



1964.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

SIXTY-SIXTH REPORT.

THE REPORTS OF THE AUDITOR-
GENERAL—FINANCIAL YEAR 1962-63.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

SIXTH COMMITTEE

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The Senate appointed its Members of the Committee on 4th March, 1964, and the House of Representatives its Members on 5th March, 1964.

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 Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the Audit Act 1901-1961;
- (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.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

SIXTY-SIXTH REPORT

THE REPORTS OF THE AUDITOR-GENERAL - FINANCIAL YEAR

1962/63

PART I

CHAPTER I - INTRODUCTION

Your Committee have referred in past Reports to the duty imposed by the Public Accounts Act 1951 to examine and comment on each Report prepared by the Auditor-General pursuant to Section 15 of the Audit Act, after its transmission to the Houses of the Parliament. Each year since 1959 we have conducted a separate series of annual enquiries relating specifically to matters raised in each Report of the Auditor-General.

2. The Report of the Auditor-General for 1962/63 was presented to the Parliament on 15th August, 1963, and the Supplementary Report on 30th October, 1963.

3. On 21st August, 1963, Your Committee (the Fifth Committee) discussed with the Auditor-General a number of items on which he had commented in his Annual Report. Subsequently, written explanations were obtained from certain Departments and, after further consideration, Your Committee decided to investigate in detail matters referred to in the following chapters of Part I of this Report.

4. Our investigations were made at a series of public hearings held on each Tuesday, 8th October, 15th October and 22nd October, 1963. We were assisted in our enquiries by the following witnesses:-

8th October, 1963:

Department of the Interior - Mr. D. M. Lalor,
Finance Officer.
Mr. J. Sharpe,
Officer-in-Charge,
Education Section.
Mr. D. W. Shoobridge,
Director of Parks and
Gardens.

15th October, 1963:

Department of Territories - Mr. L. L. Gillespie,
Assistant Administrator,
Northern Territory
Administration.

22nd October, 1963:

Department of Supply - Mr. J. J. Delany, Manager,
Commonwealth Clothing
Factory.
Mr. D. J. O'Connor,
Assistant Secretary
(Finance)

Stores Supply and Tender Board - Mr. F. R. McNamara, Chief
Executive Officer.

5. The sudden dissolution of the Twenty-Fourth Parliament late in 1963 did not allow sufficient time for consideration by the Fifth Committee of matters commented on by the Auditor-General in his Supplementary Report. However, following the appointment of the Sixth Committee early in March, 1964, these matters were discussed with the Auditor-General on 17th March, 1964, and after consideration of written explanations which were obtained from certain departments Your Committee decided to investigate in detail the matters referred to in Part II of this Report.

6. Our investigations were made at a series of public hearings held on Thursday, 19th March, Friday, 20th March, Tuesday, 7th April and Tuesday, 14th April, 1964. We were assisted in these enquiries by the following witnesses:-

19th and 20th March, 1964:

Department of Trade and Industry - Mr. D. O. Dickinson,
Director, Establishments
and Finance.
Mr. K. P. Jorgensen,
Finance Officer.

20th March, 1964:

Department of Primary Industry - Mr. B. C. Barlow, Land
Settlement Officer.
Mr. T. T. Colquhoun,
Assistant Secretary,
War Service Land
Settlement Branch.

7th and 14th April, 1964:

Department of Territories - Mr. C. E. Reseigh,
Assistant Secretary
(Social and General
Services)
Mr. W. H. Scott,
Assistant Secretary
(Finance and Economics)

CHAPTER II - DEPARTMENT OF THE INTERIOR

(a) Advances for the Purchase or Construction of Houses.

7. Paragraph 192 of the Auditor-General's Report for 1962/63 contained the following comments:-

"During 1962/63 the Commissioner approved 492 new loans (228 in 1961/62). The number of houses under mortgage to the Commissioner at 30th June, 1963, was 1,701 (1,209 at 30th June, 1962). The balance of moneys owed by borrowers was not available from departmental records at the time of compilation of this Report.

The liability of the Commissioner at 30th June, 1963, in respect of moneys made available by the Commonwealth and lending institutions was -

Source of Funds	Balance Outstanding £
Consolidated Revenue Fund and Loan Fund.	2,684,346
Commonwealth Savings Bank	472,433
Private Banks	381,051
Other	905,000
Total	4,442,830

During 1962/63 financial statements of the transactions of the Commissioner for Housing as at 30th June, 1962 were made available for Audit examination. The statements have been twice returned to the Department for amendment. If available, further comments on the financial statements as at 30th June, 1962 will be made in the Supplementary Report."

8. A written statement submitted by the Department of the Interior explained that prior to 30th June, 1962, the annual statements in respect of the A.C.T. Housing Trust Account were simple statements of balances but, as at 30th June, 1962, a Trading Statement and a Balance Sheet were prepared for the purpose of reflecting the actual results of Housing Loan transactions. The first Balance Sheet, as at 30th June, 1962, was forwarded to Audit on 18th September, 1962, and subsequently became the subject of several Audit queries - some relating to errors of past years which had been thrown up and others relating to matters of principle which were later referred for legal opinion. Coinciding with preparation of the first Balance Sheet a new accounting system which had been recommended by a joint Public Service Board and Departmental Organisation and Methods review was introduced. Audit indicated that the new procedures would not satisfy their requirements for future Balance Sheets. Investigations were then carried out to determine an accounting system which would meet Interior and Audit needs and a system similar to that in operation at the War Service Homes Division was agreed upon. Approval to introduce the new system has been obtained. It was explained also that calculation of the figure "amount owed by borrowers" to 30th June, 1963, would be possible once Audit accepted the amended Balance Sheet as at 30th June, 1962.

Exhibit
No.66/1

9. Mr. D. M. Lalor, Finance Officer, Department of the Interior, explained to Your Committee why, under the current accounting system, it had not been possible to provide a figure for the item "amount owed by borrowers" to 30th June, 1963 -

"(Mr. Lalor).....The need for this particular item was not considered in relation to the new type of statements we proposed to prepare, namely, Balance Sheet and Trading Statement of the operations. Consequently, the system that was in vogue did not set up control accounts or proof accounts to enable us to go to a card and determine the actual balance. It means that the system that was in vogue disclosed a theoretical balance provided that

Q.3

instalments were paid on due dates. If the instalments were not paid on the due dates a penalty interest was incurred and this, plus the arrears, was manually posted on the back of the card. To enable us to obtain this figure we would have had to satisfy Audit on every calculation that was done. At this stage, not having got the 30th June, 1962, Balance Sheet certified by Audit, we have been unable to proceed to determine the amount owed by borrowers at 30th June, 1963. The Balance Sheet for 30th June, 1962, has now been presented to Audit, adjusted in accordance with the errors that were brought to notice, and that is now with Audit awaiting their certification. When we have been advised of that certification we can proceed to set up this 30th June, 1963, Balance Sheet."

10. The Audit observer, Mr. A. K. Ragless, Senior Inspector, advised that the Balance Sheet at 30th June, 1962, would be acceptable to Audit -

"(Mr. Ragless) I think the Committee would be pleased to know that the Balance Sheet for 30th June, 1962, will be acceptable to Audit. I think the Department will have official notification of that shortly. I think Mr. Lalor has covered the situation adequately. The necessity for these financial statements stems from a Cabinet request that the need for financial statements in relation to housing in Canberra should be investigated, and all sorts of problems came to notice during the examination. It has just been a matter of thrashing them out."

Q.37

11. Mr. Lalor stated that, taking into account the need to change over to a new accounting system, it should be possible for the Department to produce, within three months, a Balance Sheet as at 30th June, 1963.

Q.5

12. Mr. Ragless indicated that the action which had been taken to resolve the difficulties should, in future, make the Balance Sheet generally acceptable to Audit.

Q.42

13. Your Committee point out that much time and expense could have been saved had the accounting procedures evolved by the joint Public Service Board and Departmental O. & M. review been referred for Audit comment prior to their introduction. We accept the assurances that the unsatisfactory features have now been removed from the accounting procedures and look to a more favourable report by the Auditor-General in respect of 1963/64.

(b) Accounting.

14. In paragraph 192 of his Report the Auditor-General commented -

"The need for annual submission of audited financial statements covering the Commonwealth's investment in dwellings in the Australian Capital Territory was referred to at paragraph 51 of the 1957/58 Report.

My 1961/62 Report mentioned the formation of an inter-departmental committee to examine and to report to the Minister for the Interior on -

- (a) the feasibility of introducing a suitable system of accounts for administrative purposes and for public accountability needs; and
- (b) the cost of such a system and staffing involved.

As requested by the committee, the Audit Office has furnished comments and suggestions on the pro forma accounts for rental housing and sales of houses to tenants. The outcome is awaited."

15. In a statement to Your Committee the Department of the Interior advised:-

"The inter-departmental committee examining this matter is comprised of representatives of the Department of the Treasury, the Department of the Interior, and the Public Service Board.

Exhibit
No.66/1

The committee has made some progress in its deliberations. A further meeting has been arranged for the 27th September. An invitation has been extended to a representative of the Auditor-General to attend this meeting."

16. In further explanation of the departmental statement, Mr. Lalor disclosed that the inter-departmental committee had been set up following a Cabinet minute of 6th September, 1961. The committee first met in May, 1962, and had held several meetings since that date.

Q's 51
& 52

17. In reply to a question, Mr. Lalor referred to several matters which had been considered by the committee:-

"(Mr. Lalor) A form of accounting was established based on the New South Wales Housing Commission system of accounting and this was referred to the Audit Office for comment. The Audit Office and the Department have had discussion on several items, such as the total amount of rents receivable during the year; the question of rebates of rental; at what value the house should be taken in the accounts - the rebatable value or the original capital value; whether the system would have regard to repairs and maintenance provisions; how good the records were and how adequate they were in past years to enable us to determine the position at present and the difficulties in determining liability to Consolidated Revenue for the opening entries in the Balance Sheet. That would cover generally the principal items discussed."

Q.53

18. The witness advised further that, although finality had not been reached on any of the matters mentioned, it had been decided that a working party

should be established to examine these questions more closely and to determine what records were available on which to base a system of accounts, how accurate the records were and, if necessary, proceed to the point where Audit would be in a better position to indicate whether it could certify any balance sheet that was prepared from the proposed system. To date, the committee had made no recommendations to the Ministers but its present aim and intention was to have a balance sheet produced or a form of accounting decided upon by the end of the current financial year.

