



1966

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

SEVENTY-EIGHTH REPORT

THE REPORT OF THE AUDITOR-  
GENERAL—FINANCIAL YEAR 1964-65

By Authority:  
A. J. ARTHUR, Commonwealth Government Printer, Canberra  
(Printed in Australia)

MR. PRESIDENT:

ON BEHALF OF THE PUBLIC ACCOUNTS COMMITTEE, I PRESENT  
THE SEVENTY-EIGHTH AND SEVENTY-NINTH REPORTS.

MR. PRESIDENT, I SEEK LEAVE TO MAKE A SHORT STATEMENT.

(When leave has been granted)

THE SEVENTY-EIGHTH REPORT RELATES TO THE REPORT OF THE  
AUDITOR-GENERAL FOR THE FINANCIAL YEAR 1964-65.

YOUR COMMITTEE'S INQUIRY INTO THAT REPORT WAS SOMEWHAT  
MORE WIDESPREAD THAN SIMILAR INQUIRIES CONDUCTED IN RECENT YEARS  
AND INCLUDED AN EXAMINATION OF TAXES WRITTEN OFF WHICH HAD NOT  
BEEN THE SUBJECT OF CRITICISM BY THE AUDITOR-GENERAL BUT WHICH  
PROVIDED AN OPPORTUNITY FOR A THOROUGH EXAMINATION TO BE MADE OF  
AN IMPORTANT ASPECT OF FINANCIAL ADMINISTRATION.

EVIDENCE TAKEN BY YOUR COMMITTEE FROM THE PRIME  
MINISTER'S DEPARTMENT AND THE DEPARTMENTS OF EXTERNAL AFFAIRS,  
TRADE AND INDUSTRY AND TREASURY HAS REFLECTED A CONTINUING  
UNSATISFACTORY STATE OF AFFAIRS IN THE FINANCIAL ARRANGEMENTS  
AT OVERSEAS POSTS NOTWITHSTANDING PREVIOUS INQUIRIES BY YOUR  
COMMITTEE IN THIS AREA OF ADMINISTRATION.

IN THE CASE OF THE DEPARTMENT OF THE INTERIOR, YOUR  
COMMITTEE WAS CONCERNED TO FIND THAT ALTHOUGH IT HAD INQUIRED  
INTO THE PARKS AND GARDENS SECTION OF THE DEPARTMENT IN  
CONNECTION WITH THE AUDITOR-GENERAL'S REPORT FOR 1962-63,  
LITTLE REAL PROGRESS HAS BEEN MADE TO RECTIFY THE PROBLEMS THEN  
DISCOVERED AND THE DEPARTMENT HAS CONTINUED TO ATTRACT  
CRITICISM FROM THE AUDITOR-GENERAL.

ALTHOUGH THE MATTERS REPORTED ON BY THE AUDITOR-GENERAL IN RESPECT OF THE DEPARTMENT OF THE ARMY HAD BEEN RECTIFIED WHEN YOUR COMMITTEE CONDUCTED ITS INQUIRY, THE IRREGULARITIES REPORTED ON WERE OF SUCH A NATURE AS TO RAISE DOUBTS IN YOUR COMMITTEE'S MIND AS TO WHETHER THERE MAY HAVE BEEN A DETERIORATION IN NORMAL ARMY PEACE-TIME DISCIPLINE.

THE SEVENTY-NINTH REPORT RELATES TO TREASURY MINUTES ON THE SIXTY-EIGHTH, SEVENTEENTH AND SEVENTY-SECOND REPORTS OF YOUR COMMITTEE. THIS REPORT SHOWS THAT YOUR COMMITTEE HAS RE-ENDORSED THE PROCEDURES AGREED TO WITH THE TREASURER IN 1954 RELATING TO TREASURY MINUTES AND HAS DEVELOPED, IN ASSOCIATION WITH THE TREASURER, A REFINEMENT OF THOSE PROCEDURES WHEREBY EXPLORATORY DISCUSSIONS WILL BE HELD WITH OFFICERS OF THE DEPARTMENT OF THE TREASURY IN THE CASE OF TREASURY MINUTES WHICH CONTAIN RECOMMENDATIONS NOT FULLY DEALT WITH OR WHICH ARE SUBJECT TO A FURTHER TREASURY MINUTE. THIS REPORT CONTAINS, IN ITS INTRODUCTORY CHAPTER, A FULL STATEMENT OF THE CURRENT MUTUALLY AGREED PROCEDURES FOR PROCESSING, THROUGH THE TREASURY MINUTE ARRANGEMENTS, YOUR COMMITTEE'S RECOMMENDATIONS ARISING FROM INQUIRIES IT HAS MADE.

I COMMEND THE REPORTS TO HONOURABLE MEMBERS AND MOVE THAT THEY BE PRINTED.

*By Wedgwood*

JOINT COMMITTEE OF PUBLIC ACCOUNTS

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SIXTH COMMITTEE

R. CLEAVER, ESQUIRE, M.P. (Chairman)

J. F. COPE, ESQUIRE, M.P. (Vice-Chairman)

SENATOR T. C. DRAKE-BROCKMAN (1)	J. S. COCKLE, ESQUIRE, M.P.
	D. E. COSTA, ESQUIRE, M.P.
SENATOR J. F. FITZGERALD	P. J. NIXON, ESQUIRE, M.P.
	J. C. L. SEXTON, ESQUIRE, M.P.
SENATOR J. J. WEBSTER (2)	R. H. WHITTORN, ESQUIRE, M.P.
SENATOR I. E. WEDGWOOD	

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

(1) Resigned 29th April, 1965.      (2) Appointed 29th April, 1965.

#### DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951-1965 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 subsection (1.) of section fifty-three of the Audit Act 1901-1950;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

# TABLE OF CONTENTS.

	<u>Page No.</u>
1. INTRODUCTION	5
2. DEPARTMENT OF THE ARMY	9
3. ATTORNEY-GENERAL'S DEPARTMENT	15
4. DEPARTMENT OF EXTERNAL AFFAIRS	18
(a) Accounting - Overseas Offices	18
(b) Sundry Debtors - Distressed Australians	26
5. DEPARTMENT OF THE INTERIOR	29
(a) News and Information Bureau	29
(b) Parks and Gardens Section	35
6. POSTMASTER-GENERAL'S DEPARTMENT	49
7. PRIME MINISTER'S DEPARTMENT	53
8. DEPARTMENT OF TRADE AND INDUSTRY	58
(a) Accounting - Overseas Offices	60
(b) Sundry Debtors	62
(c) Adjustment of Advances	63
9. THE DEPARTMENT OF THE TREASURY	65
(a) Taxes written off	65
(b) Defence Services - Procurement in the United States of America	68
10. CONCLUSIONS	71

Appendix No. 1 : Proposal for Trust Account for  
A.C.T. Services. (Statement  
by the Department of the Interior.)

Appendix No. 2 : Taxes Written Off. (Statement  
by the Taxation Branch, Department  
of the Treasury.)

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

SEVENTY-EIGHTH REPORT

THE REPORT OF THE AUDITOR-GENERAL

FINANCIAL YEAR 1964-65

CHAPTER 1 - INTRODUCTION

The first duty of Your Committee as set down in Section 8 of the Public Accounts Committee Act 1951-1965 is -

- "(a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1) of section fifty-three of the Audit Act 1901-1950."

The second duty of Your Committee is -

- "(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."

2. The Report of the Auditor-General for 1964-65 was presented to the Parliament on 24th August, 1965.

3. On 27th September, 1965, Your Committee discussed with the Auditor-General several items on which he had commented in his annual report. Subsequently, written submissions were obtained from departments and after considering these statements we decided to investigate in detail, the matters referred to in Chapters 2 to 9 inclusive of this Report.

4. The items selected for detailed examination were made the subject of a public inquiry held at Parliament House, Canberra, on :-

Tuesday, 26th October, 1965.  
Friday, 29th October, 1965.  
Monday, 8th November, 1965.  
Tuesday, 9th November, 1965.  
Monday, 15th November, 1965.

5. The following witnesses were sworn at the public inquiry and were examined by Your Committee :-

DEPARTMENT OF THE ARMY

Mr. J. W. Nunn	- First Assistant Secretary, Finance and Logistics.
Lieutenant Colonel L. J. Jewson	- Assistant Director, Supplies and Transport.

ATTORNEY-GENERAL'S DEPARTMENT

Mr. R. Phillips	- Director, Management Services Branch.
Mr. A. W. Wynne	- Principal Legal Officer, Courts and Registration Office.

DEPARTMENT OF EXTERNAL AFFAIRS

Mr. K. G. Brennan	- Senior Assistant Secretary, Management Services Branch.
Mr. R. E. Johns	- Finance Officer.



DEPARTMENT OF THE INTERIOR

Mr. G. B. Davis	- Administrative Officer, News and Information Bureau.
Mr. L. L. Gillespie	- Assistant Secretary, Planning, Establishments and Finance.
Mr. J. E. Gray	- Arboriculturist Class 3, Parks and Gardens Section.
Mr. D. M. Lalor	- Director, Finance and Supply.

POSTMASTER-GENERAL'S DEPARTMENT

Mr. E. W. Easton	- Senior Assistant Director-General, Finance and Accounting.
Mr. K. J. Douglas	- Deputy Superintending Engineer, Country Branch, Engineering Division.

PRIME MINISTER'S DEPARTMENT

Mr. E. J. Orriell	- Director, Establishments and Finance Branch.
Mr. W. C. Browning	- Assistant Director, Establishments.

DEPARTMENT OF TRADE AND INDUSTRY

Mr. D. O. Dickinson	- Assistant Secretary, Management Services Division.
Mr. K. P. Jorgensen	- Finance Officer.

DEPARTMENT OF THE TREASURY

Mr. R. C. Davey	- Acting Chief Finance Officer, Budget and Accounting Branch.
Mr. W. Grant	- First Assistant Commissioner, Management Services Division, Taxation Branch.
Mr. R. N. Townsend	- Assistant Secretary, Defence Division.
Mr. A. W. Walsh	- Director of Accounting, Management Services Division, Taxation Branch.

6. During its inquiry Your Committee was assisted by the following observers :-

Mr. J. K. Lawrence	}	Audit Office
Mr. A. K. Ragless		
Mr. F. C. Nordeck	)	Public Service Board
Mr. G. J. Balfour	}	Department of the Treasury
Mr. M. G. Cowie		

7. The presentation of the Report of the Auditor-General for 1964-65 and the evidence taken by Your Committee in this inquiry occurred prior to 14th February, 1966, the date of conversion to decimal currency. In both the Auditor-General's Report and the evidence referred to, money values were expressed in £ Australian currency. Following the conversion to decimal currency, money figures referred to in this report are shown in £ Australian currency followed by the corresponding equivalent decimal value in parenthesis.

CHAPTER 2 - DEPARTMENT OF THE ARMY

8. Paragraph 196 of the Auditor-General's Report contained the following comment in respect of stores and store accounting :-

"Instances of unsatisfactory control of rations and ration accounting within certain units located in Eastern Command came under Audit notice and have been the subject of investigation and report by departmental officers.

The unsatisfactory features included overdrawal of rations due to overstatement of unit ration strength and over-issue against ration entitlement; irregular use of rations for mess social functions; and ineffective performance and supervision of internal checking duties.

Following representations to Headquarters Eastern Command, advice was received to the effect that action taken to prevent a repetition of further unsatisfactory practices included the introduction of a checking programme to be carried out by officers of the Supplies and Transport Service covering every phase of ration accounting and provisioning. In addition, the frequency of audit by Army Audit staff had been increased in order to visit all supplies accounting units within the Command on a half-yearly basis.

The Command stated, that in view of the measures taken and the general improvement shown, it is satisfied that the position relating to ration provisioning and accounting is now satisfactory."

9. The Department informed us that the unsatisfactory features reported by the Auditor-General were in respect of two units only and did not indicate a general or widespread lack of control within the Command.

Exhibit  
78/6

10. The first unit referred to was the 7 Central Ammunition Depot located at Bogan Gate, New South Wales, a unit consisting of about 25 service and 35 civilian personnel located some 250 miles west of Sydney. It was indicated that the nearest town to the unit was Parkes, some 23 miles distant, and that, because of the unit's isolated situation, army personnel had limited opportunities to engage in social activities. When the Officer Commanding at that time had arrived, he had endeavoured to improve both the morale of members of the unit and its standing in the eyes of the local population. His efforts in this direction had taken the form of mess functions which, on various occasions, were held in either the Officers', Sergeants' or other ranks' messes. However, the method of supplying foodstuffs for these functions was a matter which gave rise to subsequent queries. Q.408

11. Because of the remote and isolated location of the unit, the normal army rationing system under which units are supplied with ration commodities from bulk Army stocks was not used and an authorised alternative method of rationing for use in such cases was in operation. An alternative system provides that units are responsible for calculating their entitlements to the various ration commodities and that they are also required to place orders directly upon local suppliers with whom contracts have been previously arranged by Command Headquarters through the Contracts Board of the Department of Supply. Exhibit 78/6

12. When irregularities came under notice in 1963, investigations were made first by the Commonwealth Police (as civilians appeared to be involved) and subsequently by an Army Board of Inquiry. The evidence suggested that officers Exhibit 78/6

and members of the unit, acting in collusion, had incorrectly compiled unit ration strength returns and thereby obtained rations in excess of the correct entitlement. The excess rations were claimed for certain personnel when they were absent from camp and for whom rations should not have been drawn. The personnel concerned included a number of civilian employees of a contractor carrying out works at the depot and, in accordance with normal procedures, the contractor had reimbursed the Army on a weekly basis for quarters and rations provided for his employees. Although no proper record of the civilian attendance was maintained, it was established that some of the employees did not remain at the depot at weekends, and, on days when they were so absent, the unit should have excluded them from the day's ration strength. The failure to so exclude the absent personnel resulted in the unit overdrawing its ration entitlement.

13. We were informed that it was not possible to establish the total loss to the Commonwealth because of incomplete records and the length of time over which the irregularities had occurred. However, an investigation covering the period from April, 1962 to November, 1963 disclosed excess drawing to the value of £710. 12. 7 (\$1421.26) which were largely related to meat entitlements. The excess was not drawn immediately from the local contractor but, by arrangement with him, was accumulated in value and periodically converted into hams, poultry, etc. which were then drawn from the contractor and consumed at unit social functions. Although the rations had been acquired under a grossly irregular procedure, we were informed that there is no provision or authority for supplementary rations to be made available to small messes such as that existing at Bogan Gate. The witness stated that despite the small and remote nature of the unit, it was the responsibility of the members to provide the fare for their entertainment and parties from their own resources.

