

1960.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

FORTY-SIXTH REPORT.

OUTSTANDING CLAIMS.

SECTIONS 36(2.) AND 51(f) OF THE AUDIT ACT
1901-1959.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS.

FOURTH COMMITTEE.

F. A. BLAND, ESQUIRE, C.M.G., M.P. (Chairman).

A. V. THOMPSON, ESQUIRE, M.P. (Vice-Chairman).

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Senator H. W. WADE
Senator I. E. WEDGWOOD

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J. F. CAIRNS, ESQUIRE, M.P.
R. CLEAVER, ESQUIRE, M.P.
J. F. COPE, ESQUIRE, M.P.

The Senate appointed its Members of the Committee on 19th February, 1959, and the House of Representatives its Members on 24th February, 1959.

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 1901-1955*;
- (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 connexion 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.

TABLE OF CONTENTS.

	PAGE.
I. INTRODUCTION	5
II. THE ORIGINS AND HISTORY OF SECTIONS 36 (2.) AND 51 (f)	6
III. THE ADMINISTRATION OF SECTIONS 36 (2.) AND 51 (f)—	
(a) Section 36 (2.)	7
(b) Section 51 (f)	10
IV. THE VIEWS OF DEPARTMENTS	10
V. CONCLUSIONS	12

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

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SECTIONS 36 (2.) AND 51 (f) OF THE AUDIT ACT 1901-1959.

CHAPTER I.—INTRODUCTION.

Sub-section (2.) of Section 36 of the *Audit Act* 1901-1959 reads—

“ 36. (2.) The Minister of each Department shall within thirty days after the close of the financial year prepare and transmit to the Treasurer a statement of all claims in respect of the services of his Department outstanding at the close of such year which might by law have been paid out of the Consolidated Revenue Fund during such year.”

Section 51 of the Act requires the Auditor-General for the Commonwealth to examine the “ Finance Statement ” prepared by the Treasurer and to prepare and sign a report explaining the Statement and showing, *inter alia*—

“ 51. . . . (f) all claims in respect of any department outstanding at the close of the financial year, which might by law have been paid out of the Consolidated Revenue Fund during such year.”

* * * * *

2. Late in 1954, when consideration was being given by the Government to revising the Audit Act, the Chairman of Your Committee approached the then Treasurer, The Rt. Hon. Sir Arthur Fadden, with a view to establishing an arrangement whereby the form of the accounts and financial practices of the Commonwealth should not be altered without first consulting the Joint Committee of Public Accounts. In a reply of 2nd February, 1955, the Treasurer said—

“ I have been giving considerable thought to the request contained in your letter of 20th December, 1954, regarding the revision of the Audit Act. I am not at all sure that I can commit myself, or my successors, to an undertaking that no alteration will be undertaken in the form of the Public Accounts and financial practices without first consulting the Public Accounts Committee. This would be a major step which I would be reluctant to take without long and intensive investigation of its implications.

The immediate question however is the amendment of the Audit Act. Here again, I think that problems would arise from any suggestion that the Committee should review the Bill before it goes to Cabinet. It has been a long established practice not to disclose the terms of Bills before they are introduced into Parliament, and I do not, myself, see how we can alter the formal procedures for Parliamentary consideration of Bills.

Moreover, there are provisions in the Audit Act which do not relate to the form of the Public Accounts but regulate the administrative accounting procedures within Commonwealth Departments. I can visualise a situation in which Members of the Committee might feel it their responsibility to review the entire Act including those sections which are not at present scheduled for alteration, although I am sure that you do not envisage the Committee debating, in public session, the intricacies and details of accounting procedures.

Perhaps, however, it would meet what you would think to be the opinion of the Committee if I were to arrange for Treasury officers to inform, and discuss with, the Committee the substance of major alterations to the Act which are being considered, and the reasons for those alterations. Please let me know if this would be helpful.”

It was in accordance with this arrangement that the Treasury wrote to Your Committee on the 18th June, 1959, as follows:—

“ At the close of the last two financial years the Auditor-General drew attention to the incomplete nature of the statements provided by Departments pursuant to Section 36 (2.) of the Audit Act and consequently, in the statements published pursuant to Section 51 (f) of the Audit Act. Investigation has shown that a great deal more time and effort would be necessary in Departments to ensure that the statements were complete in detail. This led to a reconsideration of the need for the information and the purpose to be served by it.