Q's 54
to 56

19. It is a matter of considerable concern to Your Committee that, although the matter was drawn to the attention of the Department by the Auditor-General in his 1957-58 Report, action has not yet been completed to provide annual audited financial statements covering the Commonwealth's investment in dwellings in the Australian Capital Territory. Agreement having been reached that a suitable system of accounting was to be instituted, it seems reasonable that the Auditor-General's requirements should have been met well within the time which has now elapsed. Your Committee have noted the recent progress of the inter-departmental committee and trust that the entire system will be implemented and acceptable statements submitted to the Auditor-General to obviate further adverse comment.

(c) Hotels and Guest Houses.
Leased by the Department of the Interior.

20. In paragraph 193 of his Report for the year ended 30th June, 1963, the Auditor-General commented:-

"Departmental financial statements for the year ended 30th June, 1963 revealed an overall excess of receipts over expenditure of £4,483. However, the statements do not include provision for interest on capital (£13,739) and depreciation of buildings (£3,938) in accordance with a Treasury requirements that costs brought to account should include interest at 5 per cent. per annum and depreciation at $1\frac{1}{2}$ per cent. on the capital cost of the properties."

21. The Department stated in a written explanation that, in response to the Treasury request for inclusion of details of interest and depreciation charges, the Department had for the years 1959/60 and 1960/61 included the respective amounts in the Income and Expenditure statements. For the years 1961/62 and 1962/63, however, the financial statements had been presented in the form of statements of Receipts and Payments with the amounts which would be applicable for interest and depreciation calculated and noted at the foot of the statements. Copies of the financial statements have been forwarded to the Treasury each year without objection being raised by that Department.

Exhibit
No.66/1

22. In reply to a question seeking the Department's reason for altering the form of the financial statements, the witness, Mr. Lalor, stated:-

"(Mr. Lalor) Prior to this it was submitted as an income and expenditure statement but the

Department felt that those statements did not fulfil the accounting requirements because they were more in the nature of receipts and payments. In either case, neither of them fulfilled the full technical accounting requirements of either statement and that was why it was decided that this should be done as a notational entry only on the statement." Q.64

23. Mr. Lalor indicated that the Treasury had not been consulted by the Department of the Interior prior to the introduction of the amended method of presentation. Q.65

24. We were informed by the Treasury observer, Mr. J. Stokes, Senior Finance Officer, that the Department of the Treasury had overlooked Interior's change to a receipts and payments statement and that Treasury would prefer to see the previous form of the statement maintained:-

"(Mr. Stokes) The Treasury did request the Department of the Interior, on 14th December, 1959, that the costs brought to account should be shown, including interest at 5% per annum and depreciation at 1½%, on the capital cost of properties. We had in mind that a proper income and expenditure statement should be prepared and that, in fact, was done. But we would still prefer an income and expenditure statement rather than the present form of the financial statement. The fact that the Department has switched over to a receipts and payments statement was unfortunately overlooked in the Treasury. We would still prefer to have the previous form maintained." Q.66

25. The Audit observer, Mr. A. K. Ragless, indicated that the form of the statement was more a matter for Treasury than for Audit. The Audit's role was simply one of drawing attention to a requirement which "has not been observed literally". Q.72

26. Mr. Stokes informed Your Committee that now that the matter had been brought to attention, through the Auditor-General's Report, Treasury would pursue it further with the Department of the Interior. Q.79

27. Mr. Lalor expressed his personal view that the statement was not one of receipts and payments nor of income and expenditure. It was unlikely that Interior would raise serious objections as to its form of presentation:-

"(Mr. Lalor).....It would be more accurately described, perhaps, as a statement of affairs. Some of the items on the expenditure and payments side, while not beyond our control, are not recorded in the Department of the Interior's set of accounts. They are expenditure incurred by the Department of Works on the maintenance side. Therefore, in my mind, technically it does not fit a receipts and payments statement nor does it fit an income and expenditure statement because, while Q.81

an income and expenditure statement takes into account accruals, in this case the interest, whilst it may be an accrual, is not paid. Therefore I consider this is not an accrual. It is not legally payable. Therefore it is not an income and expenditure statement. It is probably a statement of affairs. But I do not think the Department will raise any serious objections as to how it is to be presented."

28. From the evidence, it is apparent that the Department did not seek the assistance of specialist advisors available in the Treasury and Audit Office. Your Committee are of the opinion that all departments instituting or seeking significant amendments to the form of financial statements should obviate possible error or criticism by seeking endorsement of their proposals by the Treasury. The fact that the Department's change in the form of presentation of accounts was overlooked by the Treasury was surprising to Your Committee. Corrections as requested by the Auditor-General should be acted on with much more alacrity and, whilst noting that follow-up action is in hand by the Treasury, Your Committee express the firm hope that action will be completed before the next financial statement is submitted.

(d) Parks and Gardens Section, Canberra.

29. Paragraph 194 of the Auditor-General's Report, 1962/63, contained the following comment:-

"A recent Audit examination of revenue, expenditure, stores, costing and accounting of the Parks and Gardens Section disclosed defects in the internal procedures and controls. Instances came under notice of delays in raising charges, failure to raise charges and lack of systematic recovery procedures are evident, in respect of recoverable maintenance services.

Except for recoverable work estimated to cost more than £200, there is no system of detailed costing; consequently, no proper basis exists for the review of estimates and costs of all work performed.

No adequate form of register of assets has been established and maintained for building, &c. under the control of the Parks and Gardens Section.

The above matters were referred to the Department for attention and I have been informed that departmental action and investigation is in course to improve the accounting and to provide more effective control."

30. The Department admitted its continuing concern at the matters raised by the Auditor-General but stated that they had not been overlooked. The difficulties have arisen largely out of the accelerated development of Canberra in recent years with its

consequent increase in areas of developed parkland. Staff limitations had not allowed supervision, management and accounting facilities to be expanded commensurately. Because of a lack of clerical ability at the field level where charges are initiated, direct costing methods have proved difficult to implement. Those difficulties led to the introduction of a system of unit costs, as an interim measure. Steps have been taken to strengthen the staffing of the Finance Branch of the Department and priority will be given to the investigation of costing, revenue and other accounting procedures related to the Parks and Gardens Section. The Department maintains an inventory of Buildings (indicating size, location and types of construction) under the control of the Parks and Gardens Section.

Exhibit
No.66/1

31. We were informed by Mr. D. W. Shoobridge, Director of Parks and Gardens, Department of the Interior, that the area of parks and gardens under the control of his Section is currently in the region of 2,500 acres. The area had probably trebled in the past five years, 1,100 acres having been added in the last financial year alone.

Q's 86
to 90

32. Mr. Shoobridge explained that the bulk of expenditure recoverable under Division 766/3/01 was in respect of developmental work carried out by the Section on behalf of the National Capital Development Commission:-

"(Mr. Shoobridge) This, of course, is primarily development expenditure initiated by the National Capital Development Commission, which has the financial obligation for the development of Canberra. We are purely concerned with the maintenance expenditure plus a small item of £60,000 or £70,000 for specific development. All expenditure on development, and this amounted to £350,000 in the year under review, is recoverable before 30th June and shows as an expenditure against the Commission's funds as at 30th June. There is none carried through from 30th June. Our accounts with the Commission are balanced prior to 30th June."

Q.96

33. The Treasury observer, Mr. S. G. Herring, Chief Finance Officer, commented on the absence of a notation against Division 766/3/01 to indicate that amounts recovered may be credited to this appropriation:-

"(Mr. Herring) It is often customary to have a note in some parts of the Estimates that amounts recovered may be credited to the appropriation. I do not know why in this case there is not a note against Division No. 766/3/01, but there is authority for recoveries during the financial year to be credited to expenditure. That authority is in the Audit Act. I cannot explain why that note is not here at the moment, but this general question of reductions in the Estimates is one to which Mr. Hewitt referred the other day in discussions with the Committee when he said we are having a much closer look at this all round. I will make a note of this Division

Q.97

and Item number to see that this is covered in the general review we have of this matter."

34. With reference to the stated lack of an adequate form of register of assets further information was sought from the Audit observer, Mr. S. A. Huntley, Senior Inspector. We were informed:-

"(Mr. Huntley).....It is just that they do not record everything. For example, there is no adequate record of the watering systems at the Yarralumla Nursery. We do not say there is no record; we maintain that there is no adequate record. There is no asset register from which you may check to see that everything purchased of an asset nature has been brought to account against the Parks and Gardens Section."

Q.104

35. Having regard to the accelerated development of Canberra in recent years and the need for the Parks and Gardens Section to keep pace with that expansion, Your Committee find it difficult to understand why action was not taken at an earlier date to provide adequate accounting facilities and to revise existing accounting procedures. It is particularly difficult for us to appreciate the apparent inability of the Department to expand a register of assets even in times of rapid development. We accept the Department's assurances that the costing, revenue and other accounting procedures related to the activities of the Parks and Gardens Section will now be given priority in a programme of investigation and revision and we hope that the Auditor-General will be able to report more favourably in future years.

(e) Furniture and Equipment in Public Schools.

36. In paragraph 196 of his Report for 1962/63 the Auditor-General stated:-

"Public schools in the Australian Capital Territory and the Canberra Technical College are, by arrangement, staffed and administered by officers of the New South Wales Department of Education. Expenditure on services rendered by that State is charged to Division No. 766-5, Items 07 and 08.

The provision of furniture and equipment is met from Division No. 980, Item 03, and the Department of the Interior is responsible for the stocktaking of such assets. It was mentioned in my Report for 1961/62 that stocktakings had not been effected for several years.

During 1962/63 the Department commenced stocktakings and the keeping of accounting records of furniture and equipment based on procedures observed by the New South Wales Department of Education. However, Audit review of the inventories and related accounts prepared to date disclosed a number of defects, including inadequacies in the identification of equipment, location descriptions and omissions in recording of items. These matters were referred to the Department.

The Treasury has informed the Department that rules for the accounting, management and control of the stores in question should be prepared and submitted for Treasury concurrence; further, as it appears that reconciliation with former records will not be possible, it will be necessary for Treasury approval to be given for the stocktaking results to be used as a basis for future stores recording."

37. In a written submission to Your Committee the Department of the Interior stated:-

".....

