) : The responsibility of the Treasurer.

12. In regard to the relationship between the Minister and the Treasurer, it seems clear that the authors of the arrangements had in mind working arrangements the exact scope of which is not set out in the Act. The Minister is responsible for the general working of the Commission; I have discussed the nature of his responsibility in my memorandum to the Chairman of the Public Accounts Committee referred to above. On the other hand, certain sections, 12, 13 and 14A, give functions to the Treasurer.

13. It is clearly the function of the Treasurer under Section 14A to consider the forms submitted, to suggest any necessary amendments and to approve of the forms when they are suitable. There, it seems to me, the responsibility of the Treasurer under the Act ends. A copy of the approved forms should be transmitted to the Minister by the Commission and the Commission should report to the Minister when it had adopted the forms. Doubtless, the Minister would, either through his own officers or through the Treasurer, look to the officers of the Treasury for some assistance in any further action he considered necessary. But the legal position seems clear; once the forms are approved, it is the responsibility of the Commission to see that they are implemented and the Minister has the same kind of supervisory responsibility in this as in other matters.

Question (c) : The responsibility of the Auditor General.

14. The responsibility of the Auditor General is to inspect, audit, and report. It is in general no part of the duty of the Auditor General to advise on the establishment of a set of accounts; indeed, it might be inadvisable for the Auditor General or his officers to identify themselves too closely with the planning of a scheme which it will thereafter be their duty to view impartially. On the other hand, I presume that this does not mean that all comments should be destructive and doubtless constructive criticism is made from time to time.

15. In the present context, the Auditor General should mention in his report the fact, if it be the fact, that no forms have, or no complete set of forms has, been approved. He should report if the forms are not being observed, and if any deficiencies in the forms have been disclosed in practice. In this regard, it would not be the function of the Auditor General to substitute his view on policy matters for that of the Commission or of the Minister, but only to draw attention to matters which revealed defects in the accounting for the finances involved.

16. Under the 1952 Act, the Auditor General is not auditing part of the Public Account when he audits the accounts of the Commission. A reference to the accounts of the Commission in the Auditor General's report to Parliament could be made under section 51A of the Audit Act. But the primary responsibility of the Auditor General under the 1952 Act is -

- (a) to report to the Minister the result of each inspection and audit (s. 14A(3.)); and
- (b) to furnish a report, presumably to the Commission, on the correctness or otherwise of the statement of accounts for a financial year (s.140(2)).

17. It seems clear that the reports mentioned in section 14A(3.) are in addition to the reports mentioned in section 140(2.). The reports required by section 14A(3.) follow each inspection and audit; the Act does not require a continuous audit, but it does imply inspections at more frequent intervals than a financial year. The Auditor General's responsibility to report to the Minister any of the matters mentioned in paragraph 15 above would arise on any of these inspections if they disclosed the facts there mentioned.

STATEMENT SUBMITTED BY THE AUDITOR GENERAL.
5th December, 1954.

EXPERIENCE OF OTHER STATUTORY CORPORATIONS IN
RESPECT OF ACCOUNTS AND STORES CONTROL AND
COSTING DURING THE ESTABLISHMENT PERIODS
AND THE MEASURES ADOPTED TO ACHIEVE THE
RESULTS.

Australian Whaling Commission.

1. The Whaling Commission was established by Act No. 33 of 1949 and has presented annual accounts and balance sheet as at June 30 for the five years 1950/1954.
2. No serious difficulties of a nature affecting certification of the balance sheet have been met with in the Commission's accounting since its inception.

Australian National Airlines Commission.