Exhibit No. 46/2, paragraphs 2-6.

Section 36 (2.) of the Audit Act is believed to have been taken from the New Zealand legislation and the purpose, described in the Second Reading Speech, was to prevent a deficit being hidden by the carrying forward of considerable payments to the following year. The provision has been deleted from the New Zealand Audit Act. Nor does it seem that the original purpose to be served requires such statutory provisions. Any deliberate carrying forward of payments to the new financial year would doubtless be apparent from the normal course of audit.

The provisions are not necessary for the purposes of financial control. Commitments are otherwise controlled and accounts cannot be paid without a parliamentary appropriation being available for the purpose.

The returns that were received in the Treasury from the Departments for the year ended 30th June, 1957 . . . show the volume of work that is, even now, involved in extracting and submitting the information. Complete returns would involve a greatly increased amount of clerical labour and typing and it is not desired to require this unless there is shown to be sufficient need for the information.

Both the Auditor-General and the Treasury had concluded that these two provisions might be deleted from the Audit Act. In accordance with the agreed arrangements the provisions are referred for discussion and consideration with the Joint Committee of Public Accounts."

3. Having examined the Treasury memorandum, Your Committee considered it appropriate to seek the views of the Auditor-General and the Public Service Board and of three departments mainly concerned in the preparation of statements of outstanding claims—the Departments of Repatriation, Works and the Commonwealth Scientific and Industrial Research Organization. Public hearings were held in Canberra on Tuesday morning, 15th December to discuss the matter further with the Departments concerned: those persons who appeared before Your Committee on that occasion were—

Department of Works	Mr. H. F. Yoxon, Assistant Director-General (Administration).
Commonwealth Scientific and Industrial Research Organization			Mr. M. G. Grace, Secretary (Finance and Supplies).
Department of Repatriation	Mr. C. A. Nettle, Assistant Commissioner (Institutions).

Comments were also obtained from the Observers sitting with Your Committee: Messrs. V. J. W. Skermer, Audit Office; F. C. Nordeck, Public Service Board; and C. L. S. Hewitt, Department of the Treasury.

CHAPTER II.—THE ORIGINS AND HISTORY OF SECTIONS 36 (2.) AND 51 (f).

4. Some light as to the reasons for including these sections in the Audit Act comes from two sources; firstly, from a marginal note "N.Z. 38" which appeared against subsection (2.) of Section 36 in the *Audit Act* 1901 and, secondly, from an explanation given in the House of Representatives on the 19th June, 1901, by the Treasurer, the Rt. Hon. Sir George Turner, in his Second Reading Speech on the Audit Bill.

Commonwealth
of Australia
Parliamentary
Debates,
volume 1,
page 1252.

" . . . Then, in many of the States they close the financial year on the 30th June. Nominally, the financial year does close on that day, but in some States, for a period of two months or three months, and in some cases three days or ten days, the Treasurer can go on making payments and charging them against the previous year. The practice in Victoria has been to keep the accounts open for a period of two months, during which payments can be made and debited to the accounts of the year just closed. That system, however, cannot be adopted in regard to the Commonwealth accounts, because at the end of each month, for a period of five years and probably afterwards, the Commonwealth Treasurer has to pay over to the States the amounts to which they are entitled. On the 30th June, therefore, the Treasurer will have paid over the balance, and any payments he may make in July or August will be payments out of the revenue of the following year. In this Bill therefore we have adopted what is called the cash system, by which accounts are absolutely closed on the 30th June. But to prevent a practice which might be adopted of carrying forward payments to the next year, so as to avoid having too heavy an expenditure in any one year, it is provided in a clause taken from the New Zealand Act, that any claims outstanding at the end of the financial year must be shown to the Auditor-General by the Treasurer. The various Ministers have to furnish the Treasurer with the information, and that information is put before Parliament by the Auditor-General in his annual report. So that Parliament has an opportunity of knowing whether the Treasurer is endeavouring to hide a deficit by carrying forward considerable payments to the following year. . . ."

Thus the two reasons given for the inclusion of Sections 36 (2.) and 51 (f) in the Audit Act were—

Ibid.

- (a) to prevent a practice which might be adopted of carrying forward payments to the next year so as to avoid having too heavy expenditure in any one year; and
- (b) to disclose to the Parliament whether a deficit was being hidden by carrying forward considerable payments to the following year.