Following full and careful consideration of all aspects the Department has concluded that the full procedures for the control of furniture and equipment in the many public schools in New South Wales as laid down by the N.S.W. Department of Education and accepted by the State Auditor-General and State Treasury should be adequate for the comparatively few schools in the Territory.

The procedures laid down by the State Department are dealt with fully in the Handbook of Instructions available to all members of the teaching staffs of the schools. Exhibit No.66/1

This Department is in no position to instruct the N.S.W. teaching staff to carry out any additional duties.

In a memorandum dated 13th August, 1963, the Department of the Treasury was approached for approval to accept in toto the procedures for the control of furniture and equipment in A.C.T. schools as laid down in the N.S.W. Education Department Handbook of Instructions.

The Department of the Treasury has since been supplied with a copy of the Handbook of Instructions and is currently considering the matter."

38. Further clarification was sought from departmental witness regarding the difference between the procedures laid down by the New South Wales Education Department and those required by Commonwealth authorities. We were advised by Mr. J. Sharpe, Officer-in-Charge, Education Section, Department of the Interior:-

"(Mr. Sharpe) New South Wales introduced a system of plant registers which were simply a matter of local control. The registers were compiled to record equipment supplied to the school, equipment donated by parents and citizens associations and equipment obtained from any other source. We in Canberra followed suit and introduced plant registers. At present they are in use in all schools but one phase of the New South Wales system is different from Commonwealth requirements - there are no ledgers. Head Office controls ledgers. The plant control registers are kept at the schools and they are inspected

Q.114

by the visiting district inspectors. Notations are made by the principal of the school as he receives the equipment and they are test checked. Under the New South Wales system a handbook is distributed to every teacher which we must assume has been passed by the State Treasury and the State Auditor-General relating to the control and management of stores in all New South Wales schools. We understand that the handbook issued by the New South Wales Department of Education is the teachers' bible as far as stores management and control is concerned."

39. Mr. Sharpe stated that if the Commonwealth system of controls was introduced functions which at present are carried out by school staff would then be performed by Commonwealth staff made available by the Public Service Board. Q's 124 to 126

40. In reply to questions Mr. Sharpe disclosed that a start was made on the compilation of plant registers in August, 1962, and that no records of this kind were maintained prior to that date. Q's 136 & 137

41. It is a matter of considerable concern to Your Committee that stocktaking inadequacies which were referred to by the Auditor-General as far back as his 1961/62 Report should again be the subject of adverse comment. We note that the Department has recently approached Treasury with a view to obtaining approval to proposed procedures and trust that the matter will be brought to a satisfactory conclusion sufficiently soon to avoid further comment by the Auditor-General in 1963/64.

CHAPTER III - DEPARTMENT OF TERRITORIES

(a) Sundry Debtors

42. Paragraph 184 of the Auditor-General's Report for 1962/63 contained the following comment in respect of Sundry Debtors in the Northern Territory:-

"As at 30th June, 1963, outstanding accounts totalled £156,524 (£152,702 at 30th June, 1962), being mainly for electricity supplies (£103,951), water supplies (£13,530) and sanitation services (£9,883). The Administration is conscious of the need to reduce the outstandings and action is continuing."

43. We were informed by the Department that debits raised during the month of June, 1963, included £101,337 for electricity and £17,764 for water supplied. The amount outstanding in respect of electricity charges raised in April and May, 1963, was less than £3,000. The only large outstanding electricity account was one for £14,000 which has been outstanding for a number of years but negotiations are proceeding to liquidate this debt by the purchase of power lines owned by the debtor and required by the Administration. The amount outstanding for water was slightly higher than normal, due to the fact that the rate had not been declared. Exhibit No.66/2

until December which did not allow sufficient time for billing and completion of recovery action prior to the close of the financial year. The amount outstanding for sewerage services appeared high but the respective Ordinance does not allow recovery action to be taken until six months after the charges are raised. Miscellaneous debtors included approximately £5,000 advanced under the Mining Ordinance by way of assistance to miners which is repayable from the proceeds of mining ventures. Referring to action taken by the Department for the recovery of outstanding accounts it was stated that:-

"The Administration by a rigid policy of disconnection of electricity and water for non payment of accounts has maintained the outstanding accounts for these utilities as low as possible and the bad debts at a negligible amount. This policy is being continued despite constant criticism from the local press and pressure from the elected members of the Legislative Council."

Exhibit
No.66/2

44. The departmental witness, Mr. L. L. Gillespie, Assistant Administrator, Northern Territory Administration, pointed out that the amount outstanding in respect of electricity was approximately equal to one month's charges only. He did not consider this to be unreasonable as the normal process of recovery, prior to recovery, extended over three or four weeks. Mr. Gillespie stated that, in Darwin alone, approximately 2,000 consumers are serviced with electricity and that very few of the outstanding accounts exceed £200 or £300, the bulk of the outstandings being comprised of small accounts.

Q.153

Q's 170
& 175

45. Mr. Gillespie referred to the fact that the water rate had been declared somewhat later than normal, and stated:-

"(Mr. Gillespie) A recommendation has to be made by the Administration to the Administrator's Council. I cannot recall clearly but I have an idea that the recommendation was made at one meeting of the Council and I think the Council deferred the matter until the next meeting, which did cause some delay. I think the Administration might have been a little late in making its recommendation in the first place."

Q.178

The rate is normally declared about October.

Q.180.

46. We were informed that recovery action in respect of sewerage and garbage services accounts is not as straight-forward as in the case of electricity and water charges. Because of the possible implications for public health, it was not always possible to act promptly to discontinue these services. This appeared to be the main reason for the larger amounts outstanding.

Q.203

47. Referring to the advances under the Mining Ordinance, Mr. Gillespie stated that this is a means of assisting small operators and encouraging mining in the Territory. There appeared to be not much chance of non-recovery of advances because the

Q's 190
to 192

advances are payable only against ore produced. Advances are repaid upon sale of the ore.

48. Your Committee note that the Department appears to be taking appropriate action to reduce the amount of outstanding accounts and trust that the Auditor-General's Report for 1963/64 will reflect the success of this action.

(b) Assets and Property Register.

49. Paragraph 184 of the Auditor-General's Report, 1962/63, also contained the following comment:-

"The implementation and maintenance of an Assets and Property Register has been the subject of correspondence with Northern Territory Administration for a considerable period. Although certain departmental action has been taken and is continuing, the Register, at 30th June, 1963, was not complete or accurate."

50. The Department indicated the problems involved in the maintenance of the Register and referred to action which is being taken to overcome them:-

"The problem that exists arises from the fact that over a long period the Assets and Property Register fell seriously into arrears and because of the time lapse it is now a difficult task to compile a complete list of assets and property. In particular it is difficult to establish the cost of buildings completed many years ago as some of the earlier records are not easily located."

Exhibit
No.66/2

Another difficulty that has confronted the Branch which is responsible for keeping the Assets and Property Register is the inadequacy of the existing staff to cope with the task of overtaking arrears which accumulated over a period of many years.

Steps have been taken to improve the staffing position and a proposal for increased staffing is at present under consideration by the Public Service Board.

The Assets and Property Register is estimated to be approximately 50% to 60% complete at present, and every effort is being made to overtake the arrears. The existing procedure is being reviewed and it is expected that when the arrears are overtaken a procedure will be implemented which will avoid further difficulty."

51. Mr. Gillespie informed us that the Register had been in arrears for many years; there was some doubt whether it had ever been up to date. The unsatisfactory state of the Register had first been brought to notice about eighteen months ago as the result of an Audit query. Q's 209 & 210

52. The witness was questioned on steps that had been taken to secure staff to carry out the necessary

work. We were informed:-

"(Mr. Gillespie) We made application to the Public Service Board for a temporary position, to tackle this work on the Assets and Property Register. The application was approved by the Board and the position has been filled. More recently we asked for permanent provision to be made for this work and that application is under consideration. However, that is not holding up the work because we have the temporary position, which has been filled," Q.215

53. Mr. Gillespie stated that there was no problem so far as current entries are concerned as the information is available. However, some of the buildings were constructed many years ago and, in respect of these, the cost and other details were not always readily available. Asked whether, in his opinion, it would be possible to compile the Register which would be in accordance with the requirements of existing Treasury Regulations, Mr. Gillespie replied:- Q's 211 & 216

"(Mr. Gillespie) I think it is possible to compile a reasonably accurate Register of Assets; but I do not think that we will ever get to the stage of being absolutely 100 per cent. accurate, because of missing records in relation to the past. But it is possible to compile a reasonable Register. Even if we only make a complete list of the buildings that we own and put an assessed value on those for which we cannot find the actual cost, that would virtually serve the purpose." Q.227

54. The Audit observer, Mr. A. K. Ragless, commented on the position:-

"(Mr. Ragless).....This matter is a long standing one and a very difficult one. Audit appreciated the problems that are involved in this, where information is required in relation to outlying properties and, in many cases, records going back many years. We feel that the Administration is tackling the problems to the best of its resources." Q.217

55. The Treasury observer, Mr. Herring, informed us that until the comment appeared in the Auditor-General's Report for 1962/63 Treasury had been unaware of the position. Treasury had given instructions on the Asset Register and there was no suggestion that the instructions had not been complied with. However, the recording of extras in the register had fallen into arrears. Q.218

56. Your Committee accept the Department's assurance that steps are being taken to attend to the unsatisfactory features referred to by the Auditor-General. We trust that effective progress will be made in this matter in the course of the current financial year.

(c) Construction of Dwellings Financed from Capital Works and Services Vote.

57. Paragraph 184 of the Auditor-General's Report 1962/63 contained the following comment in respect of repairs and maintenance of rented dwellings owned by the Commonwealth:-

"In 1962/63 £532,014 was expended from Division No. 975, Item 01, on this form of assistance (£593,127 in 1961/62).

Comparative figures are -

	1962/63	1961/62
Number of Tenants	1,273	1,180
Rentals received	£196,636	£172,020
Expenditure on major repairs and maintenance to Commonwealth dwellings ..	£75,118	£82,157
Number of former tenants purchasing houses	97	79
Principal and interest owing to the Commonwealth ..	£528,892	£438,150

The delay in effecting necessary repairs and maintenance to rented dwellings has been mentioned in previous Reports. Audit has been informed by the Administrator that due primarily to the failure to secure an increased appropriation for repairs and maintenance of rented dwellings the five year maintenance programme referred to in my 1961/62 Report did not commence in 1962/63. The estimated cost of overdue repairs and maintenance is substantial."