Exhibit  
78/6

Q. 419

14. The Army Board of Inquiry reported that there had been a number of unsatisfactory features in the unit administration. These features included the failure to maintain roll books in respect of personnel attached for rations and quarters; a failure to maintain a "warning-in" record for the members who proposed to be absent on leave over each week-end and the absence of local written instructions to the unit regarding the accounting for ration supplies. The report also indicated that meat entitlements had been incorrectly calculated from the Command basis of issue; that over-deliveries made by contractors were not recorded or adjusted by under-ordering of subsequent supplies; that signatures were obtained from cooks for the original acquittal of meat quantities ordered without regard to over-deliveries and that the internal check system was ineffective. However, the Commonwealth Police reported that there was no evidence that any person had benefited financially from the irregularities.

Q. 404

Q. 404

15. The evidence obtained was referred to the Commonwealth Deputy Crown Solicitor, Sydney, who advised in September, 1964, that it was not sufficient to establish offences under the Crimes Act. Because of possible legal technicalities the Army investigating officers felt that they were not in a position to recommend the form of disciplinary action to be taken or the degree of culpability on the part of any member. However, the Officer Commanding the unit (a Major) was paraded subsequently before the General Officer Commanding Eastern Command and censured by him. Subsequent reports on accounting at 7 C.A.D. indicate that it is now satisfactory.

Q. 403

Q. 405

16. The Department stated that the second instance reported upon by the Auditor-General involved 1 Royal Australian Regiment when it was located at Holsworthy, New South Wales, and at a

Exhibit  
78/6

time when the unit strength was approximately 1,400 men. An Army Audit examination of the unit ration account in November, 1964 revealed an apparent loss of 3,588 lbs. of beef over the period March to November, 1964, but although errors, alterations and erasures in the accounting documents led to the belief that fraud may have been committed, subsequent investigation by an Army provost member failed to establish evidence of the fact.

17. In December, 1964, a Board of Inquiry established that several members of the unit had failed to exercise proper supervision or control over the rations and accounting records, but the Board was unable to determine whether the loss was due to either fraudulent practices or incompetence giving rise to incorrect stores account balances. Investigations had been undertaken by the Army Provost Q. 421 Corp which revealed that records had been signified as correct by internal checkers when obvious mistakes were apparent and that daily beef issues were never weighed before the issue vouchers were acquitted. It was found also that there had been no proper control over issues to companies of the battalion after the meat had been broken down by unit butchers and that company cooks had been able to obtain Q. 442 additional quantities of meat without being required to sign for the issue. The total of apparent discrepancies was £604. 11. 0 (\$1209.10) but in view of the lack of evidence of fraud, disciplinary action was confined to censure of the members concerned for their inadequate supervision and failure to maintain proper accounting. Exhibit 78/6

18. We were informed that, at the time of the apparent defalcations, the Army rationing instructions were being examined as part of a progressive and continuing review. It was stated that amplifying instructions were about to be issued and that, Q. 426

although it was felt to be impossible to lay down specific instructions for every eventuality, the new directions would be more detailed than those previously issued.

19. In May, 1965, an examination of the ration account by Headquarters Eastern Command representatives disclosed that the account had been rehabilitated by a complete change of staff and by increased control and supervision. Exhibit  
78/6

Conclusions:

20. Your Committee views with concern the irregularities revealed during this aspect of its inquiry and deplores the breaches of trust involved. Malpractices permitted by inadequate control at Bogan Gate and Holsworthy have resulted in a loss to the Commonwealth of a sum in excess of £1,300 (\$2,600) and the evidence received has indicated that it is unlikely that any part of this amount will be recovered.

21. The evidence has revealed that in both instances the discrepancies were discovered by persons who were not members of the units involved and despite the remedial action taken to prevent further losses of a similar nature, Your Committee feels that these incidents reflect adversely both upon the authorities responsible for the general administration of the units and upon the individual members concerned with their rationing. It is regrettable that incidents of this nature should occur.



CHAPTER 3 - ATTORNEY-GENERAL'S DEPARTMENT

22. The following comments were made by the Auditor-General in paragraph 223 of his Report, relative to the Courts and Registration Offices in the Australian Capital Territory :-

"In the course of an audit examination of the related accounts, a number of unsatisfactory features were noted, including prolonged delays in reconciling the Collector's Trust Account and relevant bank account balances; deposits of cash receipts to the wrong official bank accounts; payments out of the Trust Account without proper regard to the available credits remaining in the Trust Account. There was no evidence to suggest fraud or misappropriation of moneys, but internal controls and checks of cash receipts were inadequate.

Unsatisfactory accounting control of furniture, equipment and library was also observed.

The abovementioned matters were represented by the Audit Office to the Attorney-General's Department.

The reconciliation of the Collector's Trust Account has since been brought up to date and various overpayments have been recovered except for one minor amount.

The Department has taken measures designed to eliminate the unsatisfactory features brought under notice by Audit. Additional positions have been created and duties re-arranged to provide more effective control over cash transactions and to establish proper inventories in respect of the Law Courts Library, furniture and equipment."

23. Referring to the delay in effecting a reconciliation of the Trust Account, the Department stated that although an officer of higher classification had been assigned to the task immediately after the Audit Office had drawn attention to the

Exhibit  
78/5 and  
Q. 367

matter, the reconciliation had proved to be difficult and had not been effected until 11th May, 1965. However, the account had been reconciled at the end of each month thereafter.

24. In regard to the deposit of cash receipts to the wrong official bank accounts, the Department indicated that two accounts are maintained, the Collector's Receipts Account and the Collector's Trust Account. Moneys are received initially by counter officers and are subsequently received by the Collector of Public Moneys who is responsible for the actual banking. However, cheques received by the Collector previously bore no indication as to whether the funds should have been credited to the Revenue Account or the Trust Account or partly to both. An internal check has since been implemented on a daily basis to ensure that receipt and banking of moneys are accounted for accurately.

Exhibit  
78/5 and  
Q. 376

25. The Department informed us that the matter of payment from the Trust Account without proper regard to available funds had been due to delays in obtaining reimbursement in respect of dishonoured cheques from parties who had tendered the cheques as payments of maintenance subsequent to divorce proceedings. The Department, had dispersed the maintenance payments being unaware at the time that the cheques would not be met on presentation. It was stated, however, that the value of all dishonoured cheques had been recovered and a system evolved under which such errors should not be repeated.

Exhibit  
78/5 and  
Q. 379

26. We were informed that the unsatisfactory accounting control of furniture, equipment and library requisites had been rectified, an inventory prepared and Treasury approval sought for the adoption of the inventory as the basis of a master inventory in accordance with the provisions of Treasury Direction

Exhibit  
78/5 and  
Q. 380

32/57. We were also informed that adequate supervision of the library is now being maintained by a permanent library officer and it is proposed that annual stock-takes will be conducted, subject to verification by the Internal Auditor.

Conclusions:

27. Your Committee accepts the explanations tendered by the Department and notes the prompt action taken to rectify the matters brought to the attention of the Parliament in the Auditor-General's Report.

CHAPTER 4 - DEPARTMENT OF EXTERNAL AFFAIRS

(a) Accounting - Overseas Offices

28. Paragraph 56 of the Auditor-General's Report contained the following comment :-

"Audit representations were made to the Department of External Affairs during the year concerning defects observed in the effectiveness of the checks and controls exercised by the Department over the accounting for public moneys at overseas offices operating on imprest accounts.

The principal defects observed related mainly to substantial failure to ensure that overseas offices complied with departmental instructions in regard to the submission of important documents, acquittances, certificates and other information to permit appropriate departmental check and audit in Australia.

Evidence of unsatisfactory accounting in the control and reconciliation of advances and bank accounts of some overseas offices was also noted.

It was considered that there was scope for improvement in the departmental check of accounting documents received in Australia from overseas offices.

During June and July 1965, Audit officers inspected the accounts and records at a number of overseas offices and found instances of departures from instructions and deficiencies in the internal checking arrangements. It was also found that some officers holding appointments in relation to accounting at overseas offices were not fully cognizant of their duties and responsibilities.

It was suggested to the Department that its examination of accounting documents received in Australia from overseas offices should be improved; that the duties and responsibilities of all overseas accounting staff should be emphasized; and that consideration should be given to the desirability of periodical inspections of accounting at overseas offices, having regard to their relative size and importance."

29. In a submission to the Committee, the Department disclosed that Audit comment had been made in respect of approximately 80 items noted at various overseas posts. A tabular presentation of the audit queries, accompanied by departmental replies, indicated that the Department largely accepted the Audit criticism. The Department, was, however, frequently in a position to provide explanations of the apparent discrepancies. An examination of these explanations reveals that only on isolated occasions were actual cash discrepancies involved and in these instances the matters had been adjusted. In this respect the witness, Mr. K. G. Brennan, invited attention to the fact that the Audit Office had not questioned the essential validity of the transactions commented upon but referred to what he described as secondary documentation of transactions which in themselves were essentially valid. Mr. Brennan also submitted that the Report of the Auditor-General had not stated that there had been a substantial failure to ensure that overseas offices complied with the Audit Act, the Treasury Regulations and the Overseas Accounts Directions. The Audit comment had been that the principle defects observed related mainly to substantial failure to ensure that the breaches reported upon had been breaches of instructions that were issued by the Department, not because they embodied essential requirements of the Audit Act and subsidiary regulations, but to facilitate certain other procedures.

Exhibit  
78/9

Q. 575

Q. 577,  
Q. 595 and  
Q. 600

30. The Audit Observer, Mr. J.K. Lawrence, indicated that his office relied upon departmental instructions to effectively conduct an audit. Apart from this reliance, however, Mr. Lawrence informed us in a subsequent submission that Statutory Rule 1964 No. 21 which came into force on 10th February, 1964, provides that a Chief Officer

Q. 581

Committee  
File  
1965/7/78

of a Department may give to officers or persons employed in that Department directions not inconsistent with the Audit Act or any pertinent regulations relative to the stores and financial administration of a Department. The same rule states that a contravention of or a failure to comply with, such a direction shall be deemed to be a breach of the Treasury Regulations.

31. The Department stated that the important documents which the Auditor-General had indicated were not being submitted by overseas offices were not of a nature which made the audit of accounts in Australia impossible. In some instances, the overseas post may require the requisition for further accounting action but in normal practice a requisition, (Treasury Form 11) and a paid account, (Treasury Form 12) were filed separately and if an Auditor wished to check one form against the other he was obliged simply to refer to separate filing systems. In the case of accounts paid overseas the Department had instituted, for the convenience of the Audit Office, a requirement which had since become embodied in the Treasury (Overseas Accounts) Directions. These Directions came into effect on 1st July, 1965 and indicate that, wherever possible, the Treasury Form 11 was to be returned to Australia together with the Treasury Form 12 so that the Audit Office would not have to correspond with the overseas post in the absence of either document. The Department stated that the Chief Auditor's examination had revealed numerous instances where this instruction had not been complied with but that the failure to so comply had not frustrated a possibility of audit in Australia.

Exhibit  
78/9  
Q.634 and  
635

32. Referring to the failure to properly acquit vouchers and the absence of certificates thereon, the Department stated that the Audit Office, in the course of an examination which

Exhibit  
78/9

covered many thousands of accounts, had queried the absence of acquittances in only 13 instances and that in only 21 instances had the absence of a certificate been the subject of comment. On 12 occasions officers had signed vouchers in an incorrect capacity and on another 5 occasions there had been failure on the part of persons travelling by air to provide a required certificate.

33. In response to the Department's reference to the comparatively limited number of discrepancies, the Audit Observer stated that in relation to ten posts subjected to audit, nine were very lightly examined in that vouchers were reviewed only for the month of April, 1965. There had been greater depth of audit in relation to the Paris Office but all of the queries had emanated from a limited check. For example, at the Paris Post there had been errors in the cash book, a delay by the Sub-Collector in paying in collections; delays in banking of receipts; errors in statements of bank reconciliations and failures to include details of banking in the cash book. There had been an unauthorised use of a cash advance in Berlin, no evidence of approval for the non-banking of receipts in Moscow and delays in banking receipts at Phnom Penh, Cambodia.

Q.580

34. The evidence and observations received during the hearing disclosed that a difference of opinion existed between the Audit Office and the Department as to the interpretation to be given to the provisions of the Audit Act and associated Regulations and Directions. Mr. Brennan indicated that a difficulty confronting the Department was the problem of reconciling a strict interpretation of the provisions of the Audit Act and the Treasury Regulations with the staffing position in the accounts branch of the Department of External Affairs. For example, Treasury Regulation No. 132 states:-

Q.575

"Every chief officer shall ensure that the provisions of the (Audit) Act and these regulations are complied with so far as they concern the officers under his control."

Q.575

and Treasury Direction Section 34/79 (effective from 1st July, 1965) states:-

"The Chief Officer shall, for the purposes of Regulation 132, arrange for the examination of all accounting documents received from an overseas office to ensure that the provisions of the Act, the Treasury Regulations and any Directions given thereunder have been complied with ....."

35. Mr. Brennan indicated that the Department had not interpreted these or any earlier provisions to mean that, when an account had been paid overseas by a paymaster, it should be necessary before reimbursing the paymaster's account to carry out a complete check in Canberra to ensure that the requirements of Section 34 of the Audit Act (which relates to the examination and certification of accounts) had been satisfied. The Department had held the view that a Paymaster overseas was entitled to rely upon the certificate of the local Certifying Officer in making a payment and that the Department in Australia was entitled to rely upon the same certificate in reimbursing the advance held by that Paymaster.