5. The New Zealand provision on which the Audit Act sections were based was Section 38 of the Public Revenues Act of 1891, which, on the subject of "liabilities" said—

" 38. The Minister of each department shall, within thirty days after the close of the financial year or period, cause to be prepared and sent to the Audit Office a certified statement, in such form as the Treasury directs, of all liabilities in respect of the services of his department outstanding at the close of such year or period; and the Audit Office shall lay all such statements before Parliament within ten days after its first sitting next after the Audit Office shall have received the same, together with a summary thereof.

Liabilities on the Consolidated Fund shall mean all such claims as might by law have been paid out of revenue during such year, and liabilities on the Public Works Fund shall mean and include all liabilities under any contract entered into by the Government under the authority of any Act in that behalf."

The section appeared in substantially the same form in the New Zealand Public Revenues Act of 1908 (Section 36) but some changes were made in the *Public Revenues Act* 1936 which provided (Section 46) that the statement of outstanding liabilities should be forwarded to the Treasury (not the Audit Office as previously) and that the Treasury (not the Audit Office) should lay the statements before the Parliament.

6. Mr. C. L. S. Hewitt of the Treasury informed Your Committee that the operation of Section 46 of the New Zealand Public Revenues Act was suspended in 1940 and that a comparable section did not appear in the new Public Revenues Act enacted in 1953. He said—

"It was repealed from the New Zealand legislation of 1953. The explanatory note to the Bill said 'This procedure was dropped in 1940. It can be covered by Treasury instructions if required.' To the best of my knowledge, there has never been any Treasury Instruction requiring this."

Thus the progenitor of the Commonwealth provision is no longer in existence; a comparable provision however is still in force in New South Wales.

CHAPTER III.—THE ADMINISTRATION OF SECTIONS 36 (2.) AND 51 (f).

(a) SECTION 36 (2.).

7. One of the problems associated with the application of Section 36 (2.) in practice has been the varying interpretations placed upon the provision by departments notwithstanding that the Treasury had issued directions in the matter from time to time. The latest of these directions appeared in Treasury Circular 1959 A/14 of 25th June, 1959, which read, in part, as follows:—

"The statement should be submitted in duplicate to the Treasury by the Central Office of each Department and should include claims relating to, and located in, all its Branches, Sections, offices and associated authorities. In addition to giving the amount of claims outstanding under each item of a sub-division of the Estimates of the Department, there should be shown—

- (a) the date of receipt of each unpaid claim, and
- (b) a brief explanation for the non-payment of each.

Section 36 (2.) refers only to claims outstanding which might by law have been paid out of the Consolidated Revenue Fund. This implies that a request for payment, e.g., a claim on Treasury Form 12 has been received, or in the case of a progress payment, that a claim has been prepared and passed to the Accounts Section. Amounts should not be included in the statement unless claims have been received. Claims in respect of supplies shall not be included, if, under the contract, payment is subject to performance and the goods have not been delivered or the services rendered. If a contract provides for payment prior to delivery, claims received should be listed."

Thus the Treasury has interpreted claims "which might by law have been paid" as meaning requests for payments on hand and excluding outstanding commitments or liabilities in respect of which a claim for payment has not been received.

8. At the conclusion of the financial years 1956–57 and 1957–58 the Audit Office informed the Treasury that test checks had disclosed significant differences between the claims outstanding at the 30th June and the figures reported to the Treasurer by the Ministers of some departments in accordance with Section 36 (2.). Some of the reasons established by the Audit Office for outstanding claims not being included in the lists submitted were—

- (a) warrant advice not available (i.e., insufficient funds);
- (b) claims not registered or lacking in certain particulars;
- (c) claims received by subsidiary branches and not forwarded to the head office or the paying centre for listing;
- (d) varying interpretations of Section 36 (2.).

Audit
Memorandum
No. 59/458 of
23rd December,
1959.

Further test checks undertaken by the Audit Office at the conclusion of 1958–59 disclosed some £447,000 in outstanding claims which were not included in the statements furnished to the Treasury.

Exhibit No.
46/3.

9. At the 30th June, 1959, outstanding claims reported to the Treasury and recorded in the Auditor-General's Report, totalled £1,506,519, the departments with the highest values of outstanding claims being—

	Department.	£
Air	422,047
Postmaster-General's	199,217
Repatriation	171,110
Works	159,568
War Service Homes	149,184
Army	137,214
Commonwealth Scientific and Industrial Research Organization	106,771

Of these, the Postmaster-General's Department did not submit a detailed statement, reporting only the total amount of outstanding claims under each appropriation item (without the number of accounts affected). The great majority of outstanding claims shown in the War Service Homes return were received in the last week of June and a similar situation existed in the Department of the Army; in neither case was an unduly large number of accounts involved.