3. The Australian National Airlines Commission (Trans-Australia Airlines) was established by the Australian National Airlines Act 1945 and experienced considerable difficulty in its early years in the proper recording of plant and stock.
4. Its initial problems were principally associated with Stores Control and Accounting, lack of adequate storage space and facilities militating against efficient control.
5. Stores records and stocktaking procedures were also unsatisfactory due, to a large extent, to the inexperience of many of the staff. When the Commission was advised of the position by Audit, it took prompt remedial action. Audit was regularly informed of the progress made. Marked improvement was noticeable each year and the earlier problems were gradually resolved.
6. From the outset, the general accounting was on a sound basis, the form of accounts well designed, and orthodox methods followed in the presentation of the annual accounts. Balance Sheets covering each completed year of the Commission's activity to June 30, 1954, have been certified by the Auditor General.
7. Although the Commission was not obliged to observe Treasury Regulations, the principles therein were frequently followed when the advantages and safeguards were brought to the notice of the Administration. A suitable system of accounting, subject to continual review, was established and this was supplemented by an active internal Audit organization.
8. The closest liaison at all times existed between the Audit Office and the Commission and suggestions for improvement received the fullest consideration. Conferences between senior officers of the Audit Office and the Commission were also held from time to time.

No major problems arose in the matter of establishing an effective costs system.

10. From the inception, the accounts were subject to continuous Internal Audit and although there were at times certain features that were not entirely satisfactory these were invariably adjusted to the satisfaction of the Auditor General.

Snowy Mountains Hydro-electric Authority.

11. The Authority was constituted under the Snowy Mountains Hydro-electric Power Act 1949.

12. In the establishment period, the Authority experienced difficulty in providing adequate storage facilities in the Area, to meet the heavy build-up of material associated with the construction of work centres, townships, etc. The condition of the market also necessitated forward buying of some material, and this factor aggravated the situation. Stowage, preservation and custody of stores was unsatisfactory and deterioration of some stocks resulted.

13. The inability to recruit sufficient experienced staff for Cooma and the regions was the main factor contributing to inefficient accounting and costing in the early period of the Authority's operations.

14. By September, 1951, the following aspects had been the subject of criticism:

Payment of claims - up to 750 claims were awaiting payment and suppliers of Foodstuffs were refusing further supplies until accounts were settled;

Messrs - There were many instances of failure to collect messing fees by deductions from wages and the messes were incurring heavy losses;

Sundry Debtors - the raising of debits and follow-up of outstanding debts was inefficient;

Costing - Work was in arrears in respect of overhead accounts and working accounts and distribution of costs were inaccurate.

15. The establishment of the Finance Inspection Branch in Cooma and the introduction of mechanised accounting enabled the Authority to improve its accounting procedures and the situation is now generally satisfactory.

16. Balance sheets of the Authority for the years to June 30, 1951, 1952, 1953 and 1954, have been certified by the Auditor General.

OPINION OF THE SOLICITOR-GENERAL.
11th February, 1955.

Aluminium Industry Act 1944-1954: Whether a member of the Australian Aluminium Production Commission is prohibited from having a pecuniary interest in transactions with the Commission.

In accordance with the arrangements made at the conclusion of my evidence on 7th December, 1954, the Secretary to your Committee has informed me that the Committee desires to have my views on whether there is any legal or ethical prohibition on a member of the Australian Aluminium Production Commission having a pecuniary interest, either personally or through a company in which he is the major shareholder, in transactions with the Commission. The particular matters in relation to which it is desired that I should consider this question are the Wessel Island Survey, the purchase of the "Illawarra" and the purchase of the "Unit" crane.

2. Strictly from the lawyer's point of view, to ask whether a person is "prohibited from entering into" certain transactions is perhaps to state the issue too compendiously. The lawyer would wish to ask, for example, whether the person entering into such a transaction committed an offence by doing so; or whether the transaction itself was prohibited by law, and therefore illegal and void; or whether by entering into such a transaction a person rendered his office vacant, or became subject to some other civil disqualification. I have not been able to find any legal authority which is directly in point. Close inquiry however has confirmed the view which I expressed provisionally in the course of giving evidence in December last, that there is no legal prohibition, in any relevant sense, against such a transaction.