Q.575

36. The Audit Observer indicated, however, that his office would be satisfied with nothing less than a complete examination of all accounting documents received from overseas posts, (a requirement justified after 1st July, 1965 by Treasury Direction 34/79) while the departmental witness stated that such a course would involve substantial increases in the size of both the accounting staff and overseas imprest advances and would be contrary to the general trend of the Treasury's policy in recent years. In this respect, we note the provisions of the now

Q's.650  
and 651



superseded Treasury Instruction 32/31 (Instructions which were current at the time transactions commented upon by the Auditor-General were conducted):-

"Under the Arrangements (Relating to Moneys outside the Commonwealth), the Certifying Officer at the overseas office has full and final responsibility for expenditure incurred at that overseas office. The certificate by the Certifying Officer is a complete one within the meaning of Section 34 of the (Audit) Act ....."

and the provisions of Treasury Instruction 32/93:-

"Immediately on receipt of vouchers from an overseas office, the Department in Australia shall make such examination as it considers necessary \* to ascertain whether that overseas office has complied with the Audit Act, Treasury Regulations, Overseas Accounts Arrangements and Treasury Instructions ....."

37. Asked whether revised overseas accounting directions, which became effective from 1st July, 1965, had removed the problems confronting his Department, Mr. Brennan indicated that the difficulties were not of a nature which could be corrected by the issue of an instruction. The Audit Observer commented that, apart from the proper interpretation of the requirements of . . .

Treasury Regulation 132, there appeared to be no problem which could not be resolved administratively between the Department and the Department of the Treasury. If there was any doubt concerning interpretations, the Treasury Regulations should be applied.

38. On 16th August, 1965, the Department of External Affairs sought the advice of the Department of the Treasury as to whether it would be permitted to rely upon an assessment of the administrative efficiency of an overseas post in deciding on the degree of examination to which the post's vouchers should be subjected and whether it.

\* Committee's emphasis.

was entitled to rely upon the certificates of its own overseas Certifying Officers before reimbursing imprest accounts. In its reply of 25th August, 1965, the Department of the Treasury indicated in respect of the first question, that as the responsibility for ensuring compliance rests with the Chief Officer, it was not competent for it to decide what may be sufficient to allow the Chief Officer to be satisfied. In regard to the second question, the Department of the Treasury indicated that the Certifying Officer in Australia must establish, from the documents forwarded in support of the account for reimbursement, that payments from the imprest account have been made in accordance with such provisions as Clause 19(2) of the new Treasury (Overseas) Directions and that all receipts have been brought to account. Clause 19(2) states :-

Committee  
File  
1965/7/78

"A Paymaster for an overseas office shall pay only such accounts as are authorised by a Certifying Officer for the office in accordance with these Directions".

#### Conclusions:

39. In respect of the Department's standard of accounting at overseas posts, the evidence received by Your Committee on this occasion was principally in respect of two facets: the failure of overseas posts to match vouchers detailing the nature of orders for supplies with the paid accounts for those supplies and the failure of officers to undertake the degree of examination prescribed in respect of paid accounts forwarded to Australia. Before discussing any of this evidence we would state that we have not permitted the arguments heard to cloud our view of the deficiencies revealed in the administration of various overseas posts. In relation to ten overseas posts subjected to audit, nine were very lightly examined in that vouchers were reviewed only for the month of April, 1965. Notwithstanding the explanations tendered, the fact

remains that this limited audit had disclosed some eighty items attracting adverse comment. Your Committee believes that this is sufficient evidence of an unsatisfactory standard of accounting at overseas posts to warrant a demand for substantial improvement and we suggest that the Department should take early steps to circularise its Posts, notifying its officers of our concern in this matter.

40. With regard to the Department's failure to submit matching purchase vouchers, on the grounds that the order voucher was required for later transactions, Your Committee feels that the submission of copies indicating part satisfaction of an order is an answer so obvious as to warrant a rebuke to the Department for not adopting such a procedure. However, regardless of the earlier failings of the Department in this respect, we note that the revised procedures prescribed in Section 34/44 of the new Treasury Directions and Clause 25 of the Treasury (Overseas Accounts) Directions have removed any degree of uncertainty as to the submission or retention of documents at overseas Posts.

41. After considering the evidence received in respect of the interpretations to be accorded to the various Treasury Instructions relative to the examination of documents, Your Committee believes that the reference to a Department's responsibility to "make such examination as it considers necessary" of vouchers received from an overseas office, as described in the provisions of Section 32/93 of the now superseded Treasury Instructions, gave rise to some ambiguity when quoted as an amplification of the provisions of Treasury Regulation 132. We also believe that the provisions of Treasury Instruction 32/31 contributed to the confusion experienced by the

Department of External Affairs in attempting to define the limits of responsibility of various accounting officers. Notwithstanding these past difficulties, the requirements of Section 34/79 of the Treasury Directions now entirely justify the demand of the Audit Office for a 100 per cent examination. In this respect, we feel that the attention of the Department could have been more appropriately directed to the provisions of this Section by the Department of the Treasury in tendering advice on the degree of examination to be afforded in respect of vouchers received from overseas posts. Since, under this Section, for the purposes of Treasury Regulation 132, all accounting documents received from an overseas office are to be examined to ensure compliance with the Audit Act and associated regulations, we recognise that the extent of such a close scrutiny of vouchers will place heavy demands upon the examiners in the Department but we believe that while the Direction stipulates that a complete examination must be made, it must be obeyed implicitly. Any consequent inadequacies becoming evident in the staff structure will be a matter of internal administration to be resolved in conjunction with the Public Service Board.

(b) Sundry Debtors - Distressed Australians

42. Paragraph 56 of the Auditor-General's Report also contained the following comment :-

"Representations were also made to the Department concerning weaknesses and inadequacies noted in the control over and recovery of amounts which had been disbursed by overseas offices to Australians in financial distress in other countries. The control account in respect of the amounts owing to the Commonwealth by individual debtors on account of assistance given had not been properly maintained or

reconciled for a considerable period. The recovery action in respect of amounts due to the Commonwealth is considered to have been inadequate. According to departmental records, the amount outstanding at 30th June 1965 on account of distressed Australians was £38,161 (\$76,322).

The Department has advised of action being taken to investigate the position, including a complete reconciliation of the ledger with the control account and the taking of financial recovery action, where practicable."

43. In regard to the Auditor-General's comment the Department stated that there were 565 accounts amounting to £38,161 (\$76,322) requiring further action in respect of which approximately 1,200 letters of demand had been prepared and £12,534.45 (\$25,068.44) recovered during the twelve months ended 30th June, 1965. A constant search was being made for debtors whom the Department had been unable to trace and irrecoverable accounts were being extracted from the ledger for write off action by competent authority. Monthly reconciliations of the ledger control account were being effected also.

Exhibit  
78/7

44. The witness indicated that the failure to reconcile the control account had been due to the fact that the maintenance of the ledger was not a task which would keep one officer fully employed. Officers had been allocated to the task when they were available and this practice, together with the fact that between £15,000 (\$30,000) and £18,000 (\$36,000) was disbursed while only £12,000 (\$24,000) was recovered annually, had resulted in the accumulated sum of £38,161 (\$76,322) outstanding. However, an officer had been allocated to the task of maintaining the ledger using machine accounting techniques, with the result that the Department had been able to make available to the Audit Office a reconciliation of the ledger.

Q's. 653  
and 654

45. The witness explained that two types of irrecoverable debts existed: an exchange differential which occurred when people were assisted in one country and made repayments in another country and debts incurred by people who could not be traced or who were in circumstances which made successful recovery action unlikely. Commenting on proposals for write-off action by the Department in respect of the latter type of debt, the Audit Observer, Mr. J.K. Lawrence, stated that his office was not satisfied that it had been established in each case that the debt was irrecoverable in the terms of the Audit Act. Audit considered that action to write off a debt on compassionate grounds did not come within the provisions of the applied section of the Act and that the evidence available to the Audit Office suggested that the Department's follow-up action left much to be desired. In some instances, proposals for write-off action had been rejected by the Chief Auditor.

Q.661

Q.665

Q.676

Conclusions:

46. The evidence received by Your Committee indicates that the Department has not exercised the degree of care required in the recovery of financial assistance extended to distressed Australians overseas. The accumulated debt of over £38,000 (\$76,000) has been the result of procrastination in the face of a problem made difficult by previously neglecting to ensure that an officer's part-time duty has received due attention. Furthermore, this neglect has aroused doubts on the part of Your Committee as to whether the administrative failings in this respect have been restricted to the recovery of debts or whether loans to distressed Australians are being made available in a manner more liberal than should be allowed in the public interest. We trust that the Department of the Treasury will be able to reassure us on this matter and that the administration of this financial assistance will not attract adverse comment in future reports of the Auditor-General.

CHAPTER 5 - DEPARTMENT OF THE INTERIOR

(a) News and Information Bureau

47. Paragraph 97 of the Auditor-General's Report for 1964-65 contained the following comments :-

"A review by Audit during 1964-65 of the accounting in respect of the Bureau's Headquarters activities disclosed certain unsatisfactory features and departures from prescribed procedures. It was represented to the Department that recording and recovery of debtors' accounts were unsatisfactory and accounting control had not been effectively maintained over certain classes of stores. The limited internal audit coverage was also noted.

The Department's comments were sought on these matters and on Audit's suggestions for improved controls. The Department has advised that remedial measures had been introduced, where necessary, or are proposed."

48. The Department stated that the delays in the recording and recovery of some debtors accounts referred to by the Auditor-General had been principally occasioned by the temporary lack of staff in the Bureau and the inadequacy of the staffing organization of the Finance and Supply Section, which was responsible for the processing of vouchers raised by the News and Information Bureau. At the 30th June, 1964, there were 117 positions in the Section of which only 106 were occupied. However, at the 30th June, 1965, 150 positions existed of which 146 were occupied. Apart from the difficulties occasioned by the shortage of staff, the recovery processes employed in respect of sundry debtors were also delayed because of the growth that had occurred, not only in the News and Information Bureau ledgers in the Finance Section but also in the ledgers relating to the departmental activities as a whole. In 1963 the ledgers had contained 54,000 accounts but by 30th June, 1965, this number had grown to 69,000 accounts. At the particular

Exhibit  
78/1

time when the Auditor-General carried out his investigation, decisions had been made, in view of the staff shortage, as to the relative importance of various accounts for the purposes of recovery action. Because of the importance placed on some of the other ledgers, recovery action in respect of the miscellaneous debtors was temporarily delayed. We note, however, the comments of the Audit Observer, Q. 104 during the hearing that there had been up to seven months delay between the date shown on work orders and the date of the preparation of a debit advice note for processing by the Finance and Supply Section. In addition, at the time of the Audit examination, the ledger had contained eighteen receipts against which no corresponding charges could be matched. We also note from a subsequent departmental submission that, despite, the fact that the strength of the Finance and Supply Section stood at 146 officers at 30th June, 1965, only 550 man-hours of overtime were worked in the miscellaneous ledgers sub-section during that year. Of this amount of overtime only twenty-three hours related to the reconciliation and recovery of News and Information Bureau debtors' accounts. In the same submission we were informed that it was not possible to state precisely the total number of overtime hours worked in the preparation of debit advices in the News and Information Bureau as records did not indicate the time spent on such a specific task. However, it was estimated that approximately 70 man-hours of overtime were worked in connection with the preparation of debit advices; of which 38 hours had been positively identified and the balance was a reasonable estimate.

Exhibit  
78/1

Committee  
file  
1965/7/78

49. We were informed that, following a methods review, a new system had been introduced in the News and Information Bureau for the recording and recovery of debtors' accounts. This system, which was introduced from 1st July, 1965 together with the increase in staff, had enabled the Department

Exhibit  
78/1



to pursue vigorously the recovery of outstanding accounts, including the initiation of legal proceedings where appropriate and the position was now regarded as satisfactory. This view was confirmed by the Audit Observer during the hearing.

50. It was stated that inadequacies in stock control were predominant in stocks of consumable items of photographic materials and that, at the time of the audit examination, five items had been discrepant out of eleven items checked. Although it was stated that the discrepancies had never involved losses of stores, a subsequent submission by the Audit Office revealed that the five discrepant items involved a deficiency of 24 rolls and 10 boxes of film and 2 pairs of rubber gloves while a surplus of only 2 rolls of film existed. We were informed that the position responsible for the effective maintenance of stores control in this instance had proved continually to be a difficult one to fill. After the removal of an unsatisfactory junior Third Division officer, the position had been reclassified to the lower grading of Clerical Assistant in an endeavour to attract more suitable applicants for the position in the store. However, after three advertisements had been inserted in the Commonwealth Gazette, only four applications had been received, all of which were unsatisfactory.

Committee  
file  
1965/7/78

Q. 118

51. During the hearing, the Audit Observer cited other examples of inadequacies in stores control measures. No satisfactory register of moving film was maintained, an accounting card index was deficient in several respects and there was no evidence of a stocktake of the film library having been conducted.

Q. 129

52. In reply to the Auditor-General's comment relating to inadequate stores control the Department indicated that shortcomings in this direction were symptomatic of a much wider problem of stores control within the entire Department. It was stated that with the growth of the Department in the Australian Capital Territory and the resulting expansion in its stores and contract requirements it had become obvious that control at Branch levels (whose organisations did not provide for suitably experienced stores officers) was outmoded and could not provide a completely satisfactory result. In 1963 a centralisation policy had been initiated and the responsibility for stocktaking, disposals and the maintenance of asset registers transferred to a newly created stores sub-section in the Finance and Supply Section with a view to centralising the remaining stores functions, i.e., purchasing, contract administration, storehouse management and the control of storehouse staff. In 1964-65 the Department had conducted a review jointly with the Public Service Board of the Department's supply functions. This review had confirmed the Department's opinion that all stores functions should be centralised and placed under the control of a senior stores officer. To this end the Public Service Board had recently approved the creation of a new position of Superintendent (Stores and Contracts) and it was expected that the officer appointed to the position would shortly take up duty. It was said that one of that officer's first tasks would be the preparation of a detailed stores and contract manual which it was expected would provide the basis for better control over the class of stores referred to by the Auditor-General in respect of the News and Information Bureau. It was explained that, prior to the review, each Branch of the Department had administered independently its own stores acquisition programme. Stores accounting procedures did exist in each Branch but those had not been regarded as satisfactory.

Exhibit  
78/1

Q. 144

53. In response to questions on the activities of the Internal Audit staff, we were informed that four positions existed but that only two officers were employed on such duties and that the Department was seeking the creation of a further three positions. Departmental stocktaking staff had been attached previously to the Internal Audit staff but this arrangement had been terminated upon the creation of a separate stores section. In their dual role, internal auditors had conducted stocktakes of items recorded in assets registers but had not extended their examination to items of a consumable nature such as those found to be discrepant in the photographic materials store. These stores had been subject to examination only occasionally by the Administrative Officer of the Bureau.