10. The Department of Air, while not submitting a completely detailed statement, provided comparable information in the form of a summary. The summary showed that 2,548 claims were outstanding at 30th June for amounts totalling £422,047; of these, some 2,003 claims amounting to £312,097 were received in the last seven working days of the financial year. The claims had not been paid for the following reasons:—

	£
Received too late for payment	274,532
Claims under dispute by correspondence	88,325
Claims or vouchers incomplete	55,337
No funds available	3,664
Other	189
	<hr/> 422,047

The value of outstanding claims might be compared with the recorded expenditure for the Department of Air during 1958–59 under Divisions 167 to 179K inclusive, of £59,523,225.

11. Each of the three departments from whom Your Committee sought further information had submitted detailed statements in the form requested by the Treasury. The preparation of the statements, which had to be completed before the end of July, involved considerable administrative effort as is shown by the following statistics:—

Department.	No. of Pages in Statement.	Estimated Cost of Preparation.	No. of Outstanding Claims.	Value of Claims.
		£		£
Works	61	200	2,671	159,568
C.S.I.R.O.	114	151	3,875	106,771
Repatriation	157	128	4,758	171,110

Exhibit No.
46/1.

12. Four main reasons were given by the Department of Works for the claims being outstanding—

(a) Insufficient time to process—1,450 claims amounting to £76,172.

The Department explained that these accounts were received in the last few days of the financial year and it was not possible to commence processing them through the various stages of essential checking procedure.

(b) Received after the closing of the accounts—646 claims amounting to £43,092.

For the majority of Government departments the Treasury prepares and forwards cheques to claimants on request by the department concerned.

In 1958–59 the time-table established by the Treasury for the closing of accounts provided that accounts for payment were to be completed and delivered to the Treasury Paymaster by noon on Friday, 26th June. Only in special cases and with the approval of the Sub-Treasury were accounts accepted for payment after that date.

- (c) Awaiting certification as to correctness of service—423 claims amounting to £21,167.

In these cases the department, having established that it had ordered the goods, was awaiting certification by the receiving sections that the goods were received in good order and condition and complied with specification.

- (d) Not in order for payment—152 claims amounting to £19,136.

These claims were in dispute with claimants for a number of reasons such as short supply and validity.

13. The Department of Works also explained to Your Committee that, in any one year, it registered in excess of 208,000 claims; thus the number of outstanding claims represented about three days' registrations while the value of those claims was less than the expenditure for an average working day. The Department said that there must always be a number of accounts in course of examination and submitted that the accounts on hand and not paid at 30th June, 1959, did not reflect discredit on its ability to pay accounts promptly; indeed in this respect, it claimed, it enjoyed a good reputation.

Exhibit No. 46/1, paragraphs 5-9.

14. In general the reasons given by the Commonwealth Scientific and Industrial Research Organization for claims being outstanding were similar to those presented by the Department of Works. They were—

Exhibit No. 46/4.

	No.	Value. £
(a) Insufficient time to process (small accounts each for £5 or less)	483	2,271
(b) Received after the closing of the accounts ..	1,074	29,136
(c) Awaiting certification as to correctness of service	435	16,408
(d) Not in order for payment	1,763	55,138
(e) Awaiting Credit Note	120	3,818
	<u>3,875</u>	<u>106,771</u>

The number of outstanding claims, 3,875, represented approximately 4 per cent. of the claims processed by the Organization in a year. The cost of preparing the statement of claims was assessed as follows:—

	£
7 clerks for a total overall of 33 working days	127
3 typists for a total overall of 9 working days	24
	<u>151</u>

15. The Department of Repatriation found, when it was preparing the information sought by the Committee, that the statement of outstanding claims it had presented to the Treasury was defective in certain respects. In particular, the Victorian Branch of the Department had reported only those outstanding claims on hand which had already been certified but not paid—those claims which had been received but had not been examined by the Department, or were still in the course of the examination, were not included in the statement. This would have resulted in the outstanding claims held in the Victorian Branch being substantially understated. As well, the Repatriation statement could not include outstanding claims from pharmacists which had not been priced and checked by the Pharmaceutical Guild of Australia in accordance with an agreement between the Department and the Guild. The Department said that the Guild was taking up to seven weeks to return claims.