3. I approach with the utmost diffidence the further question whether there is any prohibition, as a matter of ethics, against transactions of this kind. This is a field in which the lawyer, as such, clearly has no claim to expertise. In the field of ordinary commercial company practice, the duties of a director in relation to contracts with the company are usually covered by strict legal rules, in which a duty to make full disclosure of interest and to abstain from participation in the decision seem to be the main elements. In the absence of specific legal provision as to the members of a public corporation, I would myself be disposed to treat the company rules as affording general guidance on the ethical duties of a Commissioner. Thus I would think a Commissioner is under some moral obligation not to participate knowingly in a transaction by the Commission in which he has a direct or indirect financial interest, or at least to disclose fully the fact that he has such an interest. But these matters of conscience and propriety are highly personal in character, and I claim no authority for the view I have expressed.

4. It is not necessary to set out in any detail the facts of the three matters mentioned. As I understand the facts, it is clear that, in the first two matters, the Commission entered into contractual relations with a company in which its then Chairman, Mr. Watson, had a pecuniary interest. With respect to these transactions, Mr. Watson declared his interest to the other members of the Commission and refrained from taking part both in the subsequent discussions and in the voting. In the third (the "Unit" crane) matter, a company in which Mr. Watson had a pecuniary interest was appointed to act on behalf of the Commission, but at a time when Mr. Watson was not a member of the Commission. For present purposes, therefore, the purchase of the "Unit" crane appears to require no further consideration.
5. There is little law on the subject of a statutory or public corporation contracting with a member of the corporation. In the case of public corporations established for the purpose of conducting commercial undertakings, it is not uncommon for the Acts under which they are established to provide that a member shall be deemed to have vacated his office in the event of his becoming interested in a contract with the corporation. Examples may be found in the Australian National Airlines Act 1945-1952, section 14, sub-sections (1)(f) and (2), and the Broadcasting Act 1942-1954, section 15(f). There is no provision to this effect in the Aluminium Industry Act. It is important to note, however, that the Act does not provide for the appointment of members for fixed terms, and that a member of the Commission who is guilty of any conduct judged improper could readily be removed from office at the Minister's discretion.
6. In default of express statutory provision, one naturally turns to consider the rules of common law and equity. Here again, there is no rule expressly dealing with the position of members of a public corporation. Equity, however, has developed a substantial body of rules to regulate the conduct of those who stand in a fiduciary relation to others. These rules have been applied to the position of a director of an ordinary public company incorporated under the Companies Acts, in connexion with contracts with his company.
7. Under the Companies Acts, there is no doubt that a director stands in a fiduciary relation to the company - that is to say, in effect, to the shareholders. The matter is usually dealt with expressly by the Articles of Association. The fiduciary position of a director was stated, in some of the earlier cases, in such far-reaching terms as to suggest that, in the absence of express authorisation in the Articles, a contract between a director and his company would be void. On that view, such a contract could properly be said to be "prohibited". This, however, can no longer be regarded as the law. In George A. Bond & Co. Ltd. v. Bond (1930) 30 S.R. (N.S.W.) 15, Sir John Harvey, whose authority in matters of equity stands high, held that such a contract was not void, but only voidable at the option of the company. Further, Sir John Harvey went on to hold that, even in the absence of any express provision in the Articles, a director could always make a valid contract with his company upon due notice to a general meeting, and upon full disclosure of his interest.

8. I should perhaps add that a director who does not disclose to his fellow-directors an interest he has in a proposed contract with the company is guilty of an offence under the Companies Acts. This statutory rule, however, does not extend to the members of a public corporation.

9. Nor do I myself think that the equitable rules which govern the relation of a director to his company can be said to extend also by analogy, as a matter of law, to the member of a public corporation, in his relations with the corporation itself. The fiduciary position of a director under the Companies Acts springs from his subordination to the shareholders, by whom the directors are usually elected and with whom in general meeting lies commonly the ultimate authority in the company. There is no real parallel in the case of the public corporation, for while the members (Commissioners or as the case may be) actually constitute the public corporation, it is the shareholders and not the directors who constitute the ordinary company. I do not find it hard to accept the proposition that a member of a statutory public corporation has fiduciary duties. But they are I think owed to the Crown, or in personal terms to the Minister, not to the corporation of which he himself is a part.