58. In a written statement submitted by the Department of Territories we were informed that construction and maintenance of dwellings owned by the Administration is carried out by the Department of Works. The Works Department estimated that arrears of maintenance work outstanding would cost about £215,000, and that the amounts required annually to overtake the arrears of work were £127,500 in 1963/64, £72,500 in 1964/65 and £15,000 in 1965/66. Additional provision would, of course, have to be made for "current maintenance" as required. An amount of £186,000 was appropriated for maintenance work in 1962/63 and £183,947 of that amount had been expended. Of the total maintenance expenditure of £183,947, approximately £75,000 related to arrears of maintenance.

Exhibit
No.66/2

59. Mr. Gillespie clarified the respective roles of the Department of Works and the Northern Territory Administration. The Administration relies upon the Department of Works to indicate what maintenance is required and it is then Territories' responsibility to submit the programme to Treasury. Referring to the

Q.239

amounts appropriated for this purpose in recent years, Mr. Gillespie stated that he regarded the appropriations to be adequate to cope with a normal year's maintenance but insufficient to bring arrears up to date. Mr. Gillespie told of negotiations which had taken place between officers of the various interested Departments with a view to overtaking the arrears:- Q.244

"(Mr. Gillespie).....This was discussed at some length. Some two years ago a full assessment was made by an investigation officer from head office of the Department of Works as to how we could cope with the arrears, and as to maintenance costs generally. At the time it was considered that the cost of maintenance in Darwin was too high. Unfortunately, progress has been a little slower than we had hoped in implementing the recommendations of that report, but I confidently expect that next financial year we will be able to make some inroads on arrears." Q.251

Action has been taken to reduce the cost of maintenance. The cost of painting a house externally had now been standardised at £200 compared with estimates of up to £600 which were submitted some years ago. The cost of frequent replacement of wooden stairs had been up to £300 but these are now being replaced with metal treads which have a far greater life expectancy. Q.302 Q.309

60. The Treasury observer, Mr. J. Hunter, Chief Finance Officer, informed Your Committee that Treasury had taken part in discussions which had been held in recent years and was co-operating in the efforts of the Departments of Territories and Works:-

"(Mr. Hunter) We have taken part in these discussions over the last three years. In fact, I think we can claim some small part in initiating them. We are fully aware of what is going on. This year, we have provided the precise amount for overcoming arrears of maintenance that the Department of Works requested." Q.254

and

"(Mr. Hunter) We believe the system now proposed should go a long way towards meeting existing difficulties, overcoming arrears of maintenance within two or three years, and providing an adequate amount for day to day and specific maintenance." Q.259

61. Mr. Hunter sought leave to point out that it was not strictly correct to say that the Treasury determines the amount of money to be made available - the actual appropriation being a matter for determination by the Government. Q.313

62. Your Committee share the Auditor-General's concern at the lack of progress in overtaking the arrears of maintenance. Adequate and timely maintenance is essential to the protection and

preservation of Commonwealth property. We appreciate the difficulties which have confronted the relevant Departments in the implementation of the proposed five-year maintenance programme and are particularly concerned that efforts should be continued with a view to keeping maintenance cost within reasonable limits. We trust that the combined efforts of the Departments of Works, Territories and the Treasury will result in a more favourable Report from the Auditor-General in 1963/64.

CHAPTER IV - DEPARTMENT OF SUPPLY.

(a) Accounting for Clothing Factory and engine Works Activities

¶3. Referring to the production undertakings of the Department of Supply, the Auditor-General commented in paragraph 149 of his 1962/63 Report:-

"The Engine Works, Port Melbourne and the Clothing Factory, South Melbourne operate on a commercial basis and budget for recovery of full production costs. During the year the closing date for the financial statements of all factories was changed from 30th June to 31st May. Results of operations of these two factories, as disclosed by the financial statements for the period 1st July, 1962, to 31st May, 1963, were -

Clothing Factory - Profit £62,601
(1961/62 £148,090 profit).

Engine Works - Loss £176,020
(1961/62 £63,573 loss).

It was observed that the profits of the Clothing Factory for 1961/62 (£148,090) represented 8 per cent. of manufacturing cost. This compared with profits of £123,525 (8 per cent.) in 1960/61 and £51,180 (3 per cent.) in 1959/60. Portion of the 1960/61 and 1961/62 profits were used to finance increased stock-holdings.

Audit expressed the view to the Department that, although exact recovery of costs could not be expected, the profit margin should be kept to a minimum and the benefit of lower prices passed on to other departments. It was also contended that surplus funds in the Trust Account arising from profits should be paid to Revenue and funds for any additional working capital required, unless of a temporary nature, obtained by appropriation.

The Department has agreed to review its price list and has reduced the stocks held by the factory. It has approached Treasury for a permanent addition to working capital by way of appropriation to enable the payment to Revenue of accumulated profits and to meet the needs of expanded production."

64. The Department, in a written submission, claimed that it should budget for a small profit even though such profit is paid to Revenue, as a profit target was an incentive to more efficient production. To this end price lists had been amended at the close of the 1961/62 financial year and prices for the year 1962/63 had been reduced. The profit of £62,601 in 1962/63 represented 3.6% on the recorded value of garments produced (£1,736,000). Price lists were again amended downwards for application in 1963/64, despite higher costs. Referring to the retention of profits, the Department stated that in the years 1959/60 to 1962/63 accumulated profits totalled £385,497 and in the same period £401,801 was repaid to Revenue.

Exhibit
No.66/4

65. Mr. J. J. Delany, Manager, Commonwealth Clothing Factory, explained that, as prices are set at the commencement of the financial year, the eventual profit is dependent upon factors which arise during the course of the year:-

"(Mr. Delany).....The finance people concerned with all our customer departments expect from us a firm price to be given them for all our commodities on 1st July every year.....On 1st July we send out price lists to all customer departments fixing a firm price for that year. Any efficiency we make during that year becomes profit. Over the years, I have expected at least to improve our efficiency by 2 per cent. each year, but at the beginning of the year I cannot guarantee that. So we budget on what we have actually done."

Q.322

66. Mr. Delany mentioned the factors which had influenced profits during the past three years:-

"(Mr. Delany) Taking the three years back, in the two years in question where excessive profit appears to have been made, they were quite big increases (in turnover). We increased our staff by 100 to 150 in the year, and as there were a lot of orders, we worked considerable overtime. By the same token, our expenses did not increase to the same extent. This was reflected in our overhead which dropped by something like 7 per cent, and this automatically influenced our profit. Also, in those two years we had quite a quantity of material which had been procured through disposals. Circumstances came about which enabled us to use that material on unexpected orders and this also resulted in a profit from raw material from which we normally did not benefit."

Q.325

67. The Clothing Factory had always aimed at a profit margin of between 2 and 3 per cent. and, except in the two years 1960/61 and 1961/62, which were subject to the abnormal factors mentioned above, profits have in fact been between 1½ per cent. and 3 per cent.

Q.328

68. The Audit observer, Mr. A. K. Ragless, indicated that the Audit comment had been directed at the profits of 8 per cent. in 1960/61 and 1961/62 rather than that of 3 per cent. in 1962/63. He added that the profit

ratio was not the main object of the comment in the Auditor-General's Report which was mainly concerned with the retention of profits within the accounts. Q's 315 & 316

69. The Treasury observer, Mr. A. J. Pond, Chief Finance Officer, stated that the retention of funds in the account was a matter of concern to Treasury also:-

"(Mr. Pond)...Treasury is concerned at any accumulation of profits and asked the Department as late as June to ensure that accumulated profits were repaid to Revenue. I think that £180,000 of the accumulated profits was paid to Revenue, leaving something of the order of £60,000 still in the trust account. I think that we have repeated the request this year that this amount be repaid to Revenue." Q.386

70. We were informed by Mr. Delany that in the month of June the balance of the trust account reaches its highest level for the year:-

"(Mr. Delany)...By 30th June, our trust account is at the highest level for any period of the year. From then on, as we deliver goods there are very minor payments made against the orders because we may have received up to 70 per cent. of the value of the balance still to be paid because that is in raw material which we have already purchased and put into production." Q.378

71. The witness declared that any additional working capital which was required was obtained by way of appropriation. Action has been taken in the current year's Estimates to obtain an appropriation of £100,000 to make a permanent increase in its working capital. Q.384

72. We are satisfied that the rate of profit which attracted comment by the Auditor-General was due to the unusual circumstances reported by the Department. The retention in the trust fund of portion of the annual profits does, however, disregard the usual governmental procedure. As the Audit Office has indicated, surplus funds should be paid to revenue and any increase in working capital obtained by further appropriation of funds, unless of a temporary nature. Your Committee believe that in this particular case Treasury should resolve the amount for transfer to revenue, in consultation with the Department.

(b) Costs of Maintaining Capacity of Factories.

73. In paragraph 149 of his 1962/63 Report the Auditor-General also commented:-

"Unrecovered overhead costs and other costs involved in maintaining the capacity of factories to meet war production are recouped from the appropriation, Division No. 562 - Government Factories - Maintenance of Production Capacity. In 1962/63 expenditure related to production undertakings from Division No. 562 was £1,358,906 (£1,314,639 in 1961/62).

Audit examination of payments to Trust Accounts from Division No. 562 and 576 disclosed that, in some instances, in 1961/62 the payments exceeded the actual expenditure from the Trust Accounts,

the result being that moneys were carried over to the financial year 1962/63 which otherwise would have formed part of the unexpended appropriations as at 30th June, 1962. The matter was represented to the Department and corrective action was taken in 1962/63 to adjust the excess payments."

74. We were informed by the Department that funds are made available to the establishments on orders raised by the Central Administration. The orders state that funds lapse at the end of the financial year. Departmental accounting instructions require that claims raised against these orders should be for actual expenditure only, except that in the final accounting period of the year claims are raised for estimated expenditure and an adjusting entry is made in the following period.

Exhibit
No.66/4

75. When Commonwealth Audit and Departmental Internal Audit examiners reported that some establishments were crediting their Factory Trust Accounts with the full amount of funds provided without proper regard to expenditure, appropriate departmental action was taken. For example, at the end of the financial year 1962/63 claims were lodged only for expenditure incurred to that date, additional instructions were issued to establishments emphasizing their responsibilities, and Internal Audit was directed to give particular attention to the matter in this and subsequent years.