Exhibit No. 46/5.

16. The bulk of outstanding claims reported by the Department were concerned with appropriation item 2 of Division No. 235—Repatriation Benefits, Medical Treatment—under which expenditure of £5,706,994 was incurred during 1958–59. 4,057 claims out of the total of 4,758 outstanding claims reported by the Department related to this item. Most of these claims were from pharmacists or from Local Medical Officers. In regard to the latter the Department explained that, early in 1959, new and simplified procedures had been introduced which resulted in a higher volume of claims being received from Medical Officers in the closing months of the financial year; further changes in procedures at the commencement of the current financial year had speeded up the examination of claims which are now being processed with a minimum of delay.

Ibid.

Ibid.

17. The Repatriation Department assessed the cost of preparing the statement of outstanding claims for 1958-59 as follows:—

	Work.	Hours.	Cost.
			£
Ibid.	Compilation	108	62
	Summarization	13	8
	Checking	34	18
	Typing	83	31
	Final examination	10	9
		248	128

(b) SECTION 51 (f).

See paragraph
5 above.

18. While the New Zealand provision upon which Section 36 (2.) was based provided for the statements of outstanding liabilities, together with a summary thereof, to be laid before the Parliament, the comparable provision in the Audit Act, Section 51 (f), has provided that the Auditor-General should show "all claims . . . outstanding . . . which might, by law, have been paid". While perhaps it could be argued that Section 51 (f) requires that the outstanding claims should be shown by the Auditor-General in detail, the fact remains that since the first of the annual reports of the Auditor-General the claims have been reported in terms of departmental totals only.

CHAPTER IV.—THE VIEWS OF DEPARTMENTS.

19. While there were some differences of opinion as to the value to be gained from the preparation by departments of statements of outstanding claims, all the authorities consulted by Your Committee were unanimous that legislation in the form of Sections 36 (2.) and 51 (f) was unnecessary.

Exhibit No.
46/2.

See paragraph 4
above.

20. The views of the Treasury were set out in its initial submission to the Committee and these were later amplified in discussion with us. In support of the statement that the retention of the two provisions was not necessary for the purpose of financial control, Mr. C. L. S. Hewitt, the Treasury Observer, pointed to the reasons given by the then Treasurer for the inclusion of the provisions in the Audit Act of 1901. Mr. Hewitt added—

Q. 146.

" . . . That is the purpose of this provision in the Audit Act. It has no other genesis than that. According to the archives of the Treasury, it has never been used for any other purpose than to fulfil that literal section of the Act. Having that as its genesis, my reference in paragraph 4 to the financial control concerns the other provisions which are written into the Audit Act for the control of entering into commitments or liabilities and the processes which must be observed for payment of accounts, certification, authorization, existence of Parliamentary appropriation. The Treasurer is not required to provide a balance sheet of any department or of the Commonwealth as a whole. . . ."

Q. 147.

He did not think that the departmental statements of outstanding claims had any value administratively and explained that departments were required to keep a Register of Accounts which contained, in chronological order of receipt in the department, claims received for payment; from this register outstanding claims could be established. A similar opinion had been expressed previously by Mr. M. G. Grace, representing the Commonwealth Scientific and Industrial Research Organization—

Qs. 70 and 71.

" COMMITTEE MEMBER.—You claim, therefore, that your register of accounts received indicates those which have been processed and those which have not? Therefore, the auditor, by going to your register of accounts, virtually has the same information as this list would provide?—(Mr. Grace) The information is there but not in a convenient form as it is here.

COMMITTEE MEMBER.—But if there were inefficiency in the department, and, instead of taking two weeks to be processed, the accounts were taking seven weeks, the volume would be revealed in this register?—(Mr. Grace) Exactly."

Q. 149.

However, the Audit Observer, Mr. V. J. W. Skermer, suggested that, in larger departments, it might not be a simple matter to detect outstanding claims from the Register.