10. In a real sense, the shareholders in an ordinary commercial enterprise are the company. But the Crown, or the Minister, stands outside the public corporation. The corporation could hardly be allowed to escape its liabilities under a contract in which one of its members had an interest, merely by reason of the fact that in making the contract the member had acted in breach of his fiduciary duties to the Crown. But on the other hand the Crown would have no liabilities under such a contract, so there would be nothing which the Crown could set aside. In other words, there is no strict analogy between the position of the company director and that of the member of a public corporation. If the company rules, or something like them, are to be applied to a statutory corporation it must in my opinion be done by the Legislature.

11. The view expressed above, that the rules developed by the courts in relation to the directors of companies under the Companies Acts do not in terms apply to the position of members of a public corporation, is supported by Professor Friedmann in his recent book "Law and Social Change in Contemporary Britain", p.204:

"Again, a particular member of the board may have been extravagant or fraudulent in transactions entered into on behalf of the board. Does the analogy of company law apply? For the reasons given above, it is submitted that it does not. Public corporations are special public authorities, not commercial companies, and the remedy of Parliament and Government must be political, administrative and disciplinary. The Minister cannot be compared to a minority shareholder."

12. Even if these views are wrong, and a court of law in Australia would apply to the member of a public corporation the equitable rules relating to the directors of

companies under the Companies Acts, I do not think that, in the facts and circumstances disclosed in paragraph 4 above, any breach of these rules would be held to have taken place. There was full disclosure and non-participation and, even if the contracts concerned still remained executory (i.e. unperformed), I do not think a court would allow the Commission to set them aside.

13. Probably it is because there are no relevant rules of common law or equity directly applicable to the position of members of a public corporation that express statutory provision for the vacation of office is so often included in statutes setting up public corporations. Where fixed terms of office are established, some such protection of the interest of the Crown would seem desirable in most cases. It may not be considered so necessary in a case where, as here, members hold office during pleasure and where, moreover, the Minister is to be kept fully informed of the actions of the corporation.

14. It might perhaps be considered that a member has an ethical duty to bring his conflicting interest expressly to the notice of the Minister rather than to rely on the Minister obtaining the information from a reference in the minutes; but that matter is outside the realms of law.

15. What I have said above will indicate that in my view a member of the Australian Aluminium Production Commission who had a pecuniary interest, either personally or through a company in which he was the major shareholder, in a transaction with the Commission did not thereby commit an offence, nor was the transaction itself illegal or void, nor did the entering into the transaction render vacant the office held by the member. The remedy of the Minister, if not satisfied with the actions of the member, is to recommend the termination of his appointment. Where, as here, the member is no longer in office, no further action at law would seem to be called for, or, indeed, to be possible.

16. You will I think be interested to see the manner in which this problem was expressly dealt with last year in the Act constituting the United Kingdom Atomic Energy Authority, a public corporation subject to the direction of the Lord President of the Council. Section 5 in the First Schedule to the Atomic Energy Authority Act 1954, is as follows :

"5. -(1) A member of the Authority who is in any way directly or indirectly interested in a contract made or proposed to be made by the Authority shall, as soon as possible after the relevant circumstances have come to his knowledge, disclose the nature of his interest at a meeting of the Authority.

"(2) Any disclosure made under sub-paragraph (1) of this paragraph shall be recorded in the minutes of the Authority and the member -

- 5 -

- (a) shall not take part after the disclosure in any deliberation or decision of the Authority with respect to that contract; and
- (b) shall be disregarded for the purpose of constituting a quorum of the Authority for any such deliberation or decision."

This provision is probably based on the rules applicable in ordinary commercial companies. It does not, as you will note, deal expressly with what is to be the effect, if any, upon a contract where the requirements had not been complied with.

REPORT OF THE BOARD OF ENQUIRY APPOINTED BY
THE PRIME MINISTER TO INVESTIGATE CERTAIN
STATEMENTS AFFECTING CIVIL SERVANTS.

Presented to Parliament by Command of His Majesty.
February 1928 (Cmd. 3037).