Q. 145

Q. 154

Q. 158

54. We were informed that, subsequent to the report of the Auditor-General, the internal audit programme for the Bureau had been expanded but that it would not be possible to implement the new programme until additional staff had been obtained. In the year under review no overtime had been worked by the internal audit staff. It was stated that those officers carried out the greater proportion of these checks in the offices where general records are maintained. During the audit inspections, reference to officers and subsidiary records was frequently necessary and for this reason audit work had been carried out in normal office hours while all the staff was present.

Exhibit  
78/1

Committee  
file  
1965/7/78

#### Conclusions:

55. The evidence has suggested to Your Committee that the growth of Canberra has placed increasing demands upon the Department of the Interior and that the problems facing it are due to the current inadequacy of procedures formulated in earlier years. Notwithstanding

the lack of staff we are not satisfied that a sufficiently vigorous attempt has been made to cope with the difficulties even in the staff situation which existed before the increase of thirty-three positions in the Finance and Supply Section.

56. It was indicated to Your Committee that the Department had been aware that previously existing store accounting procedures were inadequate. We feel that, if the Department was conscious of the inadequacies but was not in a position to effect immediate remedial measures, the outworkings of the procedures should have been subject to constant review in order to detect errors as quickly as possible. However, evidence was received that no overtime had been worked by the Internal Audit staff during 1964-65 due to the necessity for staff members to be present during the conduct of an audit examination. Your Committee finds difficulty in appreciating this explanation.

57. Your Committee also considers that, although a limited number of internal auditors were available to the Department, consumable stores of an attractive nature should have been subject to regular audit examination, especially when the position of a permanent storekeeper was found difficult to fill. In these circumstances, and considering the nature of the stores, it is not surprising that discrepancies were revealed.

58. The limited number of seventy man-hours worked on the preparation of debit advices by the staff of the News and Information Bureau is disturbing when considered in the light of a delay of seven months between the raising of a work order and the raising of the associated charge. Although the position is now regarded as satisfactory, the fact that extensive arrears of work could be overtaken in such a limited

time suggests that a comparatively simple task had been neglected to the detriment of another section responsible for the collection of the charges.

59. The Department has stated that, although a revised Audit programme has been formulated, more extensive internal audit examinations cannot be implemented until additional staff is obtained for the section. Your Committee does not accept this view and suggests that the Department should examine its staff tables with a view to seconding any available officers to assist in the more routine aspects of auditing, until such time as skilled internal auditors become available, and that appropriations available for the payment of overtime should be utilised to the fullest extent necessary to implement audit examinations which are being deferred.

(b) Parks and Gardens Section

60. Paragraph 230 of the Auditor-General's Report included the following comments :-

"Defects in internal procedures and controls in connexion with accounting for receipts, expenditure, stores and costing of the Parks and Gardens Section have been referred to in previous Reports. These matters were examined by the Joint Committee of Public Accounts and reported upon in its Sixty-sixth Report.

At paragraph 221 of my Report for 1963-64 it was mentioned that the Department had acted with a view to remedying the position.

Audit reviews during 1964-65 have disclosed, however, that the position cannot yet be regarded as satisfactory. Departures from accounting procedures designed to control the raising and collection of revenue resulted in failure to raise hiring and other charges, inaccuracies in charges and inadequate recovery action. Weaknesses persist in fundamental stores controls and costing procedures.

In respect of stores, other than stores in the nature of plant and equipment, the preparation of detailed procedures has been deferred pending the results of a joint Department - Public Service Board organisation and methods review which is nearing completion. In the meantime, however, it is considered that procedures incorporating basic principles for control of bulk stocks could have been implemented without prejudice to future approved procedures.

In respect of costing, procedures introduced from 1st July, 1964, were not varied to remedy weaknesses and shortcomings which became apparent during the year. The Department has advised that action in this regard was deferred pending consideration by the Treasury of proposals to vary the form of the annual appropriation out of the Consolidated Revenue Fund by which the activities of the Parks and Gardens Section are financed.

In reply to Audit representations regarding the defects in revenue accounting, stores accounting and costing, the Department acknowledged that corrective action had not yet resulted in these aspects being placed on a satisfactory basis. However, the Department advised that these matters had received a great deal of attention, with the emphasis on finding a long term solution to the problem rather than effecting temporary improvements. The delays were stated to be beyond the control of the Department and implementation of the overall remedial plan mainly dependent upon approval being obtained to -

- (i) operate a Trust Account; and
- (ii) establish a new stores organisation.

The Department also advised that the internal audit organisation is currently under review and that further improvements in the Parks and Gardens Section procedures generally are expected to result from a recent report on the Section's activities by an outside expert."

61. The Department stated that in the two years prior to our inquiry it had recognised that there was a need for improved accounting control and procedures relevant to revenue, expenditure, stores and costing functions

Exhibit  
78/1

in the Parks and Gardens and other sections of the Department. While some progress had been made in improving the systems of control the Department considered it prudent to take remedial action which would produce better accounting and stores control for all sections of the Department rather than to effect temporary improvements which had not provided a satisfactory solution in the past.

62. The Department conceded that failure to follow procedures had resulted in some revenue charges not being raised while in other instances arrears and delays in raising charges had occurred. It suggested that these shortcomings had mainly resulted from the inadequacy of the administrative staff of the Parks and Gardens Section to cope with this every increasing workload. Furthermore, the procedures themselves had presented some practical difficulties and were being reviewed. The establishment of the Parks and Gardens Section had been reviewed some time earlier and action was currently being taken to fill a number of additional positions provided by the Public Service Board.

63. Whilst there had been some delay in effecting recovery action by the Finance and Supply Section in respect of charges raised for hirings by the Parks and Gardens Section, this had also been due to inadequate staffing at that time. However, the 117 positions existing in the Finance and Supply Section at 30th June, 1964, had been increased by the Public Service Board to 150 positions at the 30th June, 1965. In addition, suitable internal controls had been introduced in the Recovery Section to ensure that hire charges of a recurring nature were brought to account. The action taken by the Department to remedy the unsatisfactory system of stores control generally was referred to earlier in connection with the News and Information Bureau. In that regard, the witness advised that, following the receipt of the joint Public Service Board/Department of Interior Report, urgent steps had been taken to fill the

Q. 38

Exhibit  
7B/1 and  
Q.'s 15  
and 84.

Q. 5

position of Superintendent (Stores and Contracts) and action was currently in hand to finalise the remainder of the additional organisation approved for a Stores and Contracts sub-section. It had been considered inadvisable to introduce specific stores systems for the Parks and Gardens store pending receipt of the Report of the Inter-departmental Committee on the total stores problem and the types of controls and records to be instituted in respect of the various classes of stores in use in the Department. However, since receipt of the Report and establishment of definite stores control policies, work was proceeding at the Parks and Gardens general store as a necessary preliminary to the setting up of proper stores ledgers. Although the work was proceeding satisfactorily, greater progress could not be expected until the Superintendent (Stores and Contracts) and additional stores staff had taken up duty. Specialised and continuing attention could then be given to the full implementation of the Inter-departmental Committee's recommendations.

Exhibit  
78/1 and  
Q's. 30  
and 31

64. The Department stated that the improved costing procedures which had been introduced in July, 1964, related principally to the costing of labour engaged on various maintenance, new works and recoverable works undertaken by the Parks and Gardens Section. Investigation of the procedures led the Department to the conclusion that it could not achieve complete efficiency and accuracy in its costing for the Parks and Gardens Section or in its various other fields of activities until the accounting machine capacity was improved to handle the additional work that would result; a more suitable system of stores control was introduced; and approval was given to a change in the form of the estimates or a Trust Account was provided.

Exhibit  
78/1 and  
Q.7



65. The Department had taken steps to seek the Public Service Board's approval to the purchase of three direct accounting computers to replace the conventional mechanical accounting machines which were no longer able to cope effectively with the increasing volume of work. Two of the machines were required for revenue accounting work and the third for purposes of expenditure accounting which included the costing for Parks and Gardens and other sections of the Department. The first two machines had been delivered in Canberra and it was expected that they would be installed and operating in a short time but the third machine was not expected to be delivered until the middle of 1966.

Exhibit  
78/1 and  
Q. 7

66. The Department stated that following its experiences in recent years, the opinion was held that accurate costing of the activities of the Parks and Gardens Section could not be achieved within the existing form of the appropriations. The approval of the Treasury had therefore been sought initially to a change in the form of the Estimates and, more recently, because of the accounting ramifications involved in the preparation of accurate financial statements for all of the Department's municipal activities (including Parks and Gardens), to the establishment of a Trust Account. This proposal had not been approved by the Department of the Treasury.

Exhibit  
78/1 and  
Q. 39

67. The Department expressed the view that the provision of a Trust Account would provide the means of accumulating costs on a continuing basis relative to the operation of major and minor plant, workshops and unproductive expenses and would enable those charges to be spread equitably at more precisely calculated rates to the various projects and uses. Under the present funding

Exhibit  
78/1 and  
Q. 39

arrangements such capital and other costs were charged against appropriations which lapsed at the end of each financial year. We were informed that there is neither a special appropriation nor a Trust Account for the purchase of stores required for departmental purposes. It was stated that in the absence of a Trust Account, the Department was unable to observe the requirements of Section 34(3) of the Audit Act in that there is no practicable alternative but for stores (which may be used ultimately for capital works, recoverable works or maintenance), to be charged initially to maintenance votes to allow stocks of common-use items to be held. If the level of stocks changed during a financial year, the expenditure under the votes concerned would not reflect the true maintenance costs for that year.

Q. 50

Exhibit  
J8/1 and  
Q. 39

68. In regard to the proposal by the Department of the Interior for the establishment of a Trust Account, the Treasury Observer, Mr. M. G. Cowie, indicated that whilst the creation of a Trust Account would be ideal from the viewpoint of the Department of the Interior, the Treasury did not consider that the creation of a Trust Account was necessary to enable costing records to be maintained. It considered that for costing purposes some form of subsidiary records - or parallel records - would be better adopted than would a Trust Account. The Audit Observer, Mr. J. K. Lawrence, indicated that the Audit Office would welcome an opportunity to examine the proposal to establish a Trust Account, before expressing an opinion on its justification, particularly as it was purely an administrative matter for the Department of the Treasury to approve of the activity.

Q's. 44 to  
48

Q. 67

69. In view of the evidence submitted by the Department of the Interior and comments made by Observers, we requested the Department of the Interior to submit any further comments which it desired to make and the witness offered to furnish us with a detailed explanation of the Department's requirements. We also requested the Department of the Treasury to make a submission setting out its final views on the matter and requested the Audit Office to express its views on the establishment of a Trust Account.

Q's. 74 to  
79

70. The submission made by the Department of the Interior showed that between 21st November, 1962, and 20th October, 1965, correspondence had passed between that Department and the Department of the Treasury relative to the establishment of a Trust Account initially in connection with costing and commitment records in the Parks and Gardens Section. Later the Department requested the re-opening of the Interior Services Trust Account and also foreshadowed that a Trust Account would be required ultimately for all municipal activities in the Australian Capital Territory with an appropriation for the difference between municipal expenditure and revenue from rates and other municipal charges. The Department also included a statement relating to its proposal for a Trust Account for Australian Capital Territory Services which re-stated and formalised much of the evidence given during the public inquiry and included also reference to the wider problem of municipal accounting. This statement is set out in Appendix No. 1 to this Report. The Department also submitted a proposed pro-forma statement of income and expenditure for municipal activities of the City of Canberra.

Committee  
file  
1965/7/78

71. The submission by the Department of the Treasury stated that since the re-establishment of the Joint Committee of Public Accounts in 1952 the subject of departmental accounting by means of trust accounts had received considerable attention culminating in the major inquiry on the Trust Fund (Thirty-Fourth Report). The conclusions and recommendations arising from these inquiries had resulted in the review and closure of numerous trust accounts and virtually a complete restriction on the creation of new trust accounts for purposes such as that requested by the Department of the Interior on 26th March, 1965, viz., operation of an unproductive charges account, purchase and issue of stores, operation of a plant hire pool, operation of a small plant and tools account and workshop costing. The Department of the Treasury stated that the procedure is to maintain the Commonwealth's accounts on an annual cash receipts - cash expenditure basis through Parliamentary appropriations and that any supplementary accounting required by a department, involving costing processes, should be conducted through records maintained within the Department and not channelled through the Treasury cash accounts. The submission also stated that the Joint Committee of Public Accounts had concluded in its Thirty-Fourth Report that for an undertaking to require a trust account as a working account it should conform to a number of conditions, namely that the undertaking should have a degree of autonomy; it should produce a Profit and Loss Account and Balance Sheet, it should prepare annual reports and its accounts should be certified by the Auditor-General. The application made by the Department of the Interior mentioned only one specific undertaking, Parks and Gardens, which is not a commercial undertaking and does not meet the requirements mentioned. The use of a trust account for the

Committee  
file  
1965/7/78

purchase and issue of stores for branches of a department was also said to be contrary to the conclusions of the Committee. In regard to the question of local government accounting requirements (which had been referred to by the Department of the Interior in its Memorandum to the Department of the Treasury on 26th March, 1965), the Department of the Treasury stated that the extent of the relationship between Parliamentary appropriations and the Treasury accounts could not be resolved, it would seem, until such time as the form of the Territories section of the Appropriation Act had been reviewed in conjunction with the Joint Committee of Public Accounts. For these reasons, the Department of the Treasury could not approve the re-opening of the Interior Services Trust Account. These views were conveyed to the Department of the Interior on 13th May, 1965.

72. The Audit Office submission stated that it had examined the position, bearing in mind the views expressed at paragraph 162 of the Committee's Thirty-Fourth Report and the present stage of development of the Department of the Interior's municipal activities, with particular regard to the Parks and Gardens Section. It expressed the view that whilst the establishment of a trust account would possibly be of some assistance to the Department, there did not appear to be any reason why supplementary or subsidiary records could not be established and operated satisfactorily under an annual appropriation procedure.

Committee  
file  
1965/7/78

#### Conclusions:

73. Your Committee inquired into the Parks and Gardens Section of the Department of the Interior in connection with the Auditor-General's Report for the financial year 1962-63. In our Sixty-sixth Report, we stated that 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, we found it difficult to understand

PP No. 47  
of 1964

why action was not taken at an earlier date to provide adequate accounting facilities and to revise existing accounting procedures. We further found it particularly difficult to appreciate the apparent inability of the Department to expand a register of assets even in times of rapid development. We accepted the Department's assurances that the costing, revenue and other accounting procedures related to the activities of the Parks and Gardens Section would be given priority in a programme of investigation and revision.