76. Mr. D. J. O'Connor, Assistant Secretary (Finance), Department of Supply, informed Your Committee that about six factories were concerned in the Audit comment which related to funds of approximately £50,000 from Division No. 576 and about £20,000 from Division No. 562. The Department had recently recruited a team of officers who had set up a centralised internal audit organisation but, as this team had not been long in existence, the subject of the query had apparently been brought to light by a Commonwealth Audit examination.

Q.394

Q.398

77. The Treasury observer, Mr. Pond, indicated that there is no provision for a check of expenditure by Treasury officers prior to the issue of Warrant Authorities for the following quarter. A Treasury officer may, in his own wisdom, query payments but it was generally considered Commonwealth Audit and Internal Audit examinations were sufficient safeguards.

Q.400
& 401

78. Your Committee agree that audit staffs should provide an adequate safeguard against payment of Commonwealth funds in excess of amounts properly approved. The responsibility for seeing that departmental procedures relating to the appropriation of funds must, of necessity, rest heavily and at least initially on the Department's own system of internal audit. We note that steps have been taken to recruit a qualified and effective internal audit staff and that additional instructions have been issued to establishments regarding their responsibilities in the matter. We trust that these combined measures will prove to be adequate in preventing a repetition of the irregular events referred to by the Auditor-General.

CHAPTER V - COMMONWEALTH STORES SUPPLY AND TENDER BOARD

79. Questions relating to the Board's constitution and related instructions have been the subject of comment by the Auditor-General in his various annual Reports for a number of years past. The Auditor-General's Reports for 1960/61 and for 1961/62 referred to the comments made in the 1959/60 Report of the Auditor-General which, inter alia, stated in paragraph 48:-

"The Commonwealth Stores Supply and Tender Board was created by Government direction in 1918, and its constitution was notified in the Commonwealth Gazette of 5th December, 1918.

The constitution provided for the creation of Local Boards in States other than Victoria. A Local Board was established in New South Wales in 1919; in the other States the Tender Boards of the Postmaster-General's Department carry out the functions of the Commonwealth Stores Supply and Tender Board.

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1960.

Under present Treasury Instructions, the Board is responsible for the purchase of all stores, including office machines, in general use throughout departments and for the printing requirements of departments which cannot be satisfied by the Government Printer or a State Government Printer.

The constitution and functions of the Board have been under review by the Department of the Treasury since 1956, together with the question of purchasing by the Board and separate purchasing by departments."

80. In paragraph 44 of his 1962/63 Report the Auditor-General made the following comment:-

"Mention was made in my 1961/62 Report of correspondence with the Board concerning the need for revision of the Board's constitution and related instructions. Audit views on the matters requiring revision were furnished to the Board in July, 1962. In reply the Treasury recently advised that when the present backlog of work is overtaken, the Board will proceed with a review of its Constitution. However, at present, certain accounting problems are being examined with a view to designing improved methods."

81. We received from the Department of Supply a written statement on this matter which included the following comment:-

"The references in the Auditor-General's Reports for 1959/60 and 1960/61 to the contemplated review of the Constitution and functions of the Commonwealth Stores Supply and Tender Board were discussed with the Committee by the Chairman of the Board and the Chief Executive Officer in August, 1961.

Following the Committee's request at those discussions, the Chief Executive Officer forwarded to the Committee on 12th October, 1961, a statement giving details of the staff position in the Commonwealth Stores Supply and Tender Board over the previous four years. The statement was given in support of the views expressed to the Committee that the review of the Constitution, whilst desirable, must be deferred whilst the work of the Board was not up to date.

Exhibit
No.66/5

In the intervening period, persistent efforts have been made to obtain the requisite staff to meet satisfactorily the Board's obligations. Details of efforts to obtain staff, since the statement to the Committee in October, 1961, are contained in the attached statement.

Whilst there has been an improvement in the routine work position over the past five months, this does not mean that the Board is satisfying all its obligations in the field of stores procurement. But, if this improvement continues it will then be possible, as notified to the Audit Office in the Board's memoranda of 30th April, 1959 and 3rd April, 1962, to examine requirements antecedent to the review of the Constitution, viz., a review of the Board's wider functions and responsibilities....."

82. On 8th May, 1962, the Department sought from the Audit Office details of particular concern about the constitution of the Board. In reply the Secretary and Chief Auditor mentioned a number of instances of the need to consider revision of the Constitution of the Board. The Department undertook to take these matters into consideration when the constitution is being revised. The Department supplied Your Committee with a very detailed summary of action which had been taken during the past three years in an effort to bring the Board's staff up to current requirements.

83. The Chief Executive Officer of the Commonwealth Stores Supply and Tender Board, Mr. F. R. McNamara, appeared before Your Committee and indicated that he was in accord with the Audit view that the Board's Constitution was in need of revision. Mr. McNamara went on to say:-

Q.413

"(Mr. McNamara).....Up to date, there has been no attempt to review the Constitution. This was considered at the time of the Auditor-General's first Report. I think it was discussed at the Board. I was not associated with it at the time. I think a decision was taken that there were a number of anomalies which should be cleared up before we start to review the Constitution. Quite a number of departments were not buying their supplies through the Board. It was decided that a review should be made of all items which were being purchased by departments outside the Board to see whether the volume and the administrative cost involved were such that it would justify having all these items purchased through the

Q.415

Board. A report was made to the Board containing quite a number of items which it was suggested should now be purchased through the Tender Board. Another category was where it was considered that departments should not obtain their supplies through the Board but through the major user. For instance, quite a lot of departments buy builders' hardware and it was suggested that those departments should obtain their supplies against contracts arranged by the Department of Works, which was the major user of that type of equipment. It was suggested that departments requiring certain drugs should buy against the Department of Health contracts....."

84. The Audit observer, Mr. A. K. Ragless, commented on the deficiencies in the Constitution and the delays which had been encountered in attempting to rectify them:-

"(Mr. Ragless) The matter is one which has been long outstanding. It was first raised by the Audit Office in about June, 1958. The reasons given, as stated by the witness, largely concern staffing problems. The points listed in regard to deficiencies in the Constitution, I think, were in themselves only indicative of the fact that the whole set-up is somewhat out of date. It was laid down in 1918 and has had only one minor amendment since. The present instructions are somewhat fragmentary. I understand that the basis of them was laid down in 1932. They have been supplemented by certain subsidiary instructions. We feel that there is a need for consolidation of the instructions as well as a need for revision of the Constitution."

Q.422

85. The Public Service observer, Mr. F. C. Nordeck, expressed the view that, from a study of the relevant papers, the staffing situation had apparently now been met to the satisfaction of the Tender Board.

86. Mr. McNamara, for the Tender Board, confirmed this opinion:-

"(Mr. McNamara).....At the moment we have all positions filled, except two vital ones which are examiners. In this case, the Public Service Board did not give us the classifications we thought were necessary. We advertised the positions and did not get anybody suitable, but at the Board's instigation, we advertised a second time and were able to select two very suitable candidates. So the classification has proved to be adequate to get occupants for the job. Generally speaking, the staffing position of the Stores Supply and Tender Board is quite satisfactory and the work is up to date for the first time for a long period."

87. Whilst the way had now been cleared for a review of the Constitution and related instructions, Mr. McNamara pointed out that some major problems could be expected to be encountered in the course of such a review. The constitution as laid down in 1918 would be found to conflict with certain statutory authorities.

For example, the constitution set down that nobody has authority to purchase anything except with the Board's approval. The Supply and Development Act, on the other hand, imposes the full responsibility for purchasing for the defence group on the Contract Board of the Department of Supply. When the revision is commenced the repercussions are likely to be fairly widespread. This was one of the considerations which had influenced the Board to defer consideration of a review until a more opportune time.

Q.424

88. Your Committee are not satisfied that reasonable steps have been taken to meet the Auditor-General's repeated criticisms and we intend to direct our efforts towards an early review of the existing position in relation to the points raised by him.

PART II

Supplementary Report of the Auditor-General, 1962/63

Chapter VI - Department of Trade.

89. In paragraph 13 of his Supplementary Report for the financial year 1962/63 the Auditor-General commented:-

"Audit representations were made during the year to the Department of Trade concerning defects noted in the financial controls exercised by that Department over the receipt and expenditure of public moneys.

The principal unsatisfactory features related to -

- (a) the lack of supporting documents and the inadequate examination of vouchers relating to expenditure incurred and revenue received at overseas posts;
- (b) the recording and adjustment of temporary advances;
- (c) the reconciliation of amounts paid from Special Appropriations with related amounts of revenue collections; and
- (d) the recording and recovery of debts due to the Department.

Concern was also expressed by Audit during the year at the continued employment of the internal auditor on other duties and the consequent cessation of internal audit checks as prescribed.

The Department has advised of action taken or proposed to remedy most of the defects brought to notice by Audit, and a recent review indicated improvement in several features of the accounting. The unsatisfactory position was attributed by the Department largely to staffing difficulties. Pending completion of a departmental investigation into staffing requirements, the Public Service Board provided temporary assistance."

90. The Department claimed that the unsatisfactory features referred to were "largely attributable to the increased work-load imposed on the Accounts Section as a result of the increased activities of the Department.". Accounting machine breakdowns had aggravated the position and an unusually high rate of staff turnover had, at times, necessitated the employment of inexperienced staff.

Exhibit
No.66/6

(a) Accounting at Overseas Posts.

91. Referring to the lack of supporting documents for vouchers received from overseas posts and the inadequate examination of those vouchers in the Canberra office, the departmental witness, Mr. D. O. Dickinson, Director, Establishments and Finance, stated that the unsatisfactory features had been brought to the Department's attention by Audit late in 1962.

Q.445

92. We were informed by Mr. Dickinson that a weakness in accounting procedures had been revealed both at overseas posts and in the Department's central office. In some instances Trade Commissioners who had been recruited from outside the Public Service and who possessed little knowledge of Public Service procedures had been appointed to overseas posts without being adequately briefed. In these circumstances they were not fully equipped to ensure that locally engaged staff observed strictly the procedures laid down. Staff shortages in the central office resulted in insufficient attention being given to the examination of vouchers received from overseas posts and, as a result, unsatisfactory features of overseas accounting procedures had not been brought to notice within the Department.

Q.446

93. Evidence supported the Department's claim that, over a relatively short period of time, the activities of the Department had increased considerably, placing an additional work-load on the staff of the Accounts Section. Some months elapsed before it was possible to adjust staff numbers in the Accounts Section to cope with the additional work.