Extract from pages 20-22, paragraphs 54-59 :-

We think in conclusion that we shall not be travelling outside our terms of reference if, as three Civil Servants of some experience and jealous for the honour and traditions of the Service, we indicate what we conceive to be the principles which should regulate the conduct of Civil Servants - whether engaged in Home Departments or on diplomatic missions - in their relation to the public.

His Majesty's Civil Service, unlike other great professions, is not and cannot in the nature of things be an autonomous profession. In common with the Royal Navy, the Army, and the Royal Air Force, it must always be subject to the rules and regulations laid down for its guidance by His Majesty's Government. This written code is, in the case of the Civil Service, to be found not only in the Statutes but also in Orders in Council, Treasury Circulars and other directions which may from time to time be promulgated; but over and above these the Civil Service, like every other profession, has its unwritten code of ethics and conduct for which the most effective sanction lies in the public opinion of the Service itself, and it is upon the maintenance of a sound and healthy public opinion within the Service that its value and efficiency chiefly depend.

The first duty of a Civil Servant is to give his undivided allegiance to the State at all times and on all occasions when the State has a claim upon his services. With his private activities the State is in general not concerned, so long as his conduct therein is not such as to bring discredit upon the Service of which he is a member. But to say that he is not to subordinate his duty to his private interests, nor to make use of his official position to further those interests, is to say no more than that he must behave with common honesty. The Service exacts from itself a higher standard, because it recognises that the State is entitled to demand that its servants shall not only be honest in fact, but beyond the reach of suspicion of dishonesty. It was laid down by one of His Majesty's Judges in a case some few years ago that it was not merely of some importance but of fundamental importance that in a Court of Law justice should not only be done, but should manifestly and undoubtedly be seen to be done; which we take to mean that public confidence in the administration of justice would be shaken if the least suspicion, however ill-founded, were allowed to arise that the course of legal

- 2 -

proceedings could in any way be influenced by improper motives. We apply without hesitation an analogous rule to other branches of the public service. A Civil Servant is not to subordinate his duty to his private interests; but neither is he to put himself in a position where his duty and his interests conflict. He is not to make use of his official position to further those interests; but neither is he so to order his private affairs as to allow the suspicion to arise that a trust has been abused or a confidence betrayed. These obligations are, we do not doubt, universally recognised throughout the whole of the Service; if it were otherwise, its public credit would be diminished and its usefulness to the State impaired.

It follows that there are spheres of activity legitimately open to the ordinary citizen in which the Civil Servant can play no part, or only a limited part. He is not to indulge in political or party controversy, lest by so doing he should appear no longer the disinterested adviser of Ministers or able impartially to execute their policy. He is bound to maintain a proper reticence in discussing public affairs and more particularly those with which his own Department is concerned. And lastly, his position clearly imposes upon him restrictions in matters of commerce and business from which the ordinary citizen is free.

Between the regular investment or management of a private fortune on the one hand, and speculative transactions in stocks, exchange or commodities on the other, there are obviously numerous gradations, and it may often be difficult to draw the precise line of demarcation between what is lawful and what is prohibited; it may even be inadvisable to make the attempt, because many things, though lawful, may yet be inexpedient. But some transactions fall indubitably on one side of the line rather than upon the other. It might well be desirable for a Civil Servant in all circumstances to avoid transactions wholly speculative in character; but where he is employed in any Department to which, whether rightly or wrongly, the public attribute the power of obtaining special information, such as the future course of political or financial events likely to affect the rise and fall of markets, then we assert unhesitatingly that participation in such transactions is not only undesirable or inexpedient, but wrong. The knowledge that Civil Servants so employed are engaged in them could not fail to shock public confidence at home, and, especially if matters of foreign exchange are involved, to produce a deplorable effect upon opinion abroad.