74. In the subsequent Treasury Minute of 19th August, 1965, relating to that Report, we were informed that the Department of the Interior had advised the Department of the Treasury that improved accounting procedures for stores and some costing operations had been implemented, that investigation into the other costing requirements was in course, that action was in hand to review the form and content of asset registers, that additional positions to cope with the expected increase in work load had been provided and action had been taken to fill the positions.

PP No. 208  
of 1964-  
65-66

75. In view of our findings in the Sixty-sixth Report and the remarks contained in the subsequent Treasury Minute, Your Committee is disturbed to find that, two years later in 1964-65, the Auditor-General has found it necessary to again report adversely on the Parks and Gardens Section of the Department. Your Committee reiterates that it is disturbed to find that it was not until relatively recently that the Department recognised a need for improved accounting control and procedures relevant to revenue, expenditure, stores and costing functions in its Parks and Gardens and other sections.

76. The evidence and subsequent submissions made by the Department of the Interior claimed that the establishment of a Trust Account would operate to the advantage of that Department. Although the Audit Office felt that the establishment of a Trust Account would possibly be of some assistance to the Department, it was unable to

find any reason why supplementary or subsidiary records could not be established and operated satisfactorily under an annual appropriation procedure. In its subsequent submission, the Department of the Interior conceded that its objectives could probably be achieved without the use of a Trust Account, but claimed that the absence of such an account would involve the establishment of supplementary records which would have to be posted independently from the Treasury accounting records. It was said that this would involve every voucher being costed and posted twice, once for the Treasury accounting records and once for the supplementary records. The Department claimed that apart from the significant increase in workload which would be involved in endeavouring to achieve its objectives without a Trust Account, the end result would not be completely satisfactory as only a Trust Account can provide the continuity necessary for the type of accounting required. The Department also considered that, whilst its existing staff would be adequate if a Trust Account were available to it, between six and ten additional staff would be required to achieve the desired improvements without a Trust Account.

77. Whilst recognising that the retention and creation of Trust Accounts is primarily a responsibility of the Department of the Treasury, there are certain matters which were referred to in the submission by that Department to which Your Committee feels that attention might be drawn. The Department indicated that inquiries and conclusions reached by Your Committee, and culminating in our Thirty-Fourth Report, had resulted in virtually a complete restriction on the creation of new trust accounts for purposes such as that requested by the Department of the Interior. In this regard Your Committee invites attention to paragraphs 313 and 162 of our Thirty-Fourth Report. Paragraph 313 stated :-

"It would be easy to consider the technique of annual appropriation and lapse of funds as indispensable to the proper functioning of Parliamentary control, to make it, as it were, the foundation upon which Parliamentary control rests. While in many cases this may be true, Your Committee doubts whether it is universally so. It is our view that there are some circumstances that may call for a control exercised in a different manner. That is, while annual appropriation and lapse of funds is one important way in which the control of Parliament over expenditure is exercised, it is not the only form, nor necessarily the most appropriate form, by which that control can be exercised."

Paragraph 162 stated -

"Your Committee considers that in many cases, trust accounts in the nature of working accounts have distinct advantages over the system of annual appropriations. We think that a number of qualifying conditions should normally be complied with both before such accounts are established and in connexion with their operation -

(i) There should be a policy decision that the body in question (normally it could appropriately be termed an "undertaking") is to operate on a quasi-autonomous basis (we have already referred to this matter in our Report on the Canberra Abattoir): and we place strong emphasis, in this context, on the word "operate". In our view, it connotes the day-to-day activities of the organization, activities that in a Department are generally subject to the direction of the Minister; but which in these organizations are usually not so: they operate only subject to general directives as to the ends to be achieved.

(ii) There should be an obligation upon the undertaking to keep a Profit and Loss Account and a Balance-sheet, and in other ways to operate on the basis that its incomings should match its outgoings (subject, of course, to any policy direction about the level of profit or subsidy involved; and the "subsidy" where needed, should be shown as such in the Estimates and should be kept distinct from capitalization measures, which should be shown in the Capital Works and Services section of the Estimates).



(iii) The annual Profit and Loss Account and Balance-sheet should be certified by the Auditor-General.

(iv) The working advance representing the appropriation to the trust account should be determined at a level that would facilitate the efficient operation of the undertaking; but not at a level such as would enable it to branch out, without appropriate directives and additional advances, into new fields of activity.

(v) Unless policy requirements are expressly to the contrary, the undertaking should prepare annual reports. Preferably these should be made to the Parliament; but there may be occasions when report to the responsible Minister would be adequate. We would think inappropriate any lesser obligation than that of annual report to the Minister.

(vi) A regular review of the level of the Advance should be made by the appropriate authorities (which, we consider, include both the Auditor-General and the Treasurer) in order to ensure that it is not larger than is essential for the efficient operation of the undertaking.

(vii) In any event, the Budget Papers should include, along the lines discussed in Chapter III above, information concerning the balance, level of advance and purposes of the account."

78. The submission by the Department of the Treasury also stated that the use of a trust account for the purchase and issue of stores for Branches of a Department is contrary to the conclusions of Your Committee. On this point, Paragraph 202 of our Thirty-Fourth Report stated that -

PP No. 69  
of 1957

"Your Committee is unable to come to any final conclusion about store purchasing and holding trust accounts. In general we doubt whether it is necessary for departments to operate them."

79. Finally, the submission by the Department of the Treasury stated that the extent of the relationship between Parliamentary appropriations and the Treasury accounts on the one hand and local government

accounts cannot be resolved, it would seem, until such time as the form of the Territories section of the Appropriation Act has been reviewed in conjunction with Your Committee. As this matter now appears to be the main issue involved in resolving the problems confronting the Department of the Interior, Your Committee desires that the Departments of the Treasury and the Interior should reach early agreement on the most appropriate alterations which might be made in the form of the Territories section of the Appropriation Act and that the proposed alterations be submitted to Your Committee without delay.

CHAPTER 6 - POSTMASTER GENERAL'S DEPARTMENT

80. Paragraph 213 of the Auditor-General's Report contained the following comment in relation to losses of stores:-

"During the year the number and value of Departmental losses by theft, robbery, &c., increased substantially in regard to stores. Appendix "B" of this Report discloses that the Department reported 189 cases (81 in 1963-64), of £50 (\$100) or over, amounting to £34,383 (\$68,766) (£10,448 (\$20,896) in 1963-64), the incidence being greatest in New South Wales, where numerous thefts of copper wire and cable occurred.

The Department is conducting a comprehensive review of the stores losses sustained in all States during 1964-65."

81. In a submission to the Committee the Department stated that losses of stores in 1964-65 were greatly influenced, not only in number, but also in value by the shortage of copper and high prices generally for base metals. In order to meet the local demand, Australia had to import about 20,000 tons of copper, the local price of which for most of 1964-65 was £340 (\$680) per ton, ~~whereas the~~ <sup>the</sup> cost of imports reached more than £600 (\$1,200) per ton, the price of copper scrap rose to a similar figure and this cost rise combined with a ready market because of the serious short fall in local copper production, was an incentive to dishonest persons. Accordingly, the Post Office, because of its position as a major user of copper and to minimise the extra costs flowing from the price rise, took special action to expedite recovery of surplus copper wire from trunk routes. It was stated that this would be known to the community, particularly in the areas where material was being recovered or recovery action was imminent.

Exhibit  
78/8

82. The Department continued that of the 189 losses of stores, each valued in excess of £50 (\$100), which occurred in 1964-65, 80 involved values in excess of £100 (\$200). The incidence of thefts and robbery of stores was greatest in New South Wales where 54 cases of losses in excess of £100 (\$200) (total value £20,822 (\$41,644) occurred in

Exhibit  
78/8

1964-65 while the other 26 cases (total value £6,086 (\$12,172) were spread over the other four mainland States. Of the losses in New South Wales, 40 occurred while the materials were held in the store, 10 occurred while the materials or plant were in situ (for example, copper wire on trunk routes, public telephone mechanisms, &c.) and 4 involved thefts from motor vehicles, caravans or trailers. Of the 26 cases over £100 (\$200) in other States, 18 involved materials in stores, 6 represented materials or plant in situ and 2 were thefts from vehicles.

83. We were informed that the Department felt that the stores procedures adopted were soundly based and were being effectively applied. The value of engineers' stores held by the Department was approximately £8,000,000 (\$16,000,000) and it was indicated that stocktakes of such a large quantity of material would unavoidably reveal excesses and deficiencies. However, about six years ago, the discrepancies, when expressed as a percentage of total stock holdings, had amounted to 1.02% but this figure had been reduced to 0.24% and the Department was satisfied that losses which had occurred were not due to negligence or carelessness. Q. 531

84. It was stated that the losses reported upon by the Auditor-General had all been attributable to persons outside of the Departmental staff and that Post Office investigators were working in close co-operation with the New South Wales Police. Attention was being directed to the activities of scrap metal dealers in that State but it was frequently difficult to identify Departmental copper wire as the receiver had no difficulty in melting the lead off the material. However, a recent theft from a Departmental store in New South Wales had led to the apprehension of a scrap metal dealer who was discovered receiving stolen property and the material had been recovered in its entirety. Q. 530  
Q. 543  
Q. 554  
Q. 543

85. The Department stated that in most instances materials were held in closed and locked buildings or yards and that thefts occurred in circumstances which could be avoided only by expensive and even elaborate precautions. The economic cost of security measures in a large department with wide dispersion and rapid turnover of materials had to be Exhibit 78/8

assessed against the background of the total number of situations in which stores were established. The total number of stores (including main stores, divisional stores, line and foreman stores and tool stores) amounted to 1,693. The Department suggested that even this total did not reflect the full position; for example, on many occasions it was necessary for vehicles, trailers and even bulky materials to be left on site overnight because a return to base would be not only uneconomic but even impracticable in the light of the location or the stage of the works project. However, we were informed that the maximum practical measures were taken to guard against theft. Smaller items of stock or those possessing considerable commercial value in relation to their bulk are housed in buildings which are securely locked outside working hours and the number of people having access is restricted at all times. Large heavy items such as cable, poles, conduits and mechanical aids are of necessity housed in yards, under cover where necessary, to prevent deterioration. The yards are enclosed and man-proof fencing, flood-lighting, alarm circuits and other security aids are used wherever practicable and economic. Vehicles and trailers which must be left overnight on a job are securely locked and if possible, are parked off the street on private property if the occupier or owner permits. When left on footpaths such vehicles are placed in well lighted areas on main or busy streets if the location of the work permits this to be done without undue cost or delay to the workmen at the beginning or end of a working day.

Exhibit  
76/8

86. Referring to the practices adopted in the control of stores, the Department stated that procedures for stores accounting and stocktaking are comprehensive and subject to close and critical review at frequent intervals and that a continuing check is made on the security of stores held, the accuracy of recorded issues and the return of materials. For example, all stock transactions at larger departmental stores are recorded immediately after vouchers have been prepared and acquitted. Bin tally cards are maintained. These are regularly reconciled by the officer controlling the store, and are checked by visiting senior officers. Each store is subject to an annual examination by central

Exhibit  
76/8

Q. 553

costing groups established in each State. We were informed that the procedures extend to the recording of materials recovered from works projects, in respect of which credits are established for the stores not used, and that a reconciliation is made between the quantity returned and an estimate previously made of what quantity should be returned. These materials are used as backloadings for Stores and Contract Branch vehicles and are returned to a central store in Sydney.

87. It was stated that written instructions provided for annual stocktakes at all engineering stores by Stores Inspection Officers (under the control of the Costing Officer), frequent inspections by local engineers and six monthly inspections by the Divisional Cost Clerk. Other current instructions are designed to achieve an assessment of the overall supply position, the examination of stock levels, with particular reference to slow moving stocks, and the implementation of a satisfactory internal audit programme. This programme provides for 40 separate audits of stores matters every three months of the year and in New South Wales one member of the Internal Audit Staff had been fully engaged on such audits during the preceding six months. The programme of audit work is set out in an Internal Audit Manual but we were informed that, although the Manual indicates that the prime responsibility for the Audit of operations and the recording of transactions at engineers' stores rests with the stores inspection staff of the Engineering Costing Section, there is close collaboration in such matters between that section, the Internal Audit Group and the Finance and Costs Section of the Accounts Branch.

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78/8

#### Conclusions

88. Your Committee appreciates the necessity for the widely-spread distribution of departmental stock holdings and the concomitant difficulty in providing maximum security measures in every instance. In these circumstances, we are satisfied that the practices adopted within the Department constitute the most reasonable and adequate safeguards that may be economically provided over the Commonwealth property concerned. We commend the Department for its efforts to reduce its losses to a minimum extent and accept the explanations tendered.

CHAPTER 7 - PRIME MINISTER'S DEPARTMENT

89. In paragraph 127 of his Report, the Auditor-General made the following comment in relation to the High Commissioner's Office - United Kingdom :-

"The authority for the appointment and engagement of local staff is provided under the High Commissioner (United Kingdom) Act 1909-1957, and the terms and conditions of employment are prescribed in the High Commissioner (Staff) Regulations under that Act.

However, appointments and engagements of staff have not been made in accordance with the provisions of the Act, and salaries prescribed in the Regulations have been progressively exceeded and a number of more beneficial provisions authorized under the Public Service Act 1922-1964 have been extended to locally engaged staff without the necessary statutory authority.

Action to legalize appointments and engagements not in accordance with the High Commissioner (United Kingdom) Act is currently under consideration in the Prime Minister's Department. That Department has advised that draft amendments to certain Regulations, with a view to validating payments made without proper authority, are in course of preparation and that a wider revision of the Regulations is under consideration."

90. In reference to the appointment and engagement of staff in the United Kingdom, the Department stated that since the regulations under the High Commissioner (United Kingdom) Act 1909-1957 came into operation in October, 1960, it had been the practice for the Official Secretary, Australia House, to approve appointments to the permanent staff and for the Administrative Officer, Australia House, to approve the engagement of temporary employees. However, following a review of practices and procedures at Australia House earlier in 1965, the Chief Auditor had expressed some doubt about the validity of

Exhibit  
28/2 and  
Q. 178

the arrangements. It had been pointed out that, under Section 9 of the Act, the authority to appoint both permanent and temporary staff was vested in the High Commissioner without power of delegation. However, there seemed to be some conflict of purpose raised by the provisions of High Commissioner (Staff) Regulation 16 under which the High Commissioner was again given authority which, by virtue of Regulation 6, he was empowered to delegate to the official Secretary.