Q. 175.

21. Mr. Hewitt suggested it was inherent in the whole system of financial administration to pay accounts promptly although he acknowledged that suggestions of delays in payment arose from time to time. He indicated that following such criticism some years ago the Treasury had instructed departments to endorse all claims with the date and time of their receipt in the department* and the Audit Office had agreed to assist in securing observance of the

* Treasury Circulars 1955A/2 and 1957/A15 of 10th February, 1955, and 5th July, 1957, respectively.

instructions and to report any cases which came to its notice where there had been undue delays in the payment of claims. Mr. Hewitt knew of no real value which had accrued from the statements of outstanding claims and he thought there was no danger whatever in abandoning the requirement to prepare them. He suggested that, if the statements were continued they should be accurate—which would require a great deal more time and effort on the part of departments than was now spent. Q. 161.
Q. 198.
Q. 160.
Exhibit No. 46/2.

22. The Department of Works strongly supported the Treasury view that the two sections could be deleted from the Audit Act without loss of financial control. In the opinion of Mr. H. F. Yoxon, the Works representative, the statements had no value other than they met the requirements of the Act; they were not used by his department for detecting delays in payment of accounts; it has other methods which are commonly practised throughout the year. Exhibit No. 46/1.
Q. 14.

“COMMITTEE MEMBER.—Can you see any reason for retaining the clause?—(Mr. Yoxon) No. I think the original purpose of this clause can be met in other ways. If departments deliberately set out to delay the payment of accounts, thereby upsetting budgetary arrangements, that could be ascertained by the Audit in some other way rather than by this detailed statement.” Q. 17.

23. The Commonwealth Scientific and Industrial Research Organization also agreed with the Treasury that the sections were not necessary for the purpose of financial control; it considered that other provisions in the Audit Act gave adequate control over expenditure and saw no value in the statements— Exhibit No. 46/4.

“COMMITTEE MEMBER.—Is this statement of any value to your department when completed?—(Mr. Grace) No. It is of no value to us. Qs. 61–63.

COMMITTEE MEMBER.—Can you imagine any value which it would be to the Treasury?—(Mr. Grace) No.

COMMITTEE MEMBER.—What about the Auditor-General?—(Mr. Grace) I do not think so—not when auditors are on the premises, doing a continuous audit.”

24. The Treasury, in its formal submission to the Committee, said that “both the Auditor-General and the Treasury had concluded that these two provisions might be deleted from the Audit Act”. Your Committee established that this statement referred to exchanges between the then Auditor-General, Mr. J. Brophy, and the Treasury in 1954 and 1955 when consideration was being given to proposals for amendment of the Audit Act. In a draft financial administration bill forwarded by Mr. Brophy to the Treasury on 12th October, 1954, the following comment appeared:— Exhibit No. 46/2, paragraph 6.
Q. 145.
Treasury Memorandum to Committee, No. 59/2357 of 8th January, 1960.

“Section 36 (1.) has been redrafted to cover advances made within the Commonwealth. The use of ‘accounts’ in the beginning of Section 36 is too vague. Section 36 (2.) has been omitted as unnecessary.”

This comment was retained in the revised draft returned by the Treasury to the Audit Office on 17th March, 1955, and appeared in the following form in a further revision forwarded by Mr. Brophy to the Treasury on the 3rd May, 1955:—

“Section 36 (1.) has been redrafted to cover advances made within the Commonwealth. The use of ‘accounts’ in the beginning of Section 36 is too vague and ‘Public Accounts’ has been substituted. Section 36 (2.) has been omitted as unnecessary.”

25. The proposal to exclude Sections 36 (2.) and 51 (f) had not been discussed between the present Auditor-General, Mr. H. C. Newman, C.B.E., and the Treasury. This was made clear to Your Committee in the formal submission of the Auditor-General, who went on to say—

“Nevertheless I have now given the matter some thought and whilst I have an open mind on the question whether statutory provisions are essential I would doubt that information as to outstanding claims is not useful for the purposes of efficient financial administration. Exhibit No. 46/3, paragraphs 3–6.

Indeed I should have thought that for their respective functions the Central Offices of departments and the Treasury should in the normal course desire to know particulars of unpaid claims at the end of each financial year and that if disclosure of such information to the Parliament has been of value in the past it would at least be as equally important today.

In the absence of adequate departmental procedures to disclose outstanding claims the Auditor-General would not be in a position adequately to ascertain the nature and extent of claims unpaid at the end of the financial year in connection with his Annual Reports to the Parliament.

I appreciate the Treasury statement that compilation of the annual returns of unpaid claims involves a vast amount of work in departments, particularly as under the existing requirements all outstandings must be included irrespective of amount. With a view to lessening this work it is felt that consideration might be given to modification of the information which departments are now required to furnish. The adoption of such a practice should not materially detract from the informative value of these statements.”