- 3 -

We content ourselves with laying down these general principles which we do not seek to elaborate into any detailed code, if only for the reason that their applications must necessarily vary according to the position, the Department and the work of the Civil Servant concerned. Practical rules for the guidance of social conduct depend also as much upon the instinct and perception of the individual as upon cast-iron formulas; and the surest guide will, we hope, always be found in the nice and jealous honour of Civil Servants themselves. The public expects from them a standard of integrity and conduct not only inflexible but fastidious, and has not been disappointed in the past. We are confident that we are expressing the view of the Service when we say that the public have a right to expect that standard, and that it is the duty of the Service to see that the expectation is fulfilled.

We have the honour to be ,

Sir,

Your obedient Servants,

N.F. WARREN FISHER

MALCOLM G. RAMSAY.

M.L. GWYER.

Treasury Chambers,
Whitehall, S.W.
February 25, 1928.

APPENDIX NO. 9.
Report Para No.139

PERSONNEL OF THE AUSTRALIAN ALUMINIUM PRODUCTION COMMISSION.

FINANCIAL YEAR.

COMMISSION.

SECRETARIAL, ACCOUNTING
& STORES STAFF.

TECHNICAL STAFF.

1949/50

At this time the Commissioners were: At this time, these were:

At this time, these were:

Members.)
G.H. Watson) Commonwealth
W. Scott)

L.R. Benjamin) Tasmania
W.H. Williams)

Deputies.)
A.H. Topp) Commonwealth
P.W. Netto.)

H.B. Bennett) Tasmania.
E. Parkes)

Secretary - Mr. Dodd
Accountant H.O. - Mr. Matterson (29.7.46)
Accountant Launceston -
Mr. Woodall (5.9.49)
Accountant Melbourne -
Mr. Viret (24.10.49)

General Superintendent - Mr. Boyd.
Technical " - Mr. Carmichael
Field Engineer - Mr. McDowell
Chief Chemist - Mr. Dunt.

1.1.50 - Mr. Bell appointed
Reduction Superintendent.
6.1.50 - Mr. Debonham appointed
Resident Engineer.
20.4.50 - Mr. Lockey appointed
Acting Chief Engineer.
30.6.50 - Mr. Boyd resigned.

FINANCIAL YEAR.COMMISSION.SECRETARIAL, ACCOUNTING
& STORES STAFF.TECHNICAL STAFF.

1950/51	As at 1949/50.	1/8/50 - Mr. Woodall to be Stores & Purchasing Officer. 4/8/50 - Mr. Matherson to Lamnceston as Accountant. 28/8/50 - Mr. G.C. Robertson appointed Accountant H.O. 26/6/51 - Mr. Woodall resigned.	20/10/50 - Mr. Leckey appointed Chief Engineer. 16/2/51 - Mr. Keast appointed General Manager.
1951/52	29/5/52 - Mr. Topp died.	3/8/51 - Mr. Green appointed to Commission Staff. 3/12/51 - Mr. Ward appointed as Senior Cost Clerk. 1/1/52 - Mr. Viret transferred to Bell Bay. 14/1/52 - Mr. Wilmshurst appointed as Chief Accountant. 28/6/52 - Mr. Ward appointed Assistant Cost Accountant.	29/2/52 - Mr. Carmichael resigned.
1952/53	1/7/52 - Mr. Stevens appointed Deputy. 1/9/52 - Mr. Hibberd an informal Deputy. 24.3.53 - Mr. Farkes died.	29/9/52 - Mr. Conde appointed as Chief Accountant. 10/10/52 - Mr. Wilmshurst resigned. 9/10/52 - Mr. Green demoted to ASST. Stores Supt.	19/9/52 - Mr. Storey appointed as Assistant Mechanical Construction Engineer.

FINANCIAL YEAR COMMISSION SECRETARIAL, ACCOUNTING AND STORES STAFF.

1952/53 Cont. 17.4.53 - The Commission was reconstituted with :

Mr. Brodribb)
Mr. Benjamin) Commonwealth
Mr. Hibberd)
Mr. Newby)

Mr. Bennett Tasmania.