91. Although the Prime Minister's Department in Australia had received no specific request until 10th March, 1965, that the Regulations should be examined, some doubt had existed as to the adequacy of the Regulations as far back as 1961. On 28th April, 1961, the Official Secretary at Australia House had communicated with the Prime Minister's Department on the subject of new regulations and had indicated that a number of matters emerging from the regulations appeared to warrant further study and comment. It was proposed, at a later date, to deal with such matters concurrently when the views of the officers at Australia House had been crystallised. On 12th June, 1962, the Prime Minister's Department had asked the Official Secretary to advise when recommendations for amendments to the regulations might be expected. The Audit Observer, Mr. A. K. Ragloss, stated that his Office was unable to discover any reply by the Official Secretary to the request. Q. 195 Q. 223

92. After receipt, in March, 1965, of the Official Secretary's request that the Regulations should be examined, the Prime Minister's Department sought the advice of the Attorney-General as to whether the then current practice relating to appointments involved a contravention of the Act and Regulations and if such was the case, whether formal amendments could be drafted to allow the current practice to Exhibit 78/2



be continued. In reply, the Attorney-General's Department advised that the practice referred to was not in accordance with the Act and to enable the procedure to be lawfully continued, the Act would require amendment. It also advised that appointments and engagements which had been made otherwise than by the High Commissioner would require validation. As a result of this advice, the question of validation of appointments and engagements that had been made otherwise than by the High Commissioner was at the time of our inquiry, under examination by the Prime Minister's Department in consultation with the Parliamentary Draftsman. The Australian High Commissioner's Office in London had also advised that in the light of the opinion received from the Attorney-General's Department, all appointments to the permanent staff and engagements of temporary employees were now subject to the approval of the High Commissioner. Q. 180

93. Explaining the circumstances relative to the payment of salaries in excess of the prescribed levels, the Department stated that it had been the practice to vary the scale of rates of salary of offices set out in the Fourth Schedule to the High Commissioner (Staff) Regulations by means of a Ministerial determination pursuant to the powers contained in Regulation 8 of those Regulations. We were informed that, although the Department had been correct in obtaining such Ministerial approval, no amendment had been sought to the Fourth Schedule with the result that salaries paid after reclassification were not in accord with that Schedule. Following a review of the practices and procedures adopted in Australia House, the Chief Auditor had expressed some doubts concerning the validity of the salary arrangements and this matter was also raised with the Attorney-General's Department which advised Exhibit 78/2 and Q. 185

that, despite the power given to the Minister by Regulation 8 to vary the classification of an office, the Regulation in itself did not authorise the payment of any increase in salary that may have been intended by the variation. The Attorney-General's Department also advised that authority for the increased payment was to be sought in another Regulation and, unless the new rates on reclassification were to be found in the existing scale in the Fourth Schedule, there was no authority for the payment of any increase. It also indicated that it would be possible to make a Regulation with retrospective effect to validate past payments and to make such alterations in the schedule as would be necessary to include the new classifications. The Prime Minister's Department accordingly asked the Attorney-General's Department to prepare amending Regulations which would bring the Fourth Schedule into accord with the Ministerial determinations made since the Regulations came into force.

94. Referring to the third matter reported upon Q. 218 by the Auditor-General, viz., the extension of more beneficial provisions to locally engaged staff than those authorised under the Regulations, the Public Service Board Observer, Mr. F. C. Nordeck, indicated that the situation had arisen after local employees had observed the conditions enjoyed by Australian public servants employed in Australia House. The witness informed us that it was necessary for the High Commission in London to compete for the engagement of local staff with British industry and Civil Service establishments but that, although the Official Secretary usually consulted the Public Service Board and Treasury representatives in Australia House before extending more beneficial conditions to locally engaged employees, there was no authority permitting the Official Secretary to extend the provisions of the Regulations. However, the competitive

labour market necessitated the application of better conditions to locally engaged staff than the strict letter of the legislation permitted. Notwithstanding these difficulties, Australia House had been instructed that the past practice in this respect must cease.

**Conclusions**

95. Your Committee notes that the matters reported upon by the Auditor-General, although ultimately the administrative responsibility of the Prime Minister's Department, arose out of the apparently semi-autonomous nature of the administration of Australia House and that the Prime Minister's Department took remedial action immediately on becoming aware of the situation. We recognise that the Department was found to be at fault in respect of the appointment and engagement of staff only after an interpretation of the Regulations was received from the Attorney-General's Department and we note that although salaries paid were not in accordance with the Fourth Schedule to the Regulations, Ministerial approval was obtained prior to any variation. However, despite the difficulties encountered in engagement and retaining the services of local personnel, Your Committee cannot condone the unauthorised extension of more beneficial conditions to such staff. Your Committee does not deny that these difficulties exist and must be overcome but we suggest that the proper solution lies in the amendment of the appropriate Regulations rather than the application of conditions prescribed by other legislation not intended to cater for the situation.

CHAPTER 8 - DEPARTMENT OF TRADE & INDUSTRY

96. The following comment relating to accounting was made by the Auditor-General in Paragraph 148 of his Report:-

"Reference was made in paragraph 13 of my 1962-63 Supplementary Report to a number of unsatisfactory features of accounting on which Audit representations had been made to the Department. Following an inquiry, the Joint Committee of Public Accounts reported on these matters in its Sixty-sixth Report to the Parliament.

My Report for 1963-64 acknowledged, at paragraph 120, that the unsatisfactory features had been substantially remedied but mentioned that some aspects of examination of overseas vouchers and the recording and recovery of debts due to the Department required attention.

Further representations were made to the Department during the year on the following matters -

Accounting - Overseas Offices -

An Audit review in 1964-65 disclosed that, although the improvement achieved during the preceding year had been sustained, defects in a number of aspects were still apparent. The defects included failure to ensure that important documents and other information required by departmental instructions were submitted to Australia to support overseas expenditure and that all overseas offices complied with relevant accounting instructions. It was considered that the departmental examination in Australia of accounts and supporting documents required further improvement before being regarded as satisfactory.

During June and July 1965, Audit officers inspected the accounts and records at a number of overseas offices and found deficiencies in internal checking arrangements. It was also found that some officers holding appointments in relation to accounting were not well informed regarding Treasury accounting procedures or fully aware of their duties and responsibilities.

The Department was advised that, in Audit opinion, its examination of overseas accounts received in Australia could be improved still further; that the attention of all overseas accounting staff should again be drawn to their duties and responsibilities and that consideration be given to the desirability of periodical departmental inspections of accounting at overseas offices having regard to their relative size and importance.

The Department indicated recently that its training procedures are to be reviewed and consideration given to a programme of inspections as suggested by Audit. Assurances were given that every effort is being made, despite staffing difficulties, to improve the standard of accounting at overseas offices. The Department also stated that it expects the standard of its examination of overseas vouchers received in Australia to be further improved during 1965-66.

Sundry Debtors -

Following Audit representations in December, 1964, the Department agreed that the adequacy of follow-up action in respect of outstanding debts and the adjustment of long standing balances of debtors' accounts was unsatisfactory. The Department advised of urgent action taken to remedy the position.

Recent Audit examination showed an improvement in the state of the accounts but other aspects, including failure to comply with existing accounting procedures and lack of detailed instructions, were raised with the Department.

The Department, in reply, advised of proposed remedial action and that, commensurate with availability of staff, every effort is being made to place the debtors' accounts on a satisfactory basis.

Adjustment of Advances -

Concern was again expressed that, despite repeated Audit representations, there was evidence of failure by the Department to ensure that temporary advances were adjusted within the period prescribed by Treasury Regulation 77.

The Department recently advised of action taken and proposed to remedy the position."

97. The Department, stated that the principal reason for the continued comment by the Auditor-General was the Department's inadequate staffing arrangements in the accounts section. Extreme difficulty had been experienced in recruiting and retaining suitably trained staff to perform the required duties in that section and, as a result, during 1964-65 the section was continually understaffed. We were informed that the 15 positions in the Accounts Section included an Accountant, a Sub-Accountant, a Senior Examiner and 3 Junior Examiners. The remaining officers included the Collector of Public Moneys, a Sundry Debtors Ledger Keeper and 2 officers responsible for the

Exhibit  
98/3

Q. 287

registration of accounts. During the year 5 members of the Account Staff resigned, 7 were promoted out of the Accounts Branch, 2 were transferred to duties more appropriate to their abilities, and 15 transfers took place within the Branch itself. The witness stated that this large turnover of staff could be attributed to the opportunities for rapid promotion in Canberra, and that the Department had suffered a number of staff losses in a short space of time. These movements had resulted in one position of Examiner of Overseas Accounts being vacant for some time while two of the other positions were vacant for short periods. On other occasions, absence of the Collector and Paymaster, Examiners of Local Accounts, Recovery Clerk and the Sub-Accountant imposed heavy work loads on the remaining staff and, although a total of 1,592 hours overtime was worked during the year, the effort barely enabled the Section to cope with the current work load without regard to the accumulating arrears. However, a re-organisation proposal had been submitted to the Public Service Board which, if approved, was expected to assist substantially in rectifying deficiencies referred to by the Auditor-General.

98. The evidence relating to the specific criticisms made by the Auditor-General is set out below.

(a) Accounting - Overseas Offices

99. The Department stated that the defects reported were of two categories. In the first category, defects were mainly technicalities and comprised such matters as the apparent failure by Trade Commissioners at some posts to quote order numbers, the details of quotations, failure to mark claims "paid" and the non-submission of requisition numbers, cash sheets, receipts and other supporting documents. It was stated that since a Trade Commissioner generally exercised all financial delegations at his post, the defects were either minor omissions or short-cuts taken as a matter of expediency. Although the Department did not condone those defects, and was taking continuous action to eliminate them, the constant staff changes at the 43 overseas posts constituted a considerable and continuous training problem. It had not been possible to implement a training scheme for examiners because of the

various staff changes and the difficulties consequently encountered within the Branch. A training programme for Trade Commissioners had been introduced only recently due to the fact that the Trade Commissioner Service had previously been a separate entity within the Department, responsible to a First Assistant Secretary. After September, 1964, the Trade Commissioner Service had been divided into two Sections, viz.:- the Trade Commissioner Branch which became responsible for the supervision of the work at the posts, and the remainder of that Service which became the responsibility of the Management Services Branch. When a Trade Commissioner is about to proceed overseas he is now interviewed by the Finance Officer who explains his functions, the work that he has to do at his overseas post and the relationship of that work to the functions of the Department in Canberra. He is then further briefed by the Accountant and the Examiners, informed of any problems which may arise and supplied with copies of all documents he will encounter in the performance of his duties.

Q. 264

Q. 237

100. The Department continued that the second category of defects related to deficiencies within internal control procedures. These deficiencies included the absence of evidence of check by the Chief Accounting Officer in respect of such matters as advances, leave records and paid cheques. Copies of delegations could not be produced at some posts and it was reported that some Trade Commissioners were not well informed of their responsibilities and obligations. It was stated that it was most difficult to supervise the performance of duties from Australia but action had again been taken by the Department in an endeavour to overcome the deficiencies. Memoranda and circulars are sent to Trade Commissioners as deficiencies are noted and vouchers from overseas posts, in addition to normal examination, are subject to a regular programme of internal audit. A programme of overseas inspection was being implemented by the Director of the Trade Commissioner Service and it was proposed that a series of examinations should be conducted every six months.

Exhibit  
78/3

Q's. 281-  
- 284

(b) Sundry Debtors

101. The Department stated that delays in collecting revenue from sundry debtors had been a matter of serious concern for some time but, because of the complex nature of the transactions involved in the collection of revenue from sundry debtors, the task could not be satisfactorily undertaken by inexperienced staff. Questioned as to why the collection of debts should be a complex matter, the witness replied that junior clerks often failed to supply adequate information to debtors in respect of charges made for commercial services at overseas posts. If the debtor refused to meet the charges, a decision had to be made as to whether the charges should be met by the Department or whether recovery action should be taken and letters of demand prepared. It was indicated that the necessity to make decisions in such circumstances prompted a need for experienced officers who were not readily available. The Department would not permit officers, who had not received training in letter writing, despite the payment of salaries in the vicinity of £1,900 (\$3,800) per annum to perform these functions, since the form of the work produced by an untrained officer usually required re-drafting by a senior officer. However, officers had been trained to adequately perform these duties and, since April, 1965, one officer had devoted all of his time to the recovery of debts. Written instructions, the absence of which had also attracted criticism by the Auditor-General, were also about to be issued to the recovery clerks.

Q. 294-302

Q. 295

Q. 305

102. We were informed that the total of the amounts outstanding in the Sundry Debtors Ledger varied considerably during the year. For example, in January, 1965, the amounts outstanding totalled £200,000 (\$400,000) but, by June, 1965 had been reduced to £23,000 (\$46,000). In September, 1965 the figure again rose to £189,000 (\$378,000). However, despite the large sums recovered each month, the longstanding balances of outstanding debtors in October, 1965 numbered 22 and involved only £760 (\$1,520). Some of these charges had been incurred in 1962 and had been referred to the Crown Solicitor for recovery action.

Q. 309



(c) Adjustment of Advances

103. The Department stated that staff shortages and a heavy work load had denied the opportunities to effect the adjustments within the proscribed periods. In addition, the particular circumstances relating to many advances made acquittance impossible within seven days and those circumstances had prompted a request to the Department of the Treasury that the Regulation be amended and that, while the request was being considered, a dispensation might be granted to the Department. However, the Treasury Observer, Mr. M.G. Cowie, informed us that the concession sought by the Department was in the nature of an overall dispensation which the Treasury was not anxious to approve as it was felt that each individual case should be decided on its merits.

Exhibit  
78/3 and  
Q. 320

Q. 321

104. We were informed that one of the difficulties confronting the Department in securing the prompt acquittance of advances was the delay in acquiring receipts for expenditures met from temporary advances. It was stated, for example, that a Trade Commissioner may fail to pay an hotel account until the month following his stay at a post and the receipt may not be forwarded to Australia until the elapse of a further month. Until such time as the receipt was received, no adjustment of a temporary advance was possible. In response to a request for further information relative to unadjusted advances, the Department provided a submission which revealed that, of thirty-five advances outstanding at the time of the hearing, fourteen had been adjusted and a further nineteen were expected to be finalised in a matter of weeks.