Q.448

94. Steps are being taken within the Department to ensure that accounting procedures at overseas posts are more rigidly observed. Detailed procedural instructions for the staff of Trade Commissioners are in the course of preparation and consideration is being given to the possible implementation of a training scheme for overseas examiners.

Exhibit
No.66/6

95. Your Committee are conscious of the staffing difficulties which a Department faces during periods of rapid expansion but are disturbed at the apparent breaking down of accepted standards of accountability for financial transactions at overseas posts. We note that steps are being taken to improve the training and instructions of officers engaged in this phase of the Department's activities and trust that these efforts will be reflected by more favourable comment on the part of the Auditor-General in future years.

(b) Temporary Advances.

96. Mr. Dickinson informed Your Committee that the Auditor-General's criticism related to temporary advances made to officers travelling overseas on short term tours or in connexion with conferences and to trade commissioners proceeding overseas on appointment. The officers concerned were generally of senior rank and difficulty had been experienced in obtaining vouchers from them to enable a reconciliation of their advances to be made. In some instances, before a reconciliation could be effected, reference had to be made to vouchers received monthly from overseas posts and, when these vouchers contained insufficient information, correspondence had to be entered into with the posts concerned. Until recently the Department's Sub-Accountant had been responsible for ensuring that temporary advances were acquitted within the prescribed time but, due to pressure of work, he had been unable to devote sufficient time to the task. Q.493 Q.498

97. The Treasury observer, Mr. S. G. Herring, Chief Finance Officer, advised that Treasury Regulation 77(2)(b) provides for the adjustment of these advances within seven days after completion of a journey in respect of which the advance was made. In cases where the regulation is found to be impracticable of achievement, application can be made to the Treasurer to have the time extended. Q.503

98. Mr. Dickinson claimed that the time allowed for acquittal of temporary advances was insufficient -

"(Mr. Dickinson) The Treasury Regulation provides, I think, that it should be done within seven days. This is an impossibility, with all due respect to the Treasury Regulation. If we have not the information we just cannot adjust the advance. If the information is overseas we cannot really fulfil the regulation." Q.501

99. In reply, Mr. Herring pointed out that the regulation provides for an extension of the period of seven days where good reason can be advanced in support of such an extension. Mr. Herring stated that in the light of experience to date, a case had not been established for variation of the seven days period as a general rule - Q.503

"(Mr. Herring).....The lag in adjustment of advances was brought to the notice of the Treasury by the Audit Office the year before last and, as a result of Treasury representations to us, we sent out a Treasury Circular drawing to the notice of departments the fact that the Audit Office had said that many advances were long outstanding. We drew attention to the provision of the regulation that each authorizing officer is required to see that advances are adjusted as soon as possible. Where advances have not been adjusted within the prescribed period, the circumstances should be advised by the authorizing officer to the chief officer, to enable appropriate action to be taken - for example, an approach to the Treasury to have the period for adjustment varied. I understand from our administration section that there has been

no response at all to the circular. So, in the absence of any representations by departments for a variation of that period, we have not seen the need to vary it."

100. The Audit observer, Mr. J. K. Lawrence, Secretary and Chief Auditor, expressed the view that a general laxity did not exist throughout the Public Service in regard to temporary advances but indicated that the Audit Office was aware of instances of laxity in departments other than Trade. Q.514

101. We were informed by Mr. K. P. Jorgensen, Finance Officer, Department of Trade, that the situation within the Department of Trade had improved since the Audit comment was made. An additional position had been created late in 1963 and a recoveries clerk appointed to handle such matters as the reconciliation of temporary advances. As a result, overseas travel claims were now normally cleared within two months at the outside. Q.507

102. Your Committee draw attention to the fact that Treasury Regulation 77(2)(b) specifies seven days for the adjustment of temporary advances, unless the Treasurer otherwise directs. Whilst it remains in this form, the Auditor-General is completely justified in adverse comment when the requirements of this Regulation are not observed. Notwithstanding the efforts of the Treasury to have this Regulation complied with, there is evidence of laxity. Your Committee express the belief that temporary advances should mean what the term indicates and recommend accordingly that specific instructions be sent from the Secretary to the Treasury to all departmental Chief Officers, pointing out that whilst this Regulation remains in its present form, it is to be observed implicitly.

(c) Special Appropriations.

103. Mr. Dickinson explained the necessity of a periodic reconciliation between amounts received and amounts paid from the Special Appropriations. The Commonwealth, through various departments, acts as a collecting agency for a number of levies and export charges. Acting on advice from the various collecting departments regarding amounts received, the Department of Trade then makes appropriate payments from Special Appropriations to such bodies as the Australian Dried Fruits Board and the Australian Dairy Produce Board. Q.529

104. Certain errors had occurred in connexion with advances from collecting departments and had not been adjusted until the end of the financial year when a full statement of collections was made available by the Treasury for reconciliation purposes. Following the Audit comment, the Department of Trade arranged for monthly collection statements to be made available by Treasury thus facilitating frequent reconciliations and, where appropriate, speedy adjustments. Q.529

105. Departmental witnesses advised that the Department became aware of the need for frequent reconciliations in June, 1963. Prior to the particular case being brought to notice by Audit, there had been no evidence of any large-scale errors occurring in payments. Q.532 & Q.533

106. The Audit observer, Mr. Lawrence, stated Q.535

that the Department had taken effective steps to correct the unsatisfactory position.

107. Your Committee are satisfied that the Department acted promptly and correctly to rectify the inadequate procedures which gave rise to the Auditor-General's criticism.

(d) Recording and Recovery of Debts.

108. The Departmental witness explained that the Department's failure to properly record and recover debts had been due to two factors - first, inadequate and inexperienced staff and, secondly, an increased work-load which had overtaxed the capacity of the machine accounting facilities. Because of the relatively small amount involved in the Sundry Debtors Ledger, priority had been given to other work within the Accounts Branch - work which had, of necessity, to be kept up-to-date to meet Treasury deadline. As a result, the sundry debtors' work had fallen into arrears. Action was taken within the Department to rectify the unsatisfactory position (a second accounting machine and machinist were sought) but, due to the impending transfer of some of the functions from the Department of Trade to the Treasury, this request was not acted upon. A second machinist was then employed on an overtime basis, thus alleviating the position but the greatly increased work-load at that time of the year prevented the work from being brought up-to-date.

Q's 554
& 570

109. Mr. Jorgensen estimated that the amount outstanding by way of Sundry Debtors would have totalled approximately £2,000, made up largely of small amounts ranging from 10/- to 30/-

Q. 556

110. We were informed that following the transfer of appropriation ledger accounting to the Treasury in July, 1963, and the appointment of a recoveries clerk, work on the Sundry Debtors' Ledger had been brought completely up-to-date. The ledger is now reconciled at frequent and regular intervals and there is good reason to believe that the present staff will be adequate to cope with the work.

Q's 554
& 560

111. Your Committee are satisfied with the explanations offered in this instance and trust that the Auditor-General will not again have cause to comment adversely on this aspect of the Department's operations.

(e) Internal Audit.

112. Mr. Dickinson stated that an officer appointed to the position of Internal Auditor in June, 1962, had not taken up those duties but had been employed instead on the examination of vouchers, an activity which had to be maintained in the interests of overall organisational efficiency. In the absence of an internal auditor, some internal checks had been instituted and carried out on an overtime basis. Difficulty had been experienced in recruiting a suitable officer to fill the vacant position of internal auditor but, after advertising the vacancy

Q's 587
& 590

Exhibit
No. 66/6

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Q's 587
& 590

Exhibit
No. 66/6

on four separate occasions, it appeared likely that an appointment would soon be made.

113. Your Committee appreciate the Department's staffing difficulties and would not question the wisdom of giving priority to the examination of vouchers. However, we believe that the attention of departments generally should be drawn to the necessity of maintaining the establishment of internal audit sections at full strength or as near to full strength as is reasonable in the circumstances. We shall give increasing attention to the operation and adequacy of internal audits wherever they exist and would expect departments to regard the function as one of paramount importance.

CHAPTER VII - DEPARTMENT OF PRIMARY INDUSTRY

114. In his Supplementary Report for the year ended 30th June, 1963, the Auditor-General commented in paragraph 39:-

" War Service Land Settlement.

During the year Audit discussed with the Department of Primary Industry the control exercised over financial assistance provided to the States of South Australia, Western Australia and Tasmania. Subsequently, necessary approval was obtained for substantial expenditure which had been incurred in excess of amounts previously authorized.

The Department also advised of other proposals which were designed to improve the supervision over the Commonwealth's interests under the scheme and intimated that it would explore with the States concerned the administrative difficulties, inherent in a scheme of this nature, which had contributed to the delay in approvals of expenditure. At the date of compiling this Report departmental action had not been concluded.

Audit also questioned the legality of crediting to the Loan Fund all repayments of advances when, in fact, certain of the advances being repaid had been made from the Consolidated Revenue Fund. The Department subsequently sought the view of the Treasury on the matter and was directed that, as from 1st July, 1963, all repayments associated with War Service Land Settlement advances are to be credited to appropriate sub-heads of Primary Industry Revenue."

(a) Expenditure in Excess of Amounts Authorized.

115. Under the States Grants (War Service Land Settlement) Act, 1952, moneys appropriated for the purpose of financial assistance to a State or States in connexion with war service land settlement are payable to the State or States in such amounts, and subject to such conditions, as the Minister determines. The Minister approves of moneys being made available to the

States up to the estimated cost of acquiring the land and developing the farms.

116. The Department explained that, on occasions, although it had been known that the approved estimates of cost for projects would be inadequate - due to such factors as increased costs and natural hazards - the practice had been adopted of not requiring the States to submit revised estimates of costs until expenditure on the particular project was nearing completion. All known factors affecting costs were then taken into account at the one time rather than making a series of revised estimates as variations became apparent. The departmental explanation continued:-

Exhibit
No.66/7

"Expenditure has, on occasions, exceeded approvals before further Ministerial authorizations have been obtained. This has occurred mainly because of the time required by the States for the preparation of reliable estimates, particularly in respect of large projects, and for examination by the Commonwealth of these estimates. Where, for any reason, it was not possible to correct this position promptly the Minister has been advised, usually orally, of the circumstances and his agreement obtained to money being made available to the States to allow the work to continue in the meantime."