9.10.52 - Mr. Wheeler appointed Stores Superintendent.
October - Mr. Ward appointed /52 Cost Accountant.
October - Mr. Wiret appointed Smr. /52. Finance Insptr. (Internal Audit)
31.1.53 - Mr. Green's services terminated.
29.5.53 - Mr. Ward appointed Supervising Accountant.
5.6.53 - Mr. Robertson resigned.

1953/54 4s at 17th April, 1953.

No movement of Senior Staff.
November 1953 - Title of Mr. Ward's office altered to Superintendent of Accounts.

16.9.53 - Mr. Adamson seconded from B.I. Co. as Alumina Superintendent.
11.3.54 - Mr. Storey appointed as Asst. Planning Engineer.
1.5.54 - Mr. Dunt returned to Public Service.
10.5.54 - Mr. Mackenzie appointed as Chief Chemist.

APPENDIX NO.9. (Cont.)

FINANCIAL YEAR. COMMISSION.

SECRETARIAL, ACCOUNTING
AND STORES STAFF.

TECHNICAL STAFF.

1954/55

As at 17th April, 1953.

16.8.54 - Mr. Dodd left
16.9.54 - Mr. Condo resigned
14.1.55 - Mr. Badman took up
his appointment as
Business Manager.

30.7.54 - Mr. Leckey's services
terminated.
5.8.54 - Mr. Bell resigned.
29.9.54 - Mr. McDowell's services
terminated.
7.10.54 - Mr. Doherty promoted
to Lctg. Works Manager.
7.10.54 - Mr. Storey promoted
to Lctg. Chief Engineer.
10.11.54 - Mr. A. B. Jones appointed
as Reduction Supt. (seconded
from B.I.C.)
19.1.55 - Mr. Storey's services
terminated.

AUSTRALIAN ALUMINIUM PRODUCTION COMMISSION.

COPY.
FORM NO. 13.

4 Albert Street,
SYDNEY.

AUSTRALASIAN CIVIL ENGINEERING
PTY. LTD.,
4 ALBERT STREET,
SYDNEY.

Order F/82.

Date: 22/2/1952.

Technical management and execution of a bauxite prospecting survey in the Wessel Islands, N.T., in accordance with the instructions of the Commission's Geological Advisers; including inter alia :-

- (a) The design, and execution by an approved shipbuilding contractor, of modifications and additions to the vessel "Illawarra" to make her suitable for transporting personnel, general engineering stores and foodstuffs (including refrigerated space) for the requirements of the survey.

The design and detailed estimates of the cost of this work shall be presented to and approved by the Commission before the work is commenced. Earliest possible despatch of the ship to Darwin is required.

- (b) The engagement of the ship's company.
- (c) The satisfying of any requirements of the Commonwealth Director of Navigation and the State Navigation Authorities.
- (d) The engagement and direction of personnel required to carry out prospecting operations.
- (e) The specification and purchase of -
- (i) . prospecting and general engineering stores, plant and equipment, and survey apparatus, required for efficient conduct of operations;
- (ii) housing materials for shorebased camp or camps for the prospecting party, including messrooms, office, stores and amenities, and erection of same.
- (iii) victuals for the maintenance of the parties.

- 2 -

- (f) Provision and control of transport, labour and materials, and adequate camp maintenance and messing services.
- (g) Technical advice in the general conduct of the survey, particularly in shafting, drilling and sampling operations, transport and wireless services, management of labour and maintenance of adequate food and general supplies.

In consideration of the above services the Commission will pay to your Company -

- (a) a buying commission of 5% on all equipment purchased by you with the Commission's approval;
- (b) all costs in connection with the engagement of labour, maintenance and fuelling of "Illawarra", maintenance and repair of engineering equipment, messing, housing, and other general costs of the survey, as approved by the Commission; and salary and expenses of your Engineer directing operations in the field; and
- (c) a fee of 12½% on the costs mentioned in (b).