Q. 317

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Conclusions

105. Of the three major aspects of our inquiry into the Department of Trade and Industry, viz., general accounting standards, sundry debtors and the adjustment of temporary advances, Your Committee is most disturbed at the apparent failure to adequately pursue settlement of debts and the adjustment of advances until such time as attention had

been directed to the deficiencies during a public investigation. Evidence was received which indicated that, after Your Committee's inquiry was commenced, action was taken to reduce outstanding sundry debtors from seventy-four to twenty-two accounts and that, of thirty-five unadjusted advances outstanding at the time of the hearing, all but two had been, or were expected to be, finalised by the beginning of 1966. The Auditor-General's report to the Parliament and the consequential inquiry into these matters by Your Committee were time consuming and expensive administrative procedures which could well have been obviated if the Department had effected remedial measures when it became obvious that the level of both types of account was increasing to an unacceptable degree.

106. Your Committee notes that, in referring to the accounting within the Department, the Observer from the Auditor-General's Office, Mr. A.K. Ragless, conceded that the standard had been improved considerably within the twelve months preceding the inquiry and that the perfection perhaps sought by his office was not easy to attain. Despite the Department's suggestion that failures to attach various documents to overseas vouchers was a matter which had been overstressed, the Audit Observer stated that the absence of such documents impeded a proper examination of the transactions and for this reason the Audit Office regarded the documents as important. In the light of those observations and the evidence received Your Committee trusts that the standard of accounting within the Department will continue to improve and that it will not prove necessary to inquire for a third time into any of the matters examined on this occasion.

Q. 266

CHAPTER 9 - THE DEPARTMENT OF THE TREASURY

(a) TAXES WRITTEN OFF

107. Paragraph 179 of the Auditor-General's Report contained the following comment:-

"Taxes written off as irrecoverable during 1964-65 in accordance with the provisions of Section 700 of the Audit Act, compared with amounts written off during 1963-64 were:-

	1964-65		1963-64	
	£	(s)	£	(s)
Income Tax	550,321	(1,100,642)	346,481	(692,962)
Sales Tax	30,532	(61,064)	47,020	(94,040)
Pay-roll Tax	3,716	(7,432)	5,186	(10,372)
Other	107	(214)	319	(638)
	584,676	(1,169,352)	399,006	(798,012)

108. We were informed that the increase in the amount of income taxes written off in 1964-65 had been a reflection of the increased charges against taxpayers. Such amounts written off, expressed as a percentage of the total collections, had been .0383 per cent. in 1961-62; .0338 per cent. in 1962-63; .0368 per cent. in 1963-64 and .0540 per cent. in 1964-65. A submission sought by the Committee analysing the amounts written off appears at Appendix No. 2 to this Report.

Q.468

109. The Taxation Branch informed us that where any tax, duty or charge is considered to be irrecoverable, submissions are prepared requesting authority to write-off the amounts involved. The Treasurer has delegated, to certain officers of the Taxation Department, his powers and functions under section 700 of the Audit Act to write-off irrecoverable amounts to the following extent:-

Exhibit  
78/7

Commissioners, Second Commissioners and the First Assistant Commissioner (Management)	Any Tax, duty or charge to £500 (\$1,000)
Director (Accounting)	Any tax, duty or charge to £400 (\$800)
Deputy Commissioners, Assistant Deputy Commissioners (Administration) and the Administrative Officer (N.S.W.)	Any tax, duty or charge to £200 (\$400).

110. The Taxation Branch submission continued that tax charges are considered to be irrecoverable only after all avenues of collection provided in statutes administered by the Commissioner, as well as the legal remedies provided by other Commonwealth and State laws, had proved fruitless. If sufficient evidence has been obtained from reliable sources to indicate beyond all doubt that there is no justification in pursuing further recovery action, submissions are prepared seeking the approval of the appropriate delegate for the tax to be written-off. Every endeavour is made to ensure that the information contained in each submission is sufficiently comprehensive to enable the delegate to make a decision. For example, general statements that a taxpayer cannot be traced, or that attempts to recover the tax have been unsuccessful, are not accepted. If the taxpayer is a person, the submission is prepared only after reference has been made to police in the locality of the taxpayer's last known address and a search has been made of the records of the Electoral Office, Motor Registrations Office and the Department of Social Services. Information is also sought from the taxpayer's last known employer, his banker and other business associates if it appears that such inquiries will assist in locating him.

Exhibit  
78/7

111. We were informed that an index is maintained in each State upon which is recorded the personal details of each taxpayer. If a taxpayer indicates a new address in his income tax return, the address contained in the index is amended. However, details of any tax previously written-off are also recorded in the index and if a return is subsequently submitted by a taxpayer who previously could

Q. 475 .

not be located, attention would be immediately invited to the outstanding debit. However, no centralised index is maintained and the existing procedures do not provide for interstate notification of debts written-off.

Q.516

112. The evidence indicated that on 28th May, 1962 the Taxation Assessment Acts had been amended to repeal the provisions relating to taxation clearances prior to a taxpayer's departure overseas. Following this amendment the Taxation Branch has been obliged to rely upon the provisions of State legislation applying to absconding debtors in order to apprehend absconding taxpayers. The witness stated that due to varying conditions between the States, the protection provided by State legislation was less satisfactory than the Taxation Branch would prefer. If a taxpayer were to remit his capital to an overseas country prior to his departure, the Taxation Branch could not recover the amount of any outstanding tax as courts of other nations will not enforce the payment of taxation debts by Australian nationals. We were informed, however, that the incidence of absconding debtors was of no great magnitude.

Q.509-514  
and Committee  
File  
1965/7/78

Q. 470

Q. 503

113. The Department informed us that each proposal to write-off an amount in excess of £10 (\$20) is referred to the Chief Auditor for his comments and, if that officer has no objection, the proposal is then submitted to the Treasurer's delegate for decision. However, if the Chief Auditor objects, the proposal is again reviewed in the light of his comments. It was explained that this process of referring to the Chief Auditor proposals to write-off taxes did not constitute a breach of the secrecy provisions of the Act since only information relative to the action taken to recover the charges was made available. A legal opinion given by the Crown Solicitor in 1949 had indicated that it was the responsibility of the Commissioner for Taxation to establish the liability of a taxpayer and that the Auditor-General's function was to ensure that the charges were properly brought to account.

Exhibit  
78/7

Q. 465 and  
Q. 498

Q. 498

114. It was stated that the process of writing-off a

Exhibit  
78/7

tax does not release the taxpayer from liability despite the closure of his account. Should the taxpayer subsequently be located, the tax charge is reinstated and recovery action recommenced.

### Conclusions

115. Your Committee is satisfied that the safeguards inherent in departmental procedures in the Taxation Branch ensure that taxation revenue due to the Commonwealth is not prematurely written-off. However, we suggest that consideration should be given to a practice of annotating indexes in all States, in the event of individual tax debits being suspended, in order to detect interstate absconders. Your Committee also recommends that the appropriate authorities should consider the difficulties being experienced by the Taxation Branch, in respect of debtors absconding overseas, with a view to providing an alternative to the present necessity to rely upon apparently inadequate State legislation.

(b) DEFENCE SERVICES - PROCUREMENT IN THE  
UNITED STATES OF AMERICA

116. Paragraph 187 of the Auditor-General's Report contained the following comments:-

"Reference was made in paragraph 167 of my Report for 1963-64 to advances which had been made by the Australian Consulate-General in New York in respect of procurements in America on behalf of the Australian Defence Services and had not been adjusted.

As mentioned in my Report, the major portion of the unadjusted advances represented progress payments on current contracts (for example, the Charles F. Adams class destroyers and the F-111A type aircraft), but a considerable amount related to equipment and material which had been delivered.

The amount of advances which remained unadjusted increased from \$US96,921,026 as at 30th June, 1964 to \$US107,766,718 at 30th June, 1965. The increase was due principally to payments during the year totalling \$US17,026,000 in respect of the Charles F. Adams class destroyers under construction. At 30th June, 1965,

the unadjusted advances included progress payments on the abovementioned destroyers (\$US.42,311,000) and aircraft (\$US.20,000,000).

As a result of departmental and Treasury follow-up action, many accounts with balances outstanding for long periods were adjusted during the year. In one instance a refund of \$US.1,316,582 was received. Of those advances which remained unadjusted at 30th June, 1965, delays in adjustment have been due to the non-receipt of final billings from suppliers; delays in deliveries of orders; non-receipt of refunds resulting from amendment or cancellation of orders; or the failure to process promptly billings received.

Notwithstanding the considerable improvement in the follow-up of the advances during the year, it is considered that a great deal more work will be necessary before the position might be regarded as satisfactory. In this connexion, the recent establishment of a separate section of the Consulate-General's Office, New York, should accelerate the processing of the accumulated billings."

117. The Department indicated that the "considerable improvement" noted in the Auditor-General's Report had been due to the introduction of a new staff organisation in the Commonwealth Sub-Treasury, New York. However, the new staff organisation had not been introduced until March, 1965, and this factor, together with the difficulty in obtaining adequate billings from the United States Navy and Army, had retarded progress in the reduction of unadjusted advances.

Exhibit  
78/4

118. The Department has indicated that following a detailed review of outstanding advances as at 30th June, 1965, by the Sub-Treasury, arrangements had been made for the Australian Service representatives in Washington to make representations to the United States authorities with a view to obtaining outstanding billings and, where appropriate, refunds to the Commonwealth. We were informed that this approach was one of a number of approaches which had been made over some years, without a great deal of success, and that finally the Australian Consul-General had conferred with the Ambassador in Washington with a view to raising the matter of outstanding advances with higher authorities in the United States Government. It was indicated that the success achieved had been due largely to the latter representations and that it was expected that the situation would continue to improve. A further

Exhibit  
78/4

Q.330

assessment of the position was being made currently by the Sub-Treasury.

119. The Audit Office Observer, Mr. A.K. Razloss, informed us that a communication dated 23rd July, 1965, from the Chief Auditor had revealed that as a result of the representations referred to, one hundred and nine orders had been finalised and refunds of \$US.1,400,000 received. However, a review of unadjusted advances in excess of \$US.10,000 had revealed that 25 per cent. of the advances made on behalf of the Department of Air contained no evidence that current action was being taken to finalise the transactions. Several unsatisfactory features also had been noted in respect of advances made on behalf of the Department of the Army.

Q. 333

120. In a subsequent submission from the Department of the Treasury, it was stated that, by 27th November, 1965, only 25 billings involving an aggregate of \$US.700,000 remained of the original backlog and that these remaining billings would be finalised after the receipt of further supporting documents.

Committee  
file  
1965/1/78

121. It was indicated that the adjustment of advances was the responsibility of the Sub-Treasury, New York, but that the verification of invoices and the finalisation of orders, a process which must necessarily precede the adjustments, was the responsibility of the Procurement Section in the office of the Consulate-General. The division of responsibility had not contributed to any previous difficulties and these problems, which had arisen due to a shortage in staff in the Procurement Section, had since been resolved.

Q. 352

#### Conclusions

122. Your Committee appreciates the difficulties which have confronted the Department of the Treasury and notes that they have been aggravated by a substantial increase in defence expenditure by the Commonwealth in the United States. We accept the explanations tendered but trust that continuing attention will be devoted to the deficiencies noted subsequent to the 30th June, 1965, by the Chief Audit Inspector.



CHAPTER 10 - CONCLUSIONS.

123. In Chapter 1 of this Report, we stated that the Report of the Auditor-General for 1964/65 had been presented to the Parliament on 24th August, 1965. Our inquiries into the Reports of the Auditor-General show that, in recent years, the Reports of the Auditor-General have been tabled during the latter half of August. Your Committee appreciates greatly the early presentation of these Reports and would pay tribute to the Auditor-General and his staff for the sustained effort which they have made over the years to achieve that objective.

124. Our inquiry into the Auditor-General's Report for 1964/65 was designed to cover a somewhat wider field of inquiry than has been traversed by Your Committee in recent years. In the case of the Department of the Army, for example, the comments made by the Auditor-General indicated that the matters which had been a source of criticism had been rectified. However, Your Committee felt that, in the public interest, it should examine fully the circumstances which had given rise to that criticism particularly as it appeared that there may have been a deterioration in normal Army peace-time discipline. In the case of taxes written-off under Section 70(c) of the Audit Act, on the other hand, no criticism had been made by the Auditor-General. Nevertheless, Your Committee again felt that, in the public interest, it should satisfy itself that the revenue concerned was properly safeguarded. This facet of our inquiry showed that whilst safeguards inherent in departmental procedures in the Taxation Branch ensure that taxation revenue is not written-off prematurely, the Branch is confronted with certain problems in regard to taxpayers absconding overseas.

125. Generally, the evidence submitted in this inquiry strengthens Your Committee's view that it should adhere to its long-established practice of critically examining each year the Reports of the Auditor-General and, where it sees a need, proceeding to a public examination of matters referred to in those Reports.

For and on behalf of the Committee:

Richard Cleaver  
Chairman

David N. Reid,  
Secretary,  
Joint Committee of Public Accounts,  
Parliament House,  
CANBERRA.

A.C.T.

16th March, 1966.

PROPOSAL FOR TRUST ACCOUNT FOR A.C.T. SERVICES  
Statement by Department of the Interior

The Department of the Interior has sought approval for a Trust Account in respect of A.C.T. Services for the following purposes:-

- (i) Accurate and effective municipal accounting;
- (ii) Operation of an unproductive charges account;
- (iii) Purchase and issue of stores;
- (iv) Operation of a plant hire pool;
- (v) Operation of a small plant and tools account;
- (vi) Workshops costing.

2. Accurate municipal accounting within a Trust Account would be dependent on the Trust Account being used also for the purposes (ii) to (vi) listed above; but the latter would also assist in improving the accuracy of costing of all other Departmental activities.

(i) Municipal Accounting

3. In the past, no attempt has been made to make an accurate assessment of Canberra municipal revenue and expenditure. The rapid increase in Canberra's population in recent years has, of course, given rise to a corresponding increase in municipal expenditure, which has now reached substantial proportions, and it is becoming increasingly important to ensure that expenditure is properly accounted for and that the fullest effective presentation of these important public accounts is available for consideration by the Minister for the Interior and his Department.