117. In evidence, Mr. T. T. Colquhoun, Assistant Secretary, War Service Land Settlement Branch, stated that the payments in excess of authorization were largely incurred on Tasmanian projects - the major amount (£2,685,875) being incurred on Flinders Island in connexion with the Furneaux project. Mr. Colquhoun explained why costs on this project have exceeded the estimate by such a large amount:-

Q.622

"(Mr. Colquhoun).....Furneaux Island is one of the most outstanding examples of where a survey, taken on trust, has not been as effective as we would have liked. A considerable area of land was brought to the state of sowing down on that advice but, for the purpose of utilization by a farmer it was practically worthless and considerable cost was incurred in this field. Furneaux was approved at a very early stage so far as costs were concerned and I think the effect of costs on two factors was not recognised. One was the impact on inwards freight costs for heavy plant and materials, vast supplies of superphosphate, building materials and things of that nature. The second factor was the availability of suitable personnel under island conditions....."

118. When the excess costs became apparent the Minister was advised orally and had agreed that, provided the Department was satisfied that the area upon which further work was to be undertaken was of a suitable type, the work could be put in hand and eventually the approval sought for that work and the cost of the work.

Q.623

119. Commenting on the legality of the procedure of obtaining oral approval from the Minister, subject to

written approval at a later date, Mr. Colquhoun stated:-

"(Mr. Colquhoun) From my knowledge of the Audit Act, I would say that possibly it is not regular. I think it is a point where the practical implications of this particular class of expenditure by the government concerned must be taken into account. There would be a waste of considerable investment money if the funds were not made available at a particular phase and in view of the understanding of the Minister, if work were to cease you could get a certain phase in the development where, if you did not carry on with the work, you would be faced with a further cost just as great as had already been incurred....."

120. The Audit observer, Mr. Lawrence, expressed Audit's view of the procedure:-

Q.625

"(Mr. Lawrence) From our point of view no expenditure should be authorised or paid unless it has competent approval and our view was that there should be approval from the Minister. We have no evidence in relation to the authorization of certain payments mentioned by the witness."

121. We were informed by the Treasury observer, Mr. H. S. Amos, Chief Finance Officer, that in July, 1963, Treasury had made it clear to the Department that expenditure could not be regularly incurred in excess of the Minister's approval.

Q.627

122. The Department advised that:-

"As far as the future is concerned, it is confidently expected that necessary revised estimates will be submitted for Ministerial approval before any further expenditure occurs."

Exhibit
No.66/7

123. In this regard, Mr. Colquhoun stated that as a result of considerable correspondence and discussion with representatives of the relevant States it was now understood that any approach to the Commonwealth for extension of agreed estimates must be supported by adequate information.

Q.636

124. Your Committee are greatly concerned that the Department should adopt the procedure of making payments which were in excess of written Ministerial approvals and thus clearly in contradiction to the provisions of the Audit Act. We point out that even the most extenuating circumstances would not excuse disregard for legislative provisions. We note that the Department is confident that correct procedures will be adopted in the future.

(b) Repayment of Advances.

125. Referring to the Audit query regarding the legality of crediting to the Loan Fund all repayments of advances notwithstanding the fact that some of the advances have been made from the Consolidated Revenue Fund, the Treasury observer, Mr. Herring, explained that

it would have been impossible to distinguish between the repayments or proportion of repayments relating to each of the Loan Fund and the Consolidated Revenue Fund. Subsequent to the Audit query the practice had been reviewed by Treasury. Legal opinion had been obtained from the Attorney-General's Department and, accordingly, it had been agreed that all such moneys could and should be credited to Revenue.

Q.659

126. Mr. Colquhoun stated that the matter had been referred to his Department by Audit on 4th July, 1963. It had immediately been referred to Treasury for direction and, following receipt of Treasury direction, action was taken to credit all repayments to the Consolidated Revenue Fund.

Q's 661
& 662

127. The Audit observer, Mr. Lawrence, indicated that, subject to a check of the legal opinion referred to by Treasury, the Audit Office was satisfied with the procedure now being adopted.

Q.663

128. Your Committee commend the Departments of Primary Industry and the Treasury for the expeditious manner in which they acted to rectify the procedures questioned by the Auditor-General.

CHAPTER VIII - DEPARTMENT OF TERRITORIES.

(a) Business Undertakings and Public Utilities.

129. In paragraph 45 of his Supplementary Report for the year ended 30th June, 1963, the Auditor-General commented:-

"Paragraph 184 of my Report dated 15th August, 1963, mentioned that, if available, comment would be made in the Supplementary Report on the 1962/63 financial statements for the essential services, namely, Cold Stores, Electricity Supplies, Sewerage Services and Town Water Supplies. At the date of preparation of this Report, the financial statements were not available for audit."

130. The Department advised that financial statements for the Electricity Undertaking were submitted to Internal Audit in January, 1964, but errors in the assets register had been discovered and a complete review of them was necessary before the statements could be corrected. Prior to January difficulty had been experienced in reconciling revenue with the Sundry Debtors Ledger accounts. It was estimated that the statements would not be available to Audit for a further three months. The delay in finalising statements for the Water and Sewerage Services was due to the inability of the General Services Branch to supply details of assets. The basic problem was one of staffing and, in this regard, a submission for increased staff had recently been submitted to the Public Service Board. Here again a further delay of three months was likely before statements were ready for submission to Audit. Statements relating to Cold Stores activity were delayed by an increased work-load in the Costing Section but had been submitted to Audit on 10th March, 1964. The Public Service Board had recently been requested to provide three additional positions for the Costing Section.

Exhibit
No.66/8

131. Mr. C. E. Reseigh, Assistant Secretary (Social and General Services), Department of Territories, expressed the view that, in order to overcome inherent delays in the preparation of financial statements for the Electricity Undertaking, the staffing of the ledger section should be reviewed urgently in consultation with the Public Service Board. Present arrangements for staffing of the Northern Territory Administration provided for the Administration to deal directly with the Public Service Board - the Department being informed of action after it had been taken. Notwithstanding this the Department had suggested to the Administration that staff of the ledger section be taken up with the Board. Q.683

132. Referring to the various points of criticism raised by the Auditor-General in relation to accounting procedures in the Northern Territory Administration, Mr. W. H. Scott, Assistant Secretary (Finance and Economics), told of efforts being made by the Department to assist the Administration:- Q.710

"(Mr. Scott).....We realize that the Northern Territory Administration operates under a number of difficulties which are not experienced by departments in the normal Australian scene. We have come to the conclusion that occurrences of this kind will not be remedied unless some assistance is given by the Department to this body which is part of the Department, although it operates in an autonomous fashion. Accordingly we recently re-organized our Finance Branch and obtained from the Public Service Board some additional positions with the express intention of sending officers from the finance side to Darwin at frequent intervals to tackle these matters of unsatisfactory accounting, delays and other things which feature in the Auditor-General's report and which are, even if they do not feature, unsatisfactory in any event. Those additional people have not yet taken up duty in the department. There is always some delay in getting staff but already one visit has been made to Darwin by the officer in charge of the Finance Branch and a finance officer, who spent two weeks there recently tackling the problem of getting a background to the departmental estimates and additional estimates. We regarded this as being the first task of the department in providing assistance because unless estimates are accurate and properly controlled and unless expenditure is properly controlled, you will have nothing but chaos unless you are very lucky. These visits are planned to occur at least once a quarter. On different visits different weaknesses will be tackled.....We see our role as one of assistance without which we feel the Administration would be unable properly to attain satisfactory accounting and we intend to press ahead with this practical assistance throughout this year with the utmost vigour."

133. Your Committee are aware of many of the problems - particularly those relative to staffing - which confront the Northern Territory Administration. We are disturbed, however, by the persistent and, at times, greatly protracted delays in the submission of financial statements for Audit scrutiny. We note

that the Department of Territories has moved to provide expert guidance and assistance to the Administration in an effort to rectify the situation and we shall observe the results with very great interest.

(b) Housing Commission.

134. In paragraph 45 of his Supplementary Report, the Auditor-General commented also on the accounts of the Housing Commission:-

"At the time of compilation of this Report, financial statements for 1962/63 had not been submitted for audit. Statements for 1961/62 were received but have been returned to the Administration for amendment."

135. The Department advised that the financial statements for 1962/63 had not been submitted because the 1961/62 statements had not yet been accepted by Audit as being in a satisfactory form. The 1961/62 statements had been sent to and returned by Audit on five separate occasions. In April and again in May, 1963, they had been returned by Audit due to their not conforming with the format prescribed by the Treasurer. They were returned in July, 1963, because certain figures did not conform with those shown in the ledger. Due to a lack of suitable explanation on points raised by Audit, they were returned again in August, 1963. On 9th March, 1964, the statements were returned because the method of reflecting adjustments was unacceptable to Audit.

Exhibit
No.66/8

136. On 7th April, 1964, the Auditor-General reported to the Minister for Territories that the Housing Commission's financial statements for the financial year 1961/62 were in a form acceptable to Audit. The Audit observer, Mr. J. K. Lawrence, stated that, because of Audit's acceptance of the 1961/62 statements, he was hopeful that the statements for 1962/63 could now be presented in an acceptable form.

Q's 725
& 726

137. The departmental witness stated that the Administration had been at some disadvantage in preparing financial statements on the Housing Commission's activities. The Commission was quite recent in origin - having commenced to function fully in about 1960. There was, therefore, a complete absence of well-established principles and, in addition, the officer responsible for the preparation of the accounts possessed no previous knowledge of such work. In the Northern Territory considerable difficulty is experienced in obtaining suitable officers with academic qualifications.

Q's 723
729 &
735

138. Your Committee are not satisfied that the Administration took adequate and timely remedial action to rectify the unsatisfactory state of affairs referred to it by Audit. We draw the Administration's attention to our comment in paragraph 28 of this Report concerning the availability of specialist advisors in Treasury and the Audit Office who could be consulted when procedures and the forms of accounts are in doubt. We trust that, having now satisfied Audit with the form of the 1961/62 financial statements, it will be possible to submit future

statements in acceptable form and with a minimum of delay.

(c) The Corporation of the City of Darwin.

139. The Auditor-General commented in paragraph 46 of his Supplementary Report for the year ended 30th June, 1963:-

"Mention has been made in previous Supplementary Reports to the Parliament that the form of the annual statements of accounts of the Corporation had not been prescribed. This position remains unchanged. Annual statements for the year ended 30th June, 1962, were not received by my officers until 24th May, 1963. Annual statements for the year ended 30th June, 1963, had not been received for audit at the time of preparation of this Report.