26. We discussed the Auditor-General’s submission with the Audit Office Observer, Mr. Skermer. He stated that it was a fundamental principle of accounting, indeed of any financial organization, that there should be a stocktaking of unpaid accounts at the end of any given financial period. While doubting very much whether it was necessary to have such a statutory provision as Section 36 (2.) he did feel that there should be machinery in departments Q. 115.
Q. 168.

which would highlight at the 30th June the extent of unpaid claims. On the question of the function of the Auditor-General to watch for delays in payment of accounts Mr. Skerner said—

Q. 136.

“ . . . With regard to the function of the Auditor-General, I should like to say that it would be normal procedure for the Auditor-General to examine accounts paid shortly after 30th June to establish whether there had been delay in the payment of accounts round about the 30th June period. But there is a very different process involved in an appraisal of that nature than there would be if the Auditor-General were required to carry out detailed checks of an exhaustive nature to establish the extent to which departments were not processing claims prior to 30th June. I think there is a very important point involved there and I feel that the Auditor-General would be very concerned if any move were taken to impose upon him the detailed examinations of that nature. I feel that as long as there is a summary of the position existing within the department and that summary is supported, which it must be, by detailed returns under various sections and branches, that would be sufficient for the Auditor-General's purposes.”

Exhibit No.
46/3, paragraph
6.

He amplified the suggestion of the Auditor-General, that the information which departments are now required to furnish might be modified as follows:—

Q. 139.

“ He had in mind that there must be thousands of small claims which are included in these returns and for the purpose of information of an important nature those small claims could be deleted from the returns and it could go further—there would be no need to furnish the detailed returns in any form to the Treasury because the information would be available in the department to the Auditor-General.”

27. Broadly then, the various parties concerned in these discussions with your Committee believed that Sections 36 (2.) and 51 (f) might be excluded from the Audit Act. However, the Audit Office felt there would be some merit in departments being required to prepare at the end of each financial year, at least in summary form, details of the claims on hand which have not been paid.

CHAPTER V.—CONCLUSIONS.

28. Your Committee have shown in the preceding Chapter that the Treasury and other departments consider that Sections 36 (2.) and 51 (f) might, with advantage, be repealed. But this is the outlook of the administration only and it remains to be considered whether the interests of the Parliament—one of whose functions is to exercise a control over the administration on behalf of the people—will suffer by the deletion of those clauses.

29. Your Committee do not think that they will. We consider those interests can be protected as effectively by other means without the administrative effort involved under the existing legislation.

30. When accounts are kept on an accrual accounting basis, outstanding claims are incorporated in the accounts at the conclusion of the financial period. In the case of the accounts of the Commonwealth, which are kept on a cash basis, they are not and thus outstanding claims can assume some measure of importance. Keeping in mind the extent of Commonwealth activities and the basis on which the accounts are closed, it reasonably can be expected that there will be a substantial number of claims on hand in departments which cannot be paid before the close of the financial year. But this is unimportant and of little interest to the Parliament. What is important and, what should be disclosed, is any large-scale and deliberate withholding of payments at governmental or departmental direction: there could be occasions when it would be advantageous to a government or a department to defer payments until after the close of the financial year because of shortage of funds, to reduce or to avoid disclosing a cash deficit or for increasing a surplus. But any such actions on a substantial scale by governments or departments would, we suggest, be apparent to the Auditor-General and his officers in the course of their normal check and we would expect that they would be disclosed to the Parliament in the annual report of the Auditor-General. Any such report could then be pursued further by the Parliament or Your Committee.

31. We do not think that the annual preparation of detailed statements by departments is necessary to detect undue delay in the payment of claims by reason of administrative breakdowns or inefficiency. We do not believe that serious cases in this category would go undetected by the Audit Office and they, too, should be the subject of report to the Parliament. There is also the added protection that dissatisfied creditors of the Commonwealth are themselves unlikely to allow such a matter to rest.

32. Your Committee therefore recommend the repeal of Sections 36 (2.) and 51 (f) of the Audit Act.

For and on behalf of the Committee,

F. A. BLAND,
Chairman.

R. C. DAVEY,
Secretary,
Joint Committee of Public Accounts,
Parliament House, Canberra, A.C.T.
21st January, 1960.