4. The Treasurer in his last Budget speech mentioned that Canberra charges would be reviewed, and for this to be done it is necessary for a more precise form of accounting to be introduced. The Department has already given considerable attention to the question of municipal accounting, and it is proposed to prepare municipal financial statements in the form of the drafts attached.

5. The preparation of accurate municipal financial statements in this form would be extremely difficult under present circumstances as a high degree of notional accounting would be involved. Unfortunately, the heads of expenditure under the existing form of the Territories Section of the Appropriation Act are quite inadequate for an effective system of municipal accounting, and even if they were in line with the headings required for municipal purposes, difficulty would be experienced in integrating commercial-type accounting with the Treasury system of accounting.

6. One of the greatest difficulties in operating municipal accounting under appropriations is that there is no continuity, as appropriations lapse at 30th June each year. On the other hand, a Trust Account would provide a continuing account in which balances could be carried forward from year to year.

7. At present municipal expenditure in respect of Canberra is recorded under many divisions, sub-divisions and items. Some of these are not even under the control of the Department of the Interior.

8. If a Trust Account were provided, it is envisaged that the municipal expenditure which is not controlled by the Department would be financed by means of advances from the Trust Account

to other Departments concerned. It would be necessary, of course, for these Departments to account fully for expenditure from the advances.

9. The only practicable alternative to the provision of a Trust Account for municipal activities would be to provide for all municipal expenditure under one division, with sub-divisions and items to suit the costing required. However, this would not be nearly as satisfactory as a Trust Account, as it would not provide continuity and the workload would be considerably greater.

(ii) Unproductive charges account

10. Under present arrangements, unproductive charges such as holiday, sick and accident pay, furlough and travelling time are generally charged against the cost heading against which the wages of the employees concerned are charged. Special arrangements have been made in the case of the Parks and Gardens Section only.

11. The present system is most unsatisfactory in respect of accuracy of both estimating and costing. In fact, the costs reflected under a particular heading can at times be grossly inflated, as for example if an employee takes six months furlough while his wages are a charge to that cost heading.

12. Unproductive charges could be isolated in a separate appropriation; but this would not be satisfactory either. The most effective way of providing for unproductive charges is to accumulate a provision to meet such charges by on-costing all wages so that a credit is built up sufficient to meet these contingent liabilities when they arise. A Trust Account would be ideal for this purpose as the balance in the Provision Account could be carried forward from year to year and a check be made as to its adequacy at any point of time.

13. The levying of an on-cost to meet unproductive charges would place costing on a more accurate basis and would facilitate estimating of job costs.

(iii) Purchase and issue of stores

14. Without a Trust Account the Department is unable to observe the requirements of Section 34(3) of the Audit Act in that, in order to hold stocks of common use items, as is necessary for efficient operation, stores which may be used ultimately for capital works, recoverable works or maintenance, have to be charged initially to a vote which is not intended for that purpose. If the level of stocks changes in a financial year, the expenditure under the vote concerned will not reflect the true cost for that year.

15. The Chief Auditor (in July, 1963) was critical of the use of the Parks and Gardens maintenance vote 766/3/01 as a means of financing expenditure which was to be transferred ultimately to a capital works vote or recovered from other Departments. Approaches were made to the Department of the Treasury for changes in the appropriations and more recently for the provision of a Trust Account, but so far without success.

16. Parks and Gardens Section costing also was criticised by the Chief Auditor, resulting in the matter being mentioned in the Reports of the Auditor-General for the years ended 30th June, 1963, 30th June, 1964 and 30th June, 1965.

17. The need for a Trust Account or some other form of common fund was recently recognised by a joint Organisation and Methods Committee comprising a representative of the Department and officers of the Public Service Board. The report of this Committee included the following reference:

"..... it is desired to reiterate that a common fund (preferably a Trust Account) for all purchases of stores held pending issue would improve performance of the Department's supply functions; in particular, it would enable stock holdings to be rationalised and facilitate efficient provisioning. It is therefore recommended that renewed efforts be made to have a common stores funding arrangement introduced.

Excepting in the cases of Transport and Forestry stores which are purchased from the relevant Trust Accounts, stores to be held pending issue are purchased from various maintenance votes, a practice which appears to contravene the provisions of Section 34(3) of the Audit Act. The Department raised this issue with the Treasury as one of its reasons for seeking alternative arrangements for the funding of stores stock purchases.

If arrangements could be made to enable the Department to operate on a common fund for the purchasing of stores stock, it is considered that the concept of a central store system would become both practicable and desirable ....."

#### (iv) Plant hire pool

18. At present there is no satisfactory method of charging the various Departmental activities for the cost of plant used by those activities. Plant is purchased against funds provided under a plant and equipment vote and no attempt is made to allocate the depreciation factor of plant costs to the various activities on which the plant is used.

19. The total value of plant held exceeds £400,000 and it is obviously desirable that a Departmental plant pool be established, with appropriate hire rates inclusive of depreciation for each item of plant. This would permit an equitable distribution of the cost of operating plant over all the activities which make use of the plant. In addition, it would provide a basis for proper plant accounting.

20. Here again it seems that a Trust Account would provide the most satisfactory means of achieving the desired result. It is mentioned in this regard that the Department of Works operates a plant pool under a Trust Account in much the same way as is proposed by this Department.

#### (v) Small plant and tools account

21. Under present circumstances, minor items of small plant and tools are purchased against a plant and equipment vote; but there is no means of distributing the cost over the activities on which they are used. This is not satisfactory as many items, e.g. hand tools such as shovels, might be used on many different projects before becoming unserviceable. Each project should bear a share of the cost of any small plant and tools used, but under the present system this does not happen.

22. It is desired to establish a fund for the purchase and replacement of small plant and tools by levying a small on-cost on the wages of the workmen who use these items. This can be done most effectively under a Trust Account, which will permit any remaining balance in the fund to be carried forward from year to year. Without this continuity there would be no means of checking the adequacy of the on-cost.

(vi) Workshops Costing

23. Parks and Gardens Section operates small workshops to carry out minor repairs of plant and equipment and other small jobs for the section. At times work may even be done for other Sections. There is no satisfactory way at present of spreading the cost of these small workshops over the cost headings for the various projects for which work is done - in fact the costs are merely charged to one cost heading under the Parks and Gardens vote.

24. A form of suspense account is required so that the workshops costs can be suspended and ultimately, on completion of each job, charged to the appropriate cost heading. This too can be done most effectively under a Trust Account.

25. The system under which the Trust Account would be operated if it were provided is by no means new. The Department of Works has been operating a Trust Account for similar purposes for many years. It is envisaged that the unproductive charges account, plant hire pool, stores activities, small plant and tools account and workshop costing would be established on very similar lines to the methods used in the Department of Works.

26. The requirement for a Trust Account for municipal accounting purposes is peculiar to this Department, and it is by far the most important purpose for which it is being sought. However, the other purposes for which the account would be used are all important from the point of view of establishing accurate costing for all of the Department's activities including the municipal activities.

27. The Department first raised the question of providing a Trust Account with Treasury in 1962. At that time, attention was being directed to improving Parks and Gardens Section costing and a Trust Account was sought for parks and gardens activities only. When this request was refused, approaches were made for certain changes in the appropriations to enable improvements to be made in Departmental costing and to provide a more suitable arrangement for the purchase and issue of stores. No significant changes in the appropriations were approved.

28. In March, 1965, a further approach was made to Treasury seeking the re-opening of the Interior Services Trust Account which had been closed on 30th June, 1957. There have been subsequent exchanges of correspondence between Treasury and the Department, but approval has not so far been received for either the re-opening of Interior Services Trust Account or the creation of a new Trust Account.

29. Copies of the correspondence with Treasury are attached for the information of the Committee.

30. It will be noted that Treasury, in its memorandum of 13th May, 1965, implied that the main reason for declining to approve a Trust Account was that the Department's need did not conform to the conditions laid down by the Joint Committee of Public Accounts in its 34th Report.

31. The Department considers that the Canberra municipal activities will fulfil all the conditions set out in the 34th Report. It is proposed to produce financial statements in the form of the attached drafts. No arrangements have been made as yet for the statements to be certified by the Auditor-General, but this will be done if a suitable basis can be established so that accurate financial statements can be presented.

32. Another requirement of the Committee was that any undertaking for which a Trust Account is provided should have a degree of autonomy. While the municipal activities are not by any means autonomous, they do have quite a degree of autonomy.

33. It is intended to prepare an annual report at the same time as the annual municipal financial statements are presented.

34. The purposes for which the Trust Account is required, other than municipal accounting, are all related to improving the accuracy of Departmental costing generally, especially the costing of municipal activities. It is proposed that annual financial statements and reports would be produced for the unproductive charges account, plant hire pool, stores activities, small plant and tools account and workshops. In fact the Department desires to develop its accounting generally in accordance with sound commercial accounting principles.

35. Treasury has expressed the view that the Department's objectives could be achieved without the use of a Trust Account. This is probably true, but it would involve establishing supplementary records which would have to be posted independently from the Treasury accounting records. This in turn would involve every voucher being costed and posted twice, once for the Treasury accounting records and once for the supplementary records. On the other hand, the Treasury accounting and the commercial type accounting which the Department desires to implement could be integrated completely in a Trust Account.

36. Apart from the significant increase in workload which would be involved in endeavouring to achieve our objectives without a Trust Account, the end result would not be completely satisfactory, as it is considered that only a Trust Account can provide the continuity which is necessary for this type of accounting. Without a Trust Account, the procedures involved would necessarily be much more complicated, thus increasing the problem of training staff.

37. While it is difficult to make an accurate estimate, it is thought that between 6 and 10 additional staff would be required to achieve the desired improvements without a Trust Account. It is considered that existing staffing would be adequate if a Trust Account were available.

38. The Department feels that it has a strong case for the provision of a Trust Account, and in view of the special circumstances that were explained to the Committee at the hearing, suggests that a Trust Account could be established in respect of A.C.T. Services without creating a difficult precedent in relation to other Departments. It is considered that this Department's needs, in respect of the administration of Canberra and the A.C.T., are of a special nature that are not common in other Departments, except possibly the Department of Works which already operates under a Trust/Account in respect of some of the purposes for which this Department has sought a Trust Account.

39. It will be seen from the correspondence with the Department of the Treasury that apart from the question of the creation of a Trust Account, the Department has sought changes in the form of the Appropriation Act with a view to improving Departmental costing. So far the approaches to Treasury in this regard have met with little success.

40. It is appreciated that Treasury no doubt has substantial reasons for not agreeing to a Trust Account or the changes sought in the Appropriation Act, but without some such adjustments, it will be very difficult for the Department to improve costing and accounting procedures so as to avoid the disabilities that have been experienced up to the present.

41. From the Department's point of view, the provision of a Trust Account is regarded as the most satisfactory solution to the present difficulties. Alternative procedures would involve an increase in staff and loss of time before such staff could be expected to be obtained. Apart from the additional cost, the alternative lacks the ease of operation and continuity which a Trust Account would provide, and would tend to complicate the Department's accounting unnecessarily.

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Department of the Interior,  
CANBERRA.

10th November, 1965.



APPENDIX NO.2

STATEMENT OF INFORMATION REQUIRED BY THE PARLIAMENTARY  
JOINT COMMITTEE OF PUBLIC ACCOUNTS IN CONNECTION  
WITH TAXES WRITTEN OFF

During the enquiry by the Parliamentary Joint Committee of Public Accounts in connection with writing off tax as irrecoverable revenue, information was requested concerning three matters, viz.:-

- (i) an analysis of the aggregates written off in 1964-65;
- (ii) the number of write-off submissions made to the delegates of the Treasury in 1964-65; and
- (iii) the proportion of these submissions made to the delegates which were approved or rejected by them.

The information is set out below.

(i) ANALYSIS OF AGGREGATES WRITTEN OFF IN 1964-65

(a) Income Tax and Sales Tax

Exceeding		Not Exceeding		Income Tax			Sales Tax		
£	(s)	£	(s)	No. of Cases	Amount		No. of Cases	Amount	
					£	(s)		£	(s)
-	-	10	(20)	3,344	3,768	(7,536)	55	33	(66)
10	(20)	200	(400)	1,581	100,837	(201,674)	17	1,402	(2,804)
200	(400)	400	(800)	249	75,801	(151,602)	7	1,837	(3,674)
400	(800)	500	(1,000)	53	24,602	(49,204)	-	-	-
500	(1,000)	-	-	208	345,313	(690,626)	8	27,260	(54,520)
Totals				5,435	550,321	(1,100,642)	87	30,532	(61,064)

(b) Payroll Tax and Other Taxes

Exceeding		Not Exceeding		Payroll Tax		Other Taxes	
				No. of Cases	Amount	No. of Cases	Amount
£	(\$)	£	(\$)		£ (\$)		£ (\$)
-	-	16	(20)	43	60 (120)	22	2 (4)
10	(20)	200	(400)	19	1,342 (2,684)	3	105 (210)
200	(400)	400	(800)	3	994 (1,988)	-	-
400	(800)	500	(1,000)	2	779 (1,558)	-	-
500	(1,000)	-	-	1	541 (1,082)	-	-
		Totals		68	3,716 (7,432)	25	107 (214)

(ii) The number of write-off submissions made to delegates of the Treasury in 1964-65 was 5,618.

(iii) Of the 5,618 submissions, 16 were rejected initially, 13 of these were subsequently approved after additional information had been supplied to delegates. Three cases are still under consideration.

In addition to the amounts included in the Auditor-General's Report as Taxes Written Off, amounts totalling £93,988 (\$187,976) due by group employers in respect of tax instalment deductions proved to be irrecoverable and were written off. An analysis of those amounts is shown below for the information of the Committee:-

	<u>Number of Cases</u>	<u>Total Amount</u>
		£ (\$)
Amounts under £10 (\$20)	467	614 (1,228)
Amounts from £10 to £200 (\$20 to \$400)	327	20,449 (40,898)
Amounts from £200 to £400 (\$400 to \$800)	52	15,013 (30,026)
Amounts from £400 to £500 (\$800 to \$1,000)	8	4,013 (8,026)
Amounts over £500 (\$1,000)	36	53,899 (107,798)
Total	890	93,988 (187,976)