The annual statements for 1961/62 have been examined and I have reported that the statements are in agreement with the accounts and records and show fairly the financial operations of the City of Darwin for the year ended 30th June, 1962 and the state of affairs of the Corporation at that date.

In my reports on the annual statements for 1961/62 to the Corporation and the Administrator, I again directed attention to the breach of section 204 of the Ordinance by the late preparation of annual statements and to the necessity for the form of the statements to be prescribed."

140. Regarding the Administration's failure to prescribe the form of the annual statement of accounts, the Department advised that action on this had been commenced in 1959 but it had not been possible to bring the matter to a satisfactory conclusion. A rough draft of the regulations and forms of account, based on the Queensland Local Government Financial Regulations, was compiled by the Town Clerk in 1959 and, in May, 1960, the Crown Law Officer was consulted re final drafting but this was not possible due to the heavy drafting programme at that time. As an investigation of the Council's affairs was imminent it was decided to defer further action pending the report and recommendations. Early in 1962 a Select Committee of the Legislative Council enquired into matters of Local Government and it was decided that the matter should be deferred again pending the outcome of the Select Committee's enquiries. The Committee's findings were released in November, 1962, but little progress has been made since then - partly due to the fact that the draft which was prepared in 1959 could not be located. In September, 1963, a request was made to the Head Office of the Department to carry out the work but, due to staff shortages, it was not possible to provide assistance at that time. The Department planned, however, to make this assistance available at an early date.

Exhibit
No.66/8

141. Mr. Scott provided Your Committee with some information regarding the loss of the draft regulations prepared in 1959:-

Q.745

"(Mr. Scott),....In 1959 when the council's accounts were to be set up and the regulations were to be made, the then local chief auditor took an active part in assisting the Administration to draw up these regulations and the form of accounts. Considerable work was done and a layman draft was put up. This went to the Crown Law Officer but at the time he was unable to put it into proper form. The chief auditor who it seemed to me was one of the prime movers in this particular work finished his term in the Territory. The impetus went out of the work. Other people were reposted and the thing was lost for a time. When they came to chase this up and to get on with this task which was outstanding, and which had been mentioned in the Auditor-General's Report, nobody could find any sign of this draft."

142. We were subsequently advised by the Audit observer, Mr. Lawrence, that a copy of the draft regulation referred to above had been located in the Audit Office and would be made available to assist the Administration.

143. On the question of late presentation of financial statements, the Department advised:-

".....repeated representations were made to the Council to produce the statements by the due date. The statements for the year ending 30th June, 1963, were available to Audit in December 1963.

It was an improvement of several months over previous years.

The Council has had staffing and organisation difficulties in the past in relation to their accounting functions but it is expected that the improvement shown in 1963 will continue during 1964."

144. Mr. Scott expressed the view that it was physically impossible to produce the Corporation's financial statements by 31st August each year as required by Section 204 of the Ordinance:-

Q.755

"(Mr. Scott),....It is physically impossible to do it. This is due partly to the complicated form of accounts of the corporation. I endeavoured to obtain reasons why 31st August was included in the legislation because that date is not uniform with other dates as prescribed for the submission of accounts. I think that generally legislation says that the accounts shall be presented as soon as possible after the close of the financial year and leaves it at that. I have not been able to find out why 31st August was inserted in the legislation..... Some States do not prescribe a date in their local government legislation. One State provides 31st October and another provides 31st August. They are Tasmania and Western Australia. Recently the Corporation requested the Administration to amend the legislation to prescribe 30th September as being a more realistic date to enable them to produce their accounts, but the Administrator has informed the Council that he is not prepared to make this change....."

145. Asked whether there was likely to be any delay in presenting financial statements for 1963/64, Mr. Scott expressed the view that delays would almost certainly continue unless a simpler form of accounts was instituted.

146. From the evidence it is apparent that the Administration has been lax in not pressing ahead vigorously to have the form of the Corporation's annual statements prescribed. Your Committee note that a copy of the rough draft, prepared some five years ago, has now been located by the Audit Office and point out that this would almost certainly have been discovered much earlier if the Administration had approached the task with more diligence. We trust that, with the assistance of officers of the Audit Office and the Treasury, the Administration will act speedily to obviate further adverse comment by the Auditor-General. We suggest too that the Administration might turn its attention again to the practicability of Section 204 of the Local Government Ordinance which provides for the submission of annual statements by 31st August.

(d) Internal Audit (Papua and New Guinea)

147. Paragraph 53 of the Auditor-General's Supplementary Report 1962/63, contained the following comment in relation to internal audit in the Territory of Papua and New Guinea.

"The failure to fully and effectively staff the Treasury Inspection and Internal Audit section has attracted comment in Supplementary Reports for a number of years. The effective operation of this Section is a positive means of increasing the efficiency of the Administration's financial and store accounting and controls.

During the year, the section was re-organised on a District basis, but none of the positions created was occupied.

The results of inspections during the year of eighteen outstations by the Internal Audit staff amply demonstrate the urgent need for regular inspection of all outstations."

148. The Department outlined the basic reason for the under-staffing of the Treasury Inspection and Internal Audit Section:-

"The failure to fully and effectively staff the Internal Audit and Inspection Section of the Department of the Treasury in the Papua and New Guinea Administration is attributed to a short-fall over the years of the target of the Administration recruitment programme in relation to Clerks. The only clerks available for appointment to Treasury in recent years have been to replace wastage of staff through resignations. The Treasury's staff has not at any time been at full clerical strength and in general recruits have been obtained by the employment of married women and local temporary staff of doubtful calibre. For example, the approved recruitment programme for Treasury in 1962/63 was twelve clerks; none of these was received, the only appointment being to replace wastage."

Exhibit No.66/9

149. The Department disclosed that, although the Treasury establishment stood at 225, only 204 persons were actually employed and, of these, all but 86 were temporary employees possessing a generally lower standard of work performance. The position within the Internal Audit Section was far worse by comparison - at the time of our enquiry only two officers were employed within the Section although the establishment stood at nine. During the past eight years 115 inspections of outstations have been carried out but 37 of the 96 stations have never been visited by a Treasury Inspector. Repeated efforts had been made to recruit qualified staff to these vacancies but without success.

150. Because of the acute shortage of internal auditors, senior Treasury field officers have been required to undertake limited inspections at outstations. Whilst this has been of some assistance on the audit side, it has reduced the effectiveness of such officers in their own positions. Exhibit No.66/9

151. We were informed by Mr. Scott that the shortage of staff is common to all departments of the Administration. The shortage is due to a number of factors including the general shortage of qualified persons in various fields, the difficulty of supplying accommodation to recruits and the reluctance of many people to serve in the area. The Administration realised that an improvement in the housing situation would ease recruitment problems but there was a need for a balanced works programme as between housing and essential services. Q.763 Q.766

152. Mr. Scott stated that he could see no prospect of filling the vacant audit positions in the near future. The Treasury recruitment target last year was twelve clerks but, in fact, no new recruits had been obtained and wastage had probably reduced the total number employed. The Treasury recruitment target for the current year had been reduced to three clerks. Q.780

153. Referring to the fact that the lack of staff is more pronounced in the Internal Audit Section than in other sections of the Treasury, Mr. Scott spoke of the relative importance of internal audits as against finance personnel in other categories:-

"(Mr. Scott).....I suggest that whilst there might be a danger in over-emphasizing the performance of jobs to the exclusion of internal audit there is a contra danger of neglecting performance merely to provide a check and give assistance to other people. It is a matter of balance and judgment. The Administration - Treasury in particular - in my view has exercised this with extreme care and full awareness of its responsibility. In many ways the Treasury is so short of permanent staff, as you will see in the statement, that there is a danger in many places of a breakdown in procedures. This cannot be countenanced at any cost. You must see that there is not this breakdown. There is another aspect also and that is that the man at the outstation who gets along with simple procedures - and sometimes not very good accounting - does not rely solely upon the visit of an internal auditor to put him on the right track. Internal checks operate

within the system itself. Vouchers and other accounts which a man at an outstation prepares come into a sub-treasury and then go through to the main Treasury. The controls and checks exercised at these points are sufficient to give the people controlling this an indication of how good or how bad the position is at an outstation. The usual practice in Treasury is to bring under notice outstations where accounting is the most unsatisfactory and to send out an internal auditor to that particular station. Sometimes it is evident that a station's control has completely broken down. An internal auditor goes out and checks up....."

154. Your Committee are satisfied that in the circumstances the Administration has taken reasonable steps to ensure maximum attention to internal audit functions. We realise that the position cannot be entirely to our satisfaction until such time as the overall staff position in the Territory improves. We trust that continued and determined efforts will be made by the Administration in this regard and we shall, at every opportunity in the future, observe progress made.

CHAPTER IX - ACKNOWLEDGMENTS.

155. With the completion of the Twenty-Fourth Parliament, two members with a splendid record of service on the Committee terminated their association.

156. Frank John Davis, M.P., who was Chairman of the Fourth and Fifth Committees from 16th March, 1960, was closely associated with his predecessor in office, Professor F. A. Bland, C.M.G. Mr. Davis served on the Committee from 25th September, 1952 to 14th October, 1958, and from 16th March, 1960, to 30th October, 1963. His contribution to the Committee proceedings was marked by thorough preparation, great capacity and unswerving loyalty. We place on record also our deep appreciation of his wise counsel and leadership as Chairman.

157. Albert Victor Thompson was a dedicated member of the Committee. He advocated constantly the value of its work in respect to the preservation of the rights of the Parliament. As a foundation Committee member, from 25th September, 1952, he continued to serve until his retirement from the House of Representatives at the end of the Twenty-Fourth Parliament. He was appointed Vice-Chairman on 22nd March, 1956, and in this capacity contributed distinguished and valuable leadership.

158. Your Committee take this opportunity, also, of recording our appreciation of the services of Mr. T. H. Cranston who returned to the Treasury in December, 1963, after serving for three years as Secretary to the Committee. As Secretary, Mr. Cranston displayed a knowledge of public administration which was of considerable assistance to Your Committee in the discharge of our duties.

David N. Reid

DAVID N. REID,
Secretary,
Joint Committee of Public Accounts,
Parliament House, Canberra, A.C.T.,
18th May, 1964.

For and on behalf of the Committee,

R. Cleaver
R. CLEAVER, Chairman.