COMPARISON OF ESTIMATES OF THE COST OF THE PROJECT*

10,000-ton Plant.	13,000-ton Plant.	13,000-ton Plant.
Estimate of £3,000,000 (1943).	Estimate of £7,250,000 (1951) (1953)	Estimate of £10,500,000 (1953)
<u>4. CAPITAL COST OF PLANT</u>		
Site & Development (including road, drainage, water services, etc.)	£146,000	£3,209,000
<u>Alumina Works:</u>		
Buildings	223,000	1,391,000
Plant	421,000	2,141,000
<u>Reduction Works :</u>		
Buildings	405,000	799,000
Plant (including Rectifiers)	996,250	469,000
<u>General:</u>		
Admin. Buildings, Change Rooms and Canteen	58,750	-
Plant equipment and services.	50,000	317,000
<u>Working Capital</u> (including stores)	550,000	£5,868,000
<u>Contingencies :</u>		915,000
		1,022,000
		82,000
		82,000
		134,000
		£10,500,000
		£7,250,000
<u>B. WORKING CAPITAL.</u>		
<u>C. INVESTIGATIONS</u>		
		Search for Bauxite prior to 1.1.51.
		Wessel Islands Investigation
		385,000
		£7,250,000
		£10,500,000
<u>D. PROVISION FOR PRICE INCREASES†</u>		

* } See next page.
† }

COMPARISON OF ESTIMATES OF THE COST OF THE PROJECT*

* The 1943 estimate is not, as can be seen from the Table, compiled on the same basis as the two later estimates, but is included to give an indication of the first complete estimate made of the cost of the project.

* The amount of £385,000 was not included in the estimate of the cost submitted by the Commission to the Minister in September, 1951; but was included in the submission to Cabinet in December, 1951.

EXPLANATION OF INCREASE FROM 1951 ESTIMATE OF
£7,250,000 TO 1953 ESTIMATE OF £10,500,000.

Factory Capital Cost.

	Increase of 1953 Estimate over 1951 Estimate	
	£	%
(a) Increase due to movement in wages and prices (between January 1951 and June 1952 for Plant and equipment, and between January 1951 and November 1952 for labour and salaries).	1,869,000	57
(b) Increase due to a number of special items which show rises in excess of movements in cost indices.	581,000	18
(c) Increases due to the obligation to pay customs duty.	60,000	2
(d) Net increase due to redesign and additions made on the advice of the Commission's technical consultants.	70,000	2
(e) Increase due to omissions and discrepancies in the estimate of January 1951.	<u>429,000</u> £3,009,000	14

Working Capital.

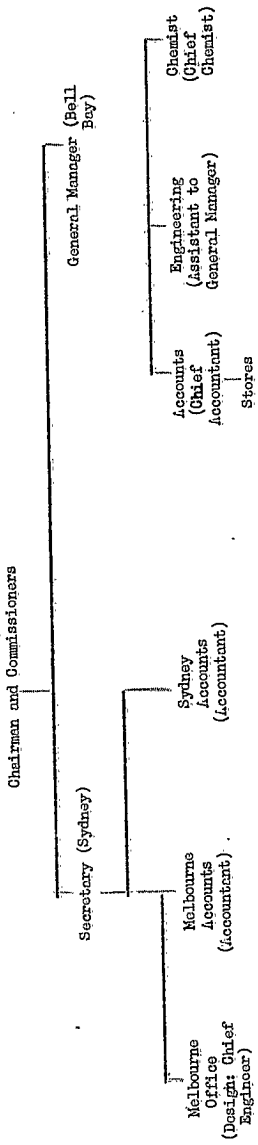
(f) Net increase due to movement in prices and freights.	<u>107,000</u> £3,116,000	3
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Bauxite Investigation.

(g) Increase due to expenditure on Wessel Islands Investigation	<u>134,000</u> £3,250,000	4
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With the exception of item (e) which accounted for only 14% of the total increase, the Commission claimed that the increased cost was attributable entirely to factors beyond its control. Item (e) represents, in part, miscalculations and omissions in the estimate of January 1951 (presented to the Minister in September 1951), which were the result of a lack of knowledge at that time of many of the major features of the design of the plant.

OUTLINE ORGANISATION CHARTS : 1952 and 1954.
At 30.6.52.



At 30.11.